Green Finance Institute

Green Finance Quarterly

The new green finance paradigm

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The new green finance paradigm

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The political consensus on net zero is fractured but not broken. Very few doubt the scientific evidence on climate change, even as leaders and commentators question the social and financial viability of the proposed solutions. Detractors of Net Zero say it cannot be delivered, not because it is not important, but because we cannot ask citizens to pay for it – either through their purchasing choices, their taxes or through giving up jobs in traditional industries.

So how can investors continue to make long term investment decisions in this shifting context? If we are to deliver net zero and the energy transition, it must become an economic and social transition, as much as an environment one. We are starting to see a shifting narrative already. Both policymakers and investors are talking less about net zero and ESG, and more about growth and infrastructure. The NWF, once a flagship green fund, was launched in 2024 without mentioning 'green' or 'net zero' once in the official communication. The GFI conducted private polling of investors and 65% are still looking to increase their exposure to green investment opportunities in the UK, even if increasingly, they refer to it in different terms.

Our polling showed that what investors need, is long-term clarity on policy and access to de-risking so that more investment meets their risk/return appetites. In this issue of GFQ, we look at some critical areas where, under this new narrative, capital is still much needed, and investors and governments alike are exploring solutions to unlock it.

Firstly, Carbon Dioxide Removals (CDRs) - putting the net in net zero. For those that doubt net zero is possible because elements of the transition are just too hard to decarbonise, CDR can begin to assuage those doubts. The CCC has calculated how much CDR the UK alone will need to stay on target and at 35mt by 2035, it is significant[1]. Fortunately, GFI analysis has found that the UK has the right mix of supportive policy and technical knowhow to scale solutions, and in time become a global leader and exporter.

We also look at the role of global philanthropy in this shifting landscape, where I had the pleasure of interviewing Leslie Johnson, CEO of the Laudes Foundation. a pioneering fund and long-standing partner of the GFI. Leslie is also Chair of Impact Europe, and she shares a thoughtful assessment of how philanthropy can create the conditions for green finance to achieve impactful outcomes, not only through core grant giving but also by enabling innovation through taking risks and demonstrating what is possible.

1. Climate Change Committee – The Seventh Carbon Budget (2025) and Climate Change Committee – The Sixth Carbon Budget (2020).

We also look at where the need for capital for a fair economic and social transition is most acute – in the high growth, high emission markets in SE Asia. Take Indonesia, where 84% of the capital needed for its ambitious NDC must come from the private sector, according to the Ministry of Finance's own analysis. The political consensus on net zero remains relatively robust, and this must be leveraged to create more opportunities for private capital flow. The GFI has been working with the Ministry on the institutional, governance and policy reforms needed to create a credible, investable country platform that private investors can work with. This will deliver and align credible policy, development capital and sector-based pipelines that finally start to close the execution gap between the supply of capital from global, institutional capital, and the demand from developers in critical sectors.

Finally, we look at how we can increase the role of securitisation to finance the transition. This is not additional financial innovation as an end in itself – it is ultimately about scaling markets, to make them suitable for mainstream, institutional investors, sometimes with modest risk appetites. As markets and sectors mature, what begins in first of kind technology risk and demand-side uncertainty, should end in large, diversified portfolios of loans with secure revenue streams, suitable for mainstream investors. Well-functioning securitisation markets are a symptom not of complexity but of maturity.

In the current political climate, the net zero agenda is encountering some turbulence, but it will continue its onwards journey.

Focussing on where there is opportunity to deploy capital, through targeting specific geographies and sectors, will be key to invest through this cycle and ensure we stay on track.

