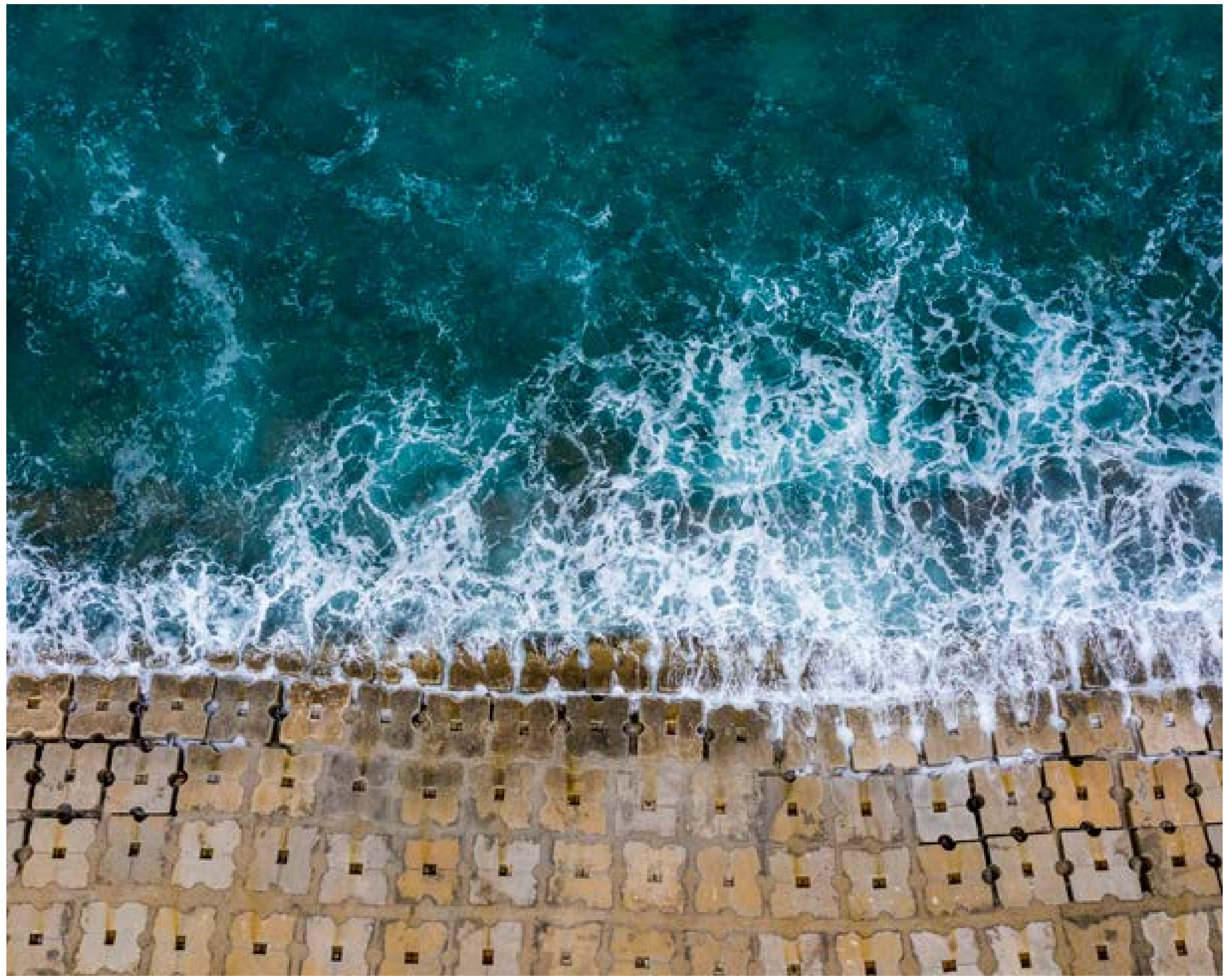

INTERVIEW

# 'All our evidence suggests that investments in resilience make sense'

To turn all the talk about investing for resilience into action, financiers need effective tools to inform their decision-making. **Carlos Sánchez**, executive director of the Coalition for Climate Resilient Investment, is determined to meet their requirements

**Oliver Balch**

Back in 2015, the Bank of England's then governor, Mark Carney, made a blistering speech at Lloyd's of London about the economic threat presented by climate change.

Listing the ramifications of sea-level rises, droughts, storms and other increasingly severe weather events, he warned that insurers needed to be at the "cutting edge" when it came to managing the risks posed to critical infrastructure.

Carney's stark message wasn't lost on Carlos Sánchez, an expert in climate finance who was working at the time for a multilateral lender on climate resilience projects in Latin America. The Spaniard believes that the speech helped to instil "a change of mentality in the financial industry about how climate risks are processed and assimilated. This was not just ethically driven. It was also motivated by strategic and financial materiality."

