Movement Matters is a series of inspirational thought leadership events exploring new ideas about places, people and economies. Drawing on experience from leaders from around the globe, these sessions provide a burst of fresh thinking. To attend any of our events register at: www.steergroup.com/events

Event summary

MM Movement Matters events

NET ZERO BY 2030
FACT OR FICTION?

SESSION 5: RAISING GREEN FINANCE

In our final session, we explore the evolution of green finance, including the range of green financial products, trends in pricing and innovation and the role of policymakers and regulators in creating the enabling environment for green finance. We also look at what it takes for projects to access green financing and the challenges in defining, enforcing and monitoring the criteria that makes projects ‘green’ from a lender’s perspective (including the growing use of labelling systems).

Speakers’ presentations

Hayden Morgan, Founder of Morgan Green Advisory
Penny Latorre, Director at Ensphere Group

Matt Bull, Associate Director at Steer chaired the fifth and final webinar of Steer’s Movement Matters decarbonisation series to discuss recent developments in infrastructure Green Finance and its future trajectory. Alongside Matt, the webinar featured two guest speakers:

Hayden Morgan is the founder of Morgan Green Advisory, previously of HM Government’s Green Investment Bank (GIB). He is a leading expert in the integration of sustainability and environmental, social, and corporate governance (ESG) principles within the financial and corporate sectors, who has been instrumental in the setup of GIB and who is also one of the

architects of the Finance to Accelerate the Sustainable Transition Infrastructure (FAST-Infra) initiative.

Penny Latorre leads the Environmental Management and Due Diligence, Responsible Investment, Corporate Sustainability and H&S services at Ensphere Group. She is a specialist in ESG strategic advice, due diligence for mergers and acquisitions (M&A) transactions, and in Responsible Investment.

After introductions, Matt provided a high-level overview of the green finance industry and explained that the main question the industry needs to answer is around how we are going to finance a once-in-a-lifetime investment in infrastructure. In Matt's opinion governments and public finance will play a key role; however, due to the fiscal constraints that will continue to be binding, private markets cannot be ignored, either, as Matt argued that *"financial markets will be important incentivising good investment and disincentivising bad investment"*. He also pointed out that an ecosystem of stakeholders, institutional frameworks, and supporting roles will be required to support green financing in its infancy.

The first speaker, Hayden Morgan introduced the attendees to recent market-led global regulatory initiatives to integrate sustainability in investment decisions, the organisational-level ISO Sustainable Finance Standard and the asset-level FAST Sustainable Infrastructure Label. Hayden set out how the sustainable finance ecosystem is structured and what the key interfaces and interactions are between legacy markets, new institutions, stakeholders, and enabling functions. He emphasised that ***"if we are going to mobilise the trillions of dollars for sustainable finance, all these interests and stakeholders need to be aligned"*.** He argued that regulation will be instrumental in achieving this and in holding investors to account.

In Hayden's view, one such driver will be the ISO sustainable finance standard. The standard is designed to support organisations to integrate key principles of sustainability into operations and activities and to help achieve mutually beneficial outcomes, but, more importantly, it will incentivise the private investment sector by standardising sustainable investment and increasing its profitability. Hayden explained that the strength of the ISO standard is in its function to provide consolidated guidance, create cohesion on the market, and harmonise existing frameworks – rather than compete with those. It is expected that the standard will make investors' sustainability claims more robust and credible and that it will create a transparent, dynamic resource of best practices that organisations can reference. Additionally, the standard was designed in a way that puts the operational activities to achieve sustainable outcomes in the centre of the framework, but also ensures ongoing interaction between operations, governance, outcomes, and reporting.
After an introduction to the ISO Sustainable Finance Standard, Hayden continued with discussing the FAST Infrastructure standard, an asset-level framework that aims to transform sustainable infrastructure into a mainstream, liquid asset class. The FAST-Infra standard was launched at the United Nation's COP26 Climate Change Conference in Glasgow, and it is

endorsed by leading coalitions of sponsors and financial institutions who are investors in, and lenders to, infrastructure projects around the world and manage trillions of dollars of assets.
The FAST-Infra standard was designed to facilitate due diligence processes and structuring of investments for sustainable infrastructure assets, thereby reducing transaction costs. The standard requires consideration of five framework requirements and is underpinned by 14 sustainability criteria across four dimensions: environmental, adaptation and resilience, social, and governance. Similarly, to the ISO standard, FAST-Infra does not compete with existing standards and frameworks, but it enables an interface between traditional finance and the key attributes to demonstrate positive sustainable development and was designed to *"deliver key interventions to mobilise private investment to achieve our [sustainable investment] goals"*.

Penny Latorre, the second speaker opened her presentation with an overview of recent developments on the green finance market. She stated that there has been increased activity on the market, and ***"there has been a push to green finance without realising the underlying sustainability principles."***

After opening remarks, Penny moved on to discuss recent regulatory developments to ensure sustainability in finance and prevent greenwashing. Increasing investor scrutiny, new regulatory requirements, and independent review of certain finance products all put pressure on the investor chain to demonstrate that money goes into sustainable products. As a result, she has seen ***"increased sophistication by investors"*** to meet the regulatory requirements that is a welcomed response.

Next, Penny discussed the developments she expects to continue to prevent greenwashing: taxonomies, regulatory disclosures, standards, and watchdogs. With regards to taxonomies, she welcomed the recent move away from solely focusing on climate change and highlighted that social taxonomies were also coming through in sustainable investment. She continued by saying that regulatory disclosures are also gaining momentum – in her view, this will ensure that standards will trickle down from large companies to smaller companies, helping to strengthen the sustainability principles behind investments.