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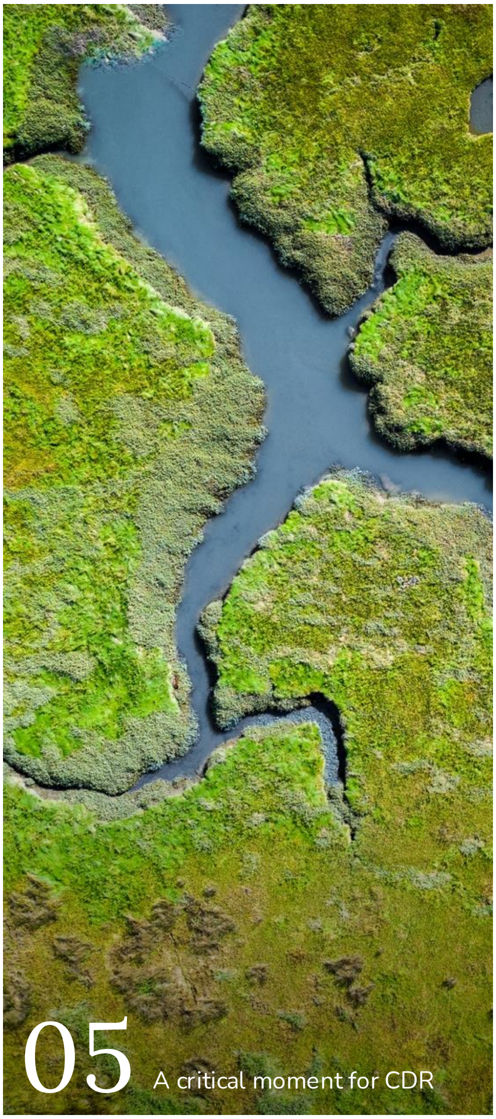

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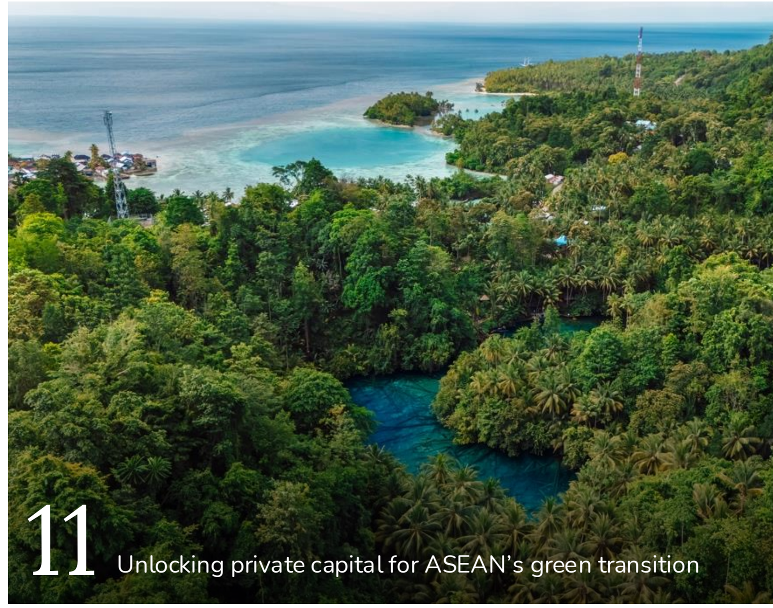

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A critical moment for CDR

Carbon dioxide removal (CDR) is a critical tool for achieving the net in net zero, allowing us to neutralise the hardest to abate emissions. Analysis from Boston Consulting Group on potential annual demand for CDR translates to a market opportunity of at least $10bn in 2030, with sufficient runway to reach $20bn - $135bn by 2040.[1] To date, the engineered CDR sector has largely been driven by quasi-philanthropic pre-purchases of CDR credits in the voluntary carbon market, but governments are now stepping in to scale deployment and attract private capital.

> The CCC is clear that engineered removals will play a crucial role to deliver Net Zero especially for sectors with residual emissions that cannot credibly be cut.

The UK's Climate Change Committee (CCC) published the 7th Carbon Budget in Q1 2025, which includes an estimate of how many tonnes of CO_2 emissions must be proactively removed from the atmosphere using engineered CDR technologies. The CCC's estimates were reduced from 58MtCO_2/year in the 6th Carbon Budget (published in 2020), to 35.8MtCO_2/year[2] largely thanks to more optimistic projections for direct emissions reduction. The CCC is clear that engineered removals will play a crucial role to deliver Net Zero especially for sectors with residual emissions that cannot credibly be cut, such as the aviation sector.