Today, Sánchez is executive director of the Coalition for Climate Resilient Investment (CCRI), which was formed in 2019 to bring together parties ranging from insurers and investors to governments and credit rating agencies.

The CCRI is chaired by his current employer, risk advisory firm Willis Towers Watson, with close support from the UK government and HSBC. The coalition takes its cue from Carney's call to be at the cutting edge of climate risk management for infrastructure projects. At the core of its mission is an acceptance that financial markets worldwide have made slow progress in incorporating climate resilience into their decision-making processes.

This shouldn't be read as a lack of interest, stresses Sánchez, who points out that the CCRI's ability to convene infrastructure players with a combined asset base exceeding £19tn indicates a general readiness to act.

The CCRI is not the only player in this field, either. The Coalition for Disaster Resilient Infrastructure, the Global Commission on Adaptation and the Finance to Accelerate the Sustainable Transition – Infrastructure initiative are just a few of the other collectives to have formed in recent years.

The problem instead, he says, is the absence of a standard set of tools to identify, assess and, most crucially, value improvements to the climate resilience of infrastructure assets. Because of this, financiers are flying blind. They are unable to accurately price future climate risks into potential infrastructure investments. The infrastructure sector is therefore facing a massive "resilience gap" in financing, which represents a serious challenge.

Research published by Anglia Ruskin University and the Mott MacDonald consultancy in the year of Carney's speech estimated that $200bn (£152bn) would be needed annually by 2035 to address $1tn of losses from climate impacts. The current level of investment in this area is a mere $30bn a year, according to the World Bank Group and ts Global Facility for Disaster Reduction and Recovery.

To make matters worse, infrastructure managers and developers who take climate resilience seriously gain precious little reward from the insurance, credit and equity markets. The higher insurance premiums or costs of capital that infrastructure sponsors often face if they disclose resilience risks associated with assets are the "real tragedy", according to Sánchez.

"Coalition members tell us: 'We've been in competitive processes for infrastructure investment where, as a result of recognising that an asset is subject to a high level of exposure, we're automatically placed at the back of the queue because our proposition is not attractive,'" he says.

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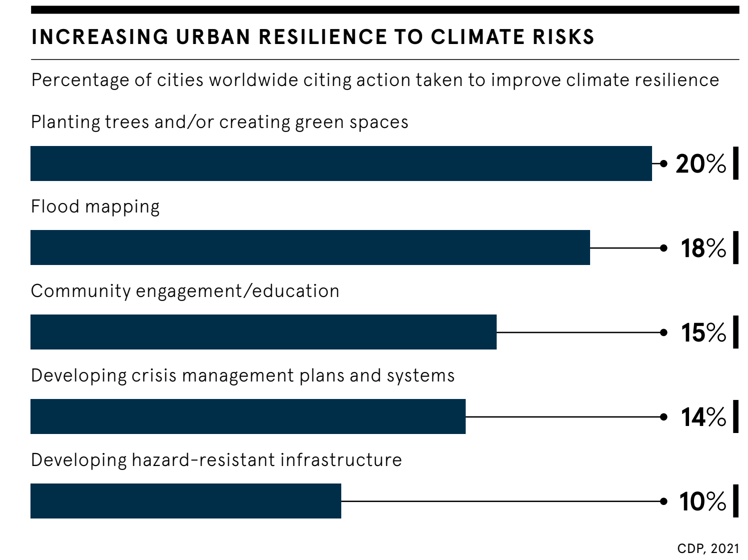


The CCRI has mounted a two-pronged response to these evident market failures. Its first key move has been a top-down effort to help national governments assess the systemic risks and resilience needs of their most critical infrastructure assets. Over the past 18 months, a group of 50 members has been developing a metric for gauging the overall risk exposure of a given country's built infrastructure, coupled with a tool for prioritising resilience-related investments.

Such equipment is not only an aid to decision-makers in putting a price on climate risks, Sánchez says. It also helps them to build the political case for redirecting public resources to resilience projects.

He has in mind a recent stress test conducted by reinsurance giant Swiss Re, which found that 18% of the world's economic output could be lost before 2050 if climate risks are ignored. Despite this, Sánchez acknowledges that it could still be contentious to redirect public funds towards flood defences, say, rather than hospitals.

"Policy-makers are saying: 'If you are asking us to reallocate money from non-climate issues to climate issues, and if we might not see the value of doing that for 20 years, that's not very appealing.'"

In an ideal world, the CCRI's resilience metric would act as a proxy for a credit rating agency, thereby presenting an immediate incentive in terms of lower costs of capital for resilient infrastructure projects.

For regulatory reasons, credit rating agencies are not involved in the CCRI's evolving discussions, but Sánchez is confident that its metric will gain traction quickly once it is finalised.

The CCRI's second key move in response to the market failures is more bottom-up in nature. This is focused on helping investors to integrate climate risks into their cash flow models. The goal here is to counter the common misconception that climate resilience entails high initial costs that take a long time to recoup.

