Mobilising Climate Investments in Emerging Markets and Developing Economies

Investor Group on Climate Change

Opportunities for Australian pension and super funds.

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One of the most significant challenges in addressing climate change will be financing the transition to net zero emissions in emerging markets and developing economies.

Investing in the transition

Emerging markets carry very high climate risk.

Transition investments expected to increase global GDP and minimise disorderly transition risk.

Pension funds have made commitments to climate change.

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Investing in the transition

USD $95 trillion* additional finance required for emerging markets to transition to net zero by 2060.

USD $56 trillion assets under management in the global pension market in 2022.

USD $2 trillion estimated value of the climate solutions market per year by 2026.

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***World Economic Forum references research by Standard Chartered**

Opportunities for climate finance in emerging markets

Emerging markets need capital

Many emerging markets must manage the dual challenge of decarbonising their electricity, transport and industrial systems while driving ongoing social and economic development.

Super funds need to manage climate risks

Pension and super funds have an opportunity to invest in climate solutions and deliver sustainable returns for their members.

Opportunities for investors in emerging markets

Blended finance	Combining public finance with private capital to catalyse private investment in emerging markets.
Offtake certainty of renewable energy projects	Agreements to stabilize and guarantee ongoing revenue.
Markets with positive climate and policy settings	For example, Nationally Determined Contributions and time-based net zero targets.
Debt or pooled funds to minimise risk	Investors gain exposure to climate solutions through other asset classes.
Expertise and capacity building in the super sector	Through collaboration with experienced international counterparts and the development finance sector.

Barriers & challenges for investors in emerging markets

Risk profile	Including geopolitical or social upheaval.
Return profile and cost of capital	Returns needs to be sufficiently high and stable to offset the risks.
Scale or deal size	There are relatively few large-scale commercial solar or wind deals in emerging markets.
Construction and development risks	Low carbon projects such as renewable energy are higher risk than high carbon alternatives.
ESG data availability and standards	Emerging market companies' can have poorer ESG ratings.
Expertise and capacity at super fund	Levelling up of understanding at a technology and market level.

Opportunities for super funds to explore

Blended finance: combining public finance & private capital

Increasing offtake certainty for renewable energy projects

Boosting expertise & capacity within the super sector

Debt or pooled funds approach minimises risk

Invest in emerging markets with positive climate & policy settings

Improve frameworks & data availability within emerging markets

Recommendations based on the literature and stakeholder interviews.

Three key recommendations to move forward

Create an attractive risk-return profile for renewable energy in emerging markets.

Build capacity in super funds to understand renewable energy investing in emerging markets.

Super funds work together with the development finance and the Australian Government through blended finance models.

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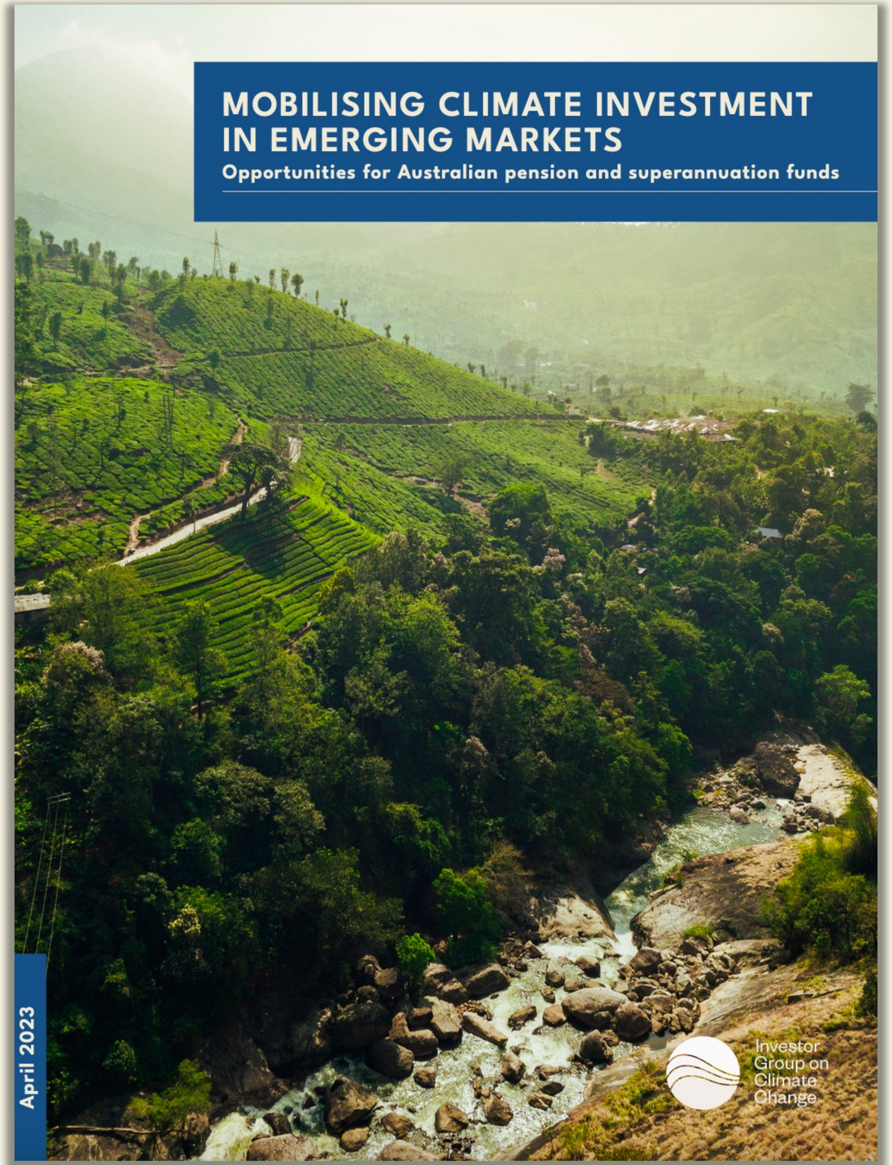

Understand the opportunities and obstacles for investing into emerging markets.

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