Within the report, the CCC identified Bioenergy Carbon Capture and Storage (BECCS), Direct Air Carbon Capture and Storage (DACCS), Biochar, and Enhanced Rock Weathering as viable CDR pathways to scale over the next ten to fifteen years to provide sufficient removal capacity. The CCC also noted that while Government has an important role to play in supporting scale-up of CDR in the short term, the majority of investment would need to come from those responsible for emitting the CO2, such as airlines and major industry.

Internationally, a variety of approaches are being taken to scale the emerging CDR sector. The US was an early leader with its 45Q tax credit[3] but has recently announced pull back on funding for projects. In the last six months, Canada committed to purchasing CAD $10m of CDR services between now and 2030 to meet their government's net zero goal.[4] The EU also published their EU Carbon Removals and Carbon Farming Certification (CRCF) Regulation to strengthen integrity in carbon removal and carbon farming credits in Europe, recognising that attracting investment is contingent upon building integrity in carbon credits traded in the voluntary carbon market. To support reaching the net in net zero, more countries are pushing for inclusion of CDR within net zero trajectories. Switzerland recently introduced a requirement for Swiss companies to reach net zero by 2050 through a combination of emissions reductions and CDR.[5]

1. Boston Consulting Group – Climate Needs and Market Demand Drive Future for Durable CDR (2023).
2. Climate Change Committee – The Seventh Carbon Budget (2025) and Climate Change Committee – The Sixth Carbon Budget (2020).
3. Congress – The Section 45Q Tax Credti for Carbon Sequestration (2023).
4. Treasury Board of Canada Secretariat – Government of Canada commits to purchase carbon dioxide removal services to green government oerations and achieve net zero emissions (2024)
5. Federal Office for the Environment – 2050 net-zero target (2025)

The UK Government has a target of 5 Mt of engineered CDR per annum by 2030, expected to rise to 23 Mt CO_2 by 2035[6] (although these targets are currently under review).[7] The UK Government's policy is to source these removals domestically which has led the Department for Energy Security and Net Zero to pursue several levers to incentivise project developers and attract private capital into the sector. These include the roll out of a Carbon Contract for Difference for greenhouse gas removal technologies[8] (GGR business model) and integration of greenhouse gas removals into the UK Emissions Trading System (UK ETS), a potentially very powerful signal to drive demand which was introduced in Japan last year.

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Several Japanese companies have stepped further into the CDR sector. This includes energy company Idemitsu Kosan Co leading investment into Carbon Removal Partners' CDR-focussed venture fund,[9] Sumitomo Corporation announcing a strategic partnership with Carbon Direct to aim for a 500,000t CO_2/year CDR portfolio[10], and shipping company Mitsui O.S.K Lines partnering with Climeworks for CDR and exploring opportunities to invest in CDR infrastructure as part of that deal[11]. The activity could be a response to the ETS integration and bodes well for the UK's plans to integrate greenhouse gas removals into the UK ETS.

The UK is home to a number of innovative CDR start-ups and a world-leading specialist carbon market sector, largely driven by a strong academic sector and an early focus on driving integrity in the voluntary carbon market, such as the establishment of the Integrity Council for Voluntary Carbon Markets, for which the Green Finance Institute provided technical assistance[12]. The Green Finance Institute recently interviewed over 50 UK CDR companies, investors, and specialist carbon market service providers to understand better whether, given this supportive landscape, CDR is an attractive prospect for investors in the UK. Our paper, *The Investment Readiness of CDR in the UK, a Preliminary Assessment*[13] found that whilst many barriers remain, not least the high cost of energy, the combination of supportive policy levers, world leading research and innovation, a stable regulatory landscape and specialist expert delivery services, means the UK has the potential to attract private sector investment and meaningfully scale CDR technologies.

We are, however, at a critical moment in the roll-out of supportive policies, in CDR and in other major industrial decarbonisation projects. In a period when government spending trade-offs are prevalent and insecurity hangs over government support around the world, the UK should remain committed to being a leader in designing innovative business models and demand side incentives that meet investor needs and meaningfully derisk private sector capital. Not only will this maximise the opportunity to turn decarbonisation into growth sectors of the economy, but it will give us the best chance of keeping warming to well below two degrees.

6. Department for Energy Security & Net Zero – Greenhouse Gas Removals: Update on the design of the Greenhouse Gas Removals (GGR) Business Model and Power Bioenergy with Carbon Capture and Storage (Power BECCS) Business Model (2023)
7. Department for Energy Security & Net Zero - Independent Review of Greenhouse Gas Removals: terms of reference (2025)
8. The UK Government uses the term greenhouse gas removals, which incorporates carbon dioxide removals.
9. Idemitsu – Idemitsu Invests in Fund Focused on Carbon Dioxide Removal (CDR) (2025)
10. Carbon Direct – We are proud to announce a strategic collaboration between Sumitomo Corporation and Carbon Direct (2025)
11. Trellis - Japanese corporate heavyweights boost carbon removal market (2025)
12. The Integrity Council for the Voluntary Carbon Market - Governance Body Formed by the Taskforce on Scaling Voluntary Carbon Markets Announces New Leadership, Will Appoint Representatives from Indigenous Groups (2021)
13. Green Finance Institute – The Investment Readiness of Carbon Dioxide Removals in the UK – A Preliminary Assessment (2025)

Q&A with Leslie Johnston: Rethinking philanthropy's role in a shifting international financing landscape

Leslie Johnston

CEO of Laudes Foundation

The international climate philanthropy space is rapidly evolving as foreign aid shrinks even as the pressure to meet NDCs and maintain resilience grows. To understand what this shifting landscape means, Dr. Rhian-Mari Thomas, CEO of the Green Finance Institute, spoke with Leslie Johnston, CEO of Laudes Foundation, to get her views on how philanthropy continues to support the green finance value chain, improving institutions, designing new policy and creating innovative finance mechanisms that can mobilise private capital.

RMT: How is climate philanthropy changing and where do you think it is heading?

Leslie Johnston: I feel that we are at a real inflection point when it comes to the philanthropic sector and its role in accelerating climate action. On the positive side, we are seeing philanthropic funding for climate mitigation increase. According to ClimateWorks, it grew by 20 percent in 2023, which is encouraging.[1] This has been driven by the rise of new, bold and ambitious climate foundations. Several of the biggest players in this space are less than five years old.

At the same time, it's not enough. Climate funding is still a fraction of total philanthropic capital, especially towards mitigation - at just 2%. Adaptation gets slightly more attention, because it overlaps with humanitarian work, but overall, it is tiny.[2]

Climate funding is still a fraction of total philanthropic capital – at just 2%.

Moreover, the global context in which we as funders are operating is shifting. Public funders are pulling back. Economic uncertainty is growing. Civil society is getting squeezed. And the challenges that we, collectively, are trying to tackle are getting harder to solve. It's now clear that we are no longer facing a choice between climate mitigation and adaptation. Having surpassed the 1.5-degree limit set out by the Paris Accord, it is both. It's about building resilience – of our partners, of the communities they serve, and even of the businesses and industries we are working to transform. And to do that, we need to make these transformations investible.

1. ClimateWorks Foundation – Funding trends (2024)
2. ibid

RMT: Let's explore that, how is philanthropy evolving to support the flow of green finance and create an effective value chain?

Leslie: Philanthropy has a crucial role to play in creating the conditions for green finance to move to where it needs to. Done well, it can help shape policy frameworks, demonstrate viable investment models and unlock longer-term capital. There are many ways philanthropy can do this. At Laudes, we often play the role of bringing unlikely allies together – such as brands and retailers, innovators, manufacturers, investors – in order to demonstrate that, say, an innovation to tackle carbon or waste in the fashion industry can work and unlock the finance needed to scale. That's what we do at Fashion for Good, which, since its founding seven years ago, has unlocked over $2 billion to scale green innovations for fashion.

Fashion for Good unlocked over $2 billion to scale green innovations for fashion

Credit: Mahmud Rahman for Laudes Foundation

At the same time, we recognise that we need to unlock significantly more investment to enable just transitions across industries such as fashion, the built environment or even food. In fact, at least $3-5 trillion is needed per year. And to do this, we need to change the rules governing finance, which we do via partners who work to enable the right policies, regulations and industry norms. Central banks, for example, have a duty to maintain market and price stability and can use their buying and regulatory powers to influence the whole financial system. Through partners like the Council on Economic Policies (CEP), New Economics Foundation, Positive Money Europe, and Sustainable Finance Lab, we have supported work that has been instrumental in removing the barriers to central banks acknowledging and acting on climate risks.