The coalition's analysis of returns data from real case studies indicates that the opposite is true, reports Sánchez, who adds: "All our evidence suggests that investments in resilience make sense in terms of the projects' net present value."

> The beauty of our methodology is that it provides a menu of incremental investment actions

The positive financial return for infrastructure investors is evident in the decision by Mott MacDonald, Standard & Poor's and HSBC to collectively assign more than 20 employees on a pro-bono basis to the CCRI's work on cash flow modelling.

"I'm not fooled into thinking that they're doing it because they like my face," Sánchez jokes. "They're doing it because they can see that this is really strategic for them."

In a practical test of the robustness of the CCRI's modelling techniques, a group of six data providers associated with the coalition is conducting in-depth analyses of five major infrastructure projects around the world.

The CCRI's standardised analysis has been designed to deliver a clear assessment of the climate risks associated with each project, plus a detailed cost-benefit analysis of the potential resilience measures.

"The beauty of our methodology is that it provides a menu of incremental investment actions and models the implications of different combinations of these in terms of their capex, operating expenses and so forth," he explains.

Sánchez acknowledges that the CCRI's mission to accelerate investment flows in climate resilience still has a long way to go. Another of its priorities is to help providers of finance and insurance to introduce innovative new products that are better suited to promoting resilient investments.

As part of that objective, he has set his sights on mobilising $5bn in infrastructure investments that use the CCRI's climate risk assessment methodology before the end of this year.

But the clock is ticking. "Just one minute's delay", he warns, "and all that we'll be able to do is focus on minimising an absolute disaster." ●



Commercial feature

# Accelerating UK solar: investors are given a renewables boost

Solar is often overlooked when it comes to hitting net-zero targets but a new fund from NextEnergy Capital aims to boost the market

The UK Government's net zero 2050 target and the Climate Change Committee's subsequent roadmap may have made renewable energy's role in the UK a more pressing and considered strategy. Solar PV is at the forefront of innovation, at a time when action is urgent.

The latest government partnership relating to solar is interesting and, potentially, ground-breaking. We know that solar plants can take up to four years less time to come online than wind parks. And now solar is a commercially viable proposition too, thanks to the role of NextEnergy Capital's latest fund, NextPower UK ESG (NPUK), which is focused on unsubsidised, new build, utility-scale solar assets in the UK.

Group CEO Michael Bonte-Friedheim explains: "NPUK ESG is something of a snow plough for solar, opening the market up for others to follow. This is because it removes the need for regulatory support from the government to roll out projects, also meaning it doesn't fall to the end user to cover the cost through their bills."

The UK Infrastructure Bank is providing financing to the initial seed assets of NPUK ESG, comprising two major subsidy-free solar farms in the UK. It also plans to invest up to £250m, half of the fund's total target fund size, on a match-funding basis with the private sector. It is expected that this support will lead to significant investment in the UK subsidy-free solar sector.

"Because the individual cost of installing a utility scale solar plant has come down so far, we no longer need government subsidy or support for investors to look at solar as a profitable proposition," says Bonte-Friedheim. "It's more of an attractive standalone investment and we're paving the way for investors to finally capitalise on the quickest and cheapest form of power generation out there."

The fund already has two seed assets, one being the UK's largest solar farm comprising 75MW of capacity. The aim is to leverage NextEnergy Group's internal pipeline, off the back of the company's pre-existing status as a solar leader in the country.

However, while there are clear sustainability goals embedded in the incentive – the hope is to mitigate 370,000 tonnes of CO2 equivalent, the same as taking 250,000 cars off the road – there is also a new sense of pragmatism around solar's influence.

"Emissions reductions figures alone aren't enough for investors to justify parting with their money, but that's why solar in this new framework is so attractive," says Bonte-Friedheim. "For example, from a financial perspective,

> Solar is not a donation or an ethical tick-box exercise, it's a way to deliver much needed energy goals and financial returns simultaneously

once we reach our target of building 1GW of new solar in the UK, this also equates to around £175m yearly in avoided gas purchases from other countries. Over 10 years, this inflates to nearly £2bn."

Alongside CO2 emission reductions and financial viability benefits, there is the prospect of wider biodiversity projects and community engagement opportunities as part of a more progressive and pragmatic overall package.

This new era can finally capitalise on solar's undoubted potential, as part of a broader recognition that net-zero targets are only realistic if we address the challenge holistically, and together.

Bonte-Friedheim says: "The reason why a roadmap has been put in place is to mobilise the entire economy and therefore catalyse the process. Solar is the quickest and most cost-effective way to incrementally increase the delivery of new renewable energy capacity in the UK within the context of pursuing net zero by 2050, while also providing investors with attractive financial returns.

"With this in mind, I'd call upon institutional investors to focus on solar as this strong and viable contributor. It's not a donation or an ethical tick-box exercise, it's a way to deliver much needed energy goals and financial returns simultaneously."