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

Movement Matters events

NET ZERO: MAKING IT HAPPEN

SESSION 2: Finance

The demand for low-risk investments that deliver a commercial return frequently overshadows the need to deliver against Net Zero goals. In this second 2022 Movement Matters series seminar, we ask: “what is the best way to engage private sector investors and operators to meet public policy goals?”.

While global investors display a considerable appetite for transport decarbonisation projects, unknowns around the technology, market structure and user behaviour of emerging EV infrastructure obstruct capital mobilisation at scale. While development banks have a role in increasing project scalability and bankability, achieving Net Zero goals relies on an innovative collaboration between public agencies and private finance.

Lauren Pamma of the Green Finance Institute examined how private finance can contribute to public policy goals, the emerging global experience of bringing ZEVs and infrastructure into service, and what it means for future success in Steer’s Movements Matter series. Lauren was joined for the discussion by **Christian Velasco** of AMP Capital, **Luis Andres Alandia** of Proparco and **Daniel Pulido** of the International Finance Corporation.

Summary

Global urbanisation will exceed 60% very soon. With cities already accounting for 70% of greenhouse gas emissions (GHG) and transport comprising about 1/3 of that figure, investors recognise that conversion to alternative fuels, including electric vehicles, can have a massive impact on public health and the state of our planet.

In identifying incentives to deliver Net Zero, the panel highlighted that “sustainable finance” is fast becoming synonymous with the broader global finance market. Indeed, governments can do more in the form of regulation and financial interventions to secure more robust private-sector engagement. Still, in reinforcing sustainability strategies, public agencies and private financiers make the link between investment and emissions increasingly visible to stakeholders.

Currently, economies of scale and the appropriateness of EV technology make projects supporting fleets (e.g., public buses, etc.) far more viable than those supporting private car usage. This is where the GP space will continue to be most comfortable in the short to medium term. AMP’s Velasco noted that while insufficient project scale can also fail to attract investor appetite, it fundamentally fails to realise scale efficiencies that can dramatically improve the appeal for investors.

What is increasingly more important is the development of financing, which recognises the progress achieved on project goals, e.g., the number of ZEV in service, emission reduction or ESG goals achieved. Meeting these targets can help secure lower rates of finance. The International Finance Corporation works in several places, including at a port in Italy, to develop an appropriate sustainability framework for finance for the operator to commit to decarbonising port handling equipment.

At this very early stage of EV technology development, the sector globally needs more knowledge transfer among successful projects. The World Bank and IFC are doing good work to speed this up, particularly in less-developed economies, where insufficient, weak, or absent national programmes further obstruct project scale and security.

In considering whether rising capital costs dampened investor appetite, the panel noted that decarbonisation initiatives were about securing the right to operate in this climate-threatened world. While volatility creates the opportunity for development banks, whose longer-term funding horizon can offer stability in risky markets, most fleet-level contracts like public bus networks are inflation-linked, enhancing the asset class's resilience.

Q&A

LP: Why are electric urban projects important?

LAA: By 2040, urbanisation rate will surpass 60%. Cities account for 70% of global GHG emissions, and 1/3 of these are from transport.

LP: How is the cost barrier to investment in e-buses being overcome from an operator perspective?

LAA: Considering battery lifetime, e-bus CapEx is up to 3x petrol equivalent. Total cost of ownership is an effective tool to consider lifetime savings through OpEx – specifically reduced cost of fuel – and identify investment gap subsidies.

LP: What is the appetite of the private sector to invest in these solutions?

CV: Transport decarbonisation is highly attractive to global investors. Currently, fleets are more viable than individuals, due to economies of scale and predictable usage patterns. This is where the GP space will continue to be most comfortable in the short to medium term.

LP: What barriers are there to mobilising this investment?

DP: In emerging markets, the basics of private investment for transport infrastructure are not yet solidified, let alone the technicalities of financing e-mobility.

LP: What can development banks do to overcome this?

DP: (1) Support countries in developing facilitative legal and regulatory frameworks. (2) Assist the development of contracts to improve bankability. (3) Define the most appropriate technology for governments to set clear investor requirements that are contextually relevant.

LP: What role do organisations like C40 cities have in this?

DP: The IFC and C40 cities work closely to transfer best practice regionally, which is a key benefit of their global nature.

LP: What issues surround structuring the financing of e-buses?

LAA: (1) Setting an approach for securing the supply of replacement batteries. (2) Leveraging financing to spread risk across the battery lifecycle (e.g.: integration of up-front cost with capex, or securing through an option).

LP: How do geopolitics' impact on the supply chain for manufacturers influence investment decisions?

CV: At present, fleet investment [at AMP Capital] is done based on existing conditions. It is expected that secondary markets may be created once volatility – due to pace of innovation in technology, and commodity price – settles.

LP: How can we provide incentives for investors to deliver Net Zero goals?

DP: The 'sustainable finance market' is ever-trending towards become synonymous with the finance market. The first step to capitalise on this trend is developing a sustainability strategy, for which there is also a pressure on investors from the customer-side: making visible this link between investment and emissions.

LP: Is appetite for private finance reducing due to rising cost of capital in the current macro-economic context?

DP: This is providing an opportunity for development banks, whose longer-term funding horizon can offer stability in markets perceived as risky.

CV: There isn't a reduction in the appetite for electrification in this context. Most fleet level electrification contracts are inflation linked, which makes municipal fleets a resilient environment, and attractive to investors.

LP: How are the broader push/pull incentives to counter risk in urban investment playing out across the world?

LAA: There has been replicable success from a two-step concession model, where asset acquisition is separate from operation. This approach allows more competitive bids, and roll-out of EV at scale.

LP: For EVs to push the scale on emissions, the energy needs to be clean. Is the financing panorama for clean energy sources considered when investing in new vehicles?

LAA: Taking a lifetime perspective to the decarbonisation of energy matrix considers emissions over fleet operation. It is equally important to consider other environmental benefits of EVs, particularly air quality.

DP: Competitive consideration of battery recycling and reuse should also be part of this consideration when looking at EV investment holistically.

Conclusion

Global financiers seek opportunities in attractive infrastructure decarbonisation projects. Their investors acknowledge the critical impact of their actions on public health, user behaviour and the broader climate crisis. But, at this very early stage in its development, EV technology presents unknowns that obstruct capital mobilisation. Some areas, including public bus infrastructure, deliver more attractive projects. Others, including charging infrastructure for private cars, may still need significant public-sector support.

Ultimately, capital is an important consideration, and we need to recognise that beyond financing, the need for funding remains and is critical towards development. Unfortunately, public transport's income is rarely enough to cover its capital costs; therefore, it is necessary to identify and secure external investment to work alongside financing.

Increasing the flow of knowledge, establishing more innovative partnerships between public agencies and private financiers, and identifying structures that ensure greater public adoption of infrastructure will lead to more funding.