And risk is the key word here. Take water risk, for example. It's becoming a very real financial issue. When you have floods like those in Valencia, not only is there a tragic human cost, it also hits P&Ls hard. We need more philanthropic work that shows how climate and nature risk directly affect fiscal performance, not just long-term scenarios. As your team at the GFI quantified, nature degradation could cause a 12% loss to UK GDP under a plausible future scenario, larger than the hit to GDP from the global financial crisis or Covid-19.[3] Making the impact on nature an undeniable economic risk can spark action throughout the value chain.

3. Green Finance Institute – Assessing the Materiality of Nature-Related Financial Risks for the UK (2024)

RMT: Where does venture philanthropy fit into this broader shift?

Leslie: I have always been a champion of venture philanthropy, and in addition to leading Laudes, I serve as Chair of Impact Europe, the membership body bringing together 300+ venture philanthropies and impact investors. To me, venture philanthropy can play a unique role of derisking investments so as to attract larger, more commercial investors. At Laudes, we did this with the Good Fashion Fund, in which our anchor investment created the right conditions for two additional investors to come in.

At the same time, venture philanthropy is simply one tool (of many) and should be used only if a foundation believes it can greatly deepen one's impact. Like commercial venture funds, venture philanthropy also tends to come with tailored, hands-on support to the investee, ultimately helping to strengthen the field of impactful social enterprises. I certainly see a role for venture philanthropy in the emerging investment opportunities around climate adaptation and resilience solutions.

RMT: Many funders still focus only on grant making. How do we shift mindsets towards endowment alignment and longer-term investing?

Leslie: Indeed, philanthropic foundations are well positioned to create impact both via their core grantmaking and via their investments, as foundations such as Rockefeller Brothers Fund or Wellcome Trust have demonstrated. But still only a small percentage of foundations align their endowment investments with their mission.

This is (slowly) changing, and I was particularly inspired by an op-ed last year by Kieron Boyle, Chair of one of our partners, The Impact Investing Institute, where he called out the as-of-yet-unrealised opportunity in the UK for charitable endowments to invest intentionally for impact.

What is particularly encouraging is that more organisations – like Confluence Philanthropy in the US or Impact Europe and Philea in Europe – are helping foundations better understand the opportunities (and risks, of course) of embedding a strong impact ambition across all their investments – from grants to endowments. But we still have a ways to go.

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RMT: Let's talk about emerging markets. What role does philanthropy play in building enabling infrastructure and institutions?

Leslie: Philanthropy can play a unique role in building the early architecture for climate transition in these markets. This could mean funding capacity building of local institutions, enabling important policy dialogues or developing the financial mechanisms which can unlock more private capital.

For example, recognising Asia's increasing vulnerability to climate events (like floods and extreme heat), our partner AIGCC (the Asia Investor Group on Climate Change) has created a working group to help investors understand and embed resilience considerations within their investment strategies. Given the reach of this group (investors across a dozen markets with over $35 trillion in AUM), such an initiative has the potential to tip significant investment toward adaptation.

What's particularly exciting here is how local philanthropy is rising to this challenge, and we are proud to collaborate, for example, with key players like the India Climate Collaborative, who is working to strengthen the local philanthropic architecture to play this catalytic role.

RMT: So, it's not just about stop-gap funding. It's about catalysing bigger shifts?

Leslie: Exactly. Philanthropy is best positioned to influence the rules, mindsets, and even power dynamics which can catalyse such bigger shifts. And by doing so, we work to inspire business and industry to transform how they work. We work to unlock private and public finance at scale to accelerate these transitions.

Yet to do this well, philanthropy needs to be patient and act for the long-term. Philanthropy needs to build the resilience of its partners, many of whom are on the frontlines of change. And philanthropy needs to take risks, showing what's possible and enabling the innovation that can help green finance to flow.

Credit: Mahmud Rahman for Laudes Foundation

Unlocking private capital for ASEAN's green transition

It is well established that private capital needs to bear the heaviest burden when it comes to financing decarbonisation. In the high-growth, high emission markets of Southeast Asia, this is particularly true. Indonesia has set out an ambitious, enhanced Nationally Determined Contribution (NDC) – with 84% of the capital needing to come from private investors[1]. Similarly, the Philippines has committed public funding for just 2.7% of its ambitious NDC target through 2030[2]. In both these markets and elsewhere across ASEAN, this leaves significant funding gaps to be filled from private capital.

The opportunities to invest in the transition across ASEAN are significant. The question is often asked whether there is capital available. As with most markets, the answer is yes, if there are opportunities that can deliver adequate risk adjusted returns. It is then about how we can create robust pipelines to increase engagement from private capital and ultimately unlock investment.

Developing markets are perceived very differently by investors and policymakers but the GFI's problem diagnosis, approach and solutions are actually the same as those we have deployed in Europe. When the GFI began our work, policymakers were focussed on financial regulation – in particular the role of disclosure regimes, taxonomies and carbon markets in unlocking capital for the transition. This was an important part of the approach but on its own, it wasn't sufficient to unlock investment. Looking now at ASEAN markets we can see a similar emphasis. Indeed, there are multiple taxonomies in the market including for example, an ASEAN one, an Indonesia one and a Singapore Asia taxonomy. The GFI's methodology is to focus on sectors. Real economy policy in key sectors, brings clarity to investors on what the ultimate demand is going to be and what incentives are available for corporates and consumers operating in them. This is as, if not more important than financial sector regulation, even where the latter is specific to sustainability.

1. MoF/GFI White Paper on the Sustainable Finance Committee (forthcoming)
2. Climate Adaptation Platform: Funding Philippines' Climate Resilience Plan (2023)

That is why in the Philippines, we have worked in granular detail on transport and waste, looking at the specific barriers to investment. In the waste sector, limited incentives to drive demand for recycled materials are coupled with low tipping fees, which favour landfill where there is a lack of sorting infrastructure. A similar issue persists in transport where the ending of incentives is coupled with a lack of charging infrastructure. In designing solutions, the GFI's output encompasses both financial structuring and specific impact-oriented policy as only this combination will ultimately unlock capital.

The other element is institutional design and frameworks. Ultimately this is about governance and creating the conditions for investors to better understand the finance and policy ecosystem, gain confidence in it as they engage more, and ultimately invest. In Indonesia, the GFI has been working on a new cross-government initiative with the Ministry of Finance called the Sustainable Finance Committee. It will work to align financial sector and real economy policy with development capital and pipeline, to create a more credible and transparent platform for investors to engage with, reducing friction costs and increasing investor understanding. This combined with deploying the GFI's sector coalition model into Indonesia to focus on barriers and solutions pivotal to the NDC, should begin to close the execution gap and mobilise institutional capital at scale.

The barriers to invest in developing economies are often perceived as intractable but this is based on assumptions that everything is different. Sector policy combined with smart development capital will create risk/return opportunities to suit private capital. But because international capital is less familiar with these markets, we need to go further with creating transparency around institutions to increase engagement and confidence. The good news we have developed the playbook and can adapt it for these critical markets. If you would like to hear more about our work in Southeast Asia and elsewhere, please get in touch.

Using Securitisation to Unlock Private Investment for the EU's Clean Industrial Deal

Given the estimated scale of investment required to deliver sustainable prosperity and competitiveness in Europe (up to EUR 800 billion in additional annual investment into new European technology and infrastructure according to the Draghi report[1]), the bulk of the financial effort must come from the private sector - which has historically been insufficiently mobilised. It is estimated that within European pension funds there are EUR 4.5 trillion in assets under management and EUR 4.6 trillion in insurance assets under management that are seeking attractive long-dated investments to match their liabilities to policy holders[2]. Securitisation is an ideal structuring technique to bridge the Clean Industrial Deal financing gap.

Securitisation in its simplest terms pools and sells homogeneous income-generating assets such as loans made by a third party (often but not always banks) into a special purpose vehicle, which are paid for by the issue of securities in the international capital markets – primarily to pension funds and other institutional investors. The cashflows on the loans are used to make interest and principal repayments on the securities, which are secured on the underlying assets.

1. European Commission - The Draghi report on EU competitiveness (2024)
2. Goldman Sachs – Europe's Investment Drive Puts $4.9 Trillion of Pension Fund Assets in