She then moved on to discuss how ESG principles can be integrated in sustainable investing. As a general overview, Penny said **that *"Having an ESG policy does not cut it anymore. There needs to be policy that is part of the day-to-day operation of an asset or company that is supported from the to."*** She highlighted the importance of buy-in from corporate governance in sustainability principles, as well as the importance of ESG-specific training.

With regards to the integration of ESG into sustainable investment, Penny argued that companies need to understand how a particular asset is performing; what is the goal of investment and how to get there; and companies need to set up plans to achieve these investment goals. This requires monitoring and evaluation frameworks to be put in place.

Regardless of the burden this puts on companies, monitoring and reporting will be very important going forward, especially considering that in Penny's view a lot of businesses currently have data gaps that prevent them from successfully understanding how their assets perform in terms of ESG principles, therefore preventing the full integration of ESG principles in investment decisions.
Penny ended her presentation by discussing that ESG in not just environmental sustainability and that companies and investors need to broaden their understanding of what else is included under ESG.

Q&A

The session was then opened to questions by the chair. These questions reached deeper into the topic and explored issues such as:

- how the public and private sectors will collaborate on green finance
- the trade-offs between rigour and practicalities and the cost of gathering data and sound analysis
- the effects of breaching sustainable finance covenants

All questions are answered by Hayden Morgan (HM) and Penny Latorre (PL), with occasional response from Matt Bull (MB).

"In a green bond or a green loan, what are the effects of breaching sustainable finance covenants? Is this evolving?"
HM: "I guess it depends on the structuring of the instrument itself, the bond or the loan, and the specific covenants in there. A breach of covenant is actually quite a significant default in instruments. However, some of the more modern instruments that are coming to market around sustainability-linked loans are whereby, your interest rate, the interest you pay back, on the debt goes up or down depending on sustainable performance. It's really challenging to get the KPIs that are accurate and robust and credible, but where they can be done, and everyone is happy with that, you can link it to the base rate that gets paid back. So, if your performance goes up, for example, you pay less interest, effectively. That's sort of the way it works."
PL: "In my experience, [...] in green bonds you generally set out your KPIs, you measure them, and you have a set of criteria that makes the project eligible for that. But, normally, in the green bond or the green loan framework there is normally a section where it says, if your asset stops performing and it does not meet that [KPIs], I am allowed to take my funds from that asset and take it to another one that is performing, so that it meets its KPIs. And that is allowed within the framework normally, there is that flexibility in it.
"I think the issue might become that you do not have any assets that are eligible anymore, and that obviously will present a problem with governance."

"Where huge R&D needs to be done in developed and developing countries [for hugely capital-intensive projects], what role is Green Finance going to

play in the interaction between public and private de-risking? How are the public and private sectors going to work together on this from a Green Finance perspective?"

HM: "Having some experience at the Green Investment Bank, we often got asked this question. […] We got involved with what is now called Jet Zero, which is part of the UK Government's green 10-point green plan. That innovation piece, it is really up to Government to make sure that the enabling environment and the incentives are right for that early-stage, venture capital or, even before that investment.

"I think there is going to be huge innovation in this area. […] But I think we are going to see a lot more diversity, especially around energy, especially around fuel and mobility. So, that government incentive is going to be crucial to enable investors to invest with less risk and to get those returns.

"I would just say, apart from the really early-stage projects, any project which is potentially profitable, is going to attract private investment. And that is for government to work out how to invest and which schemes to support, which technologies."

PL: "In my experience, Green Finance is at the moment very attractive to the private sector. There is a lot of appetite in this respect from institutional investors, from private equity, etc. […] So, I think that the companies, or the assets, that really have legs will get the funding.

"In fact, they [institutional investors] want to invest more in this field, but they were struggling to find viable projects. But they are willing, and they have the cash ready to deploy. […] There is huge competition to invest, so we are seeing that."

HM: "There is no lack of capital, there is no lack of finance for good, profitable projects. […] For good projects, you will attract capital, and capital is absolutely tripping over itself to invest in these projects. There is a myth that there is a lack of capital – that is not the case at all."

MB: *"Related to a couple of questions that have come in, well-structured, financially viable projects, money will flow to them. If they have got green credentials, and it is proven, they will probably be oversubscribed. […] Is it the case that brown projects (or loans and bonds), they are becoming undersubscribed? […] Are we starting to see that change in demand and preferences starting to affect the price or capital between brown and green projects?"*

HM: "There was some work done recently by Goldman Sachs around the cost of capital of these assets [green assets], and the cost of capital for new oil and gas is 20 percent higher than it used to be, and there is a much lower cost of capital on green projects.

"That being said, there is always going to be a home for brown assets and this question is really interesting – do you divest on brown assets, or do you encourage them to transition to a lower carbon, more sustainable business model?"

PL: "What is important for this sector, is to have the transparency and the strong ESG to demonstrate that transition. And if a business or asset can demonstrate that it is transitioning, I still think that they will attract the finance – they just need to demonstrate transparently that they are on that journey."

Remaining questions aggregated into one: The discussion concerns how ESG has become a transaction cost, a tick box exercise, an enormous monitoring and evaluation challenge, especially in emerging markets where data availability low. What are the trade-off between rigour and practicalities and costs of getting data together and to do sound analysis?
PL: "In my history, ESG used to be a tick box [exercise]. It was first the E, then the E and S, and finally the ESG. […] I hope that people realise the potential for value creation that ESG brings, and also value preservation as well."
HM: "We are definitely seeing a price differential between sustainable assets and non-sustainable assets and those that can demonstrate performance in terms of sustainability performance. […] There is a cost associated with that [ESG], but it is small in comparison to the overall cost of construction and getting the project through planning. I would argue that it [ESG] is not an administrative burden, it is an enhancement piece, and the transparency of the data underpins the confidence in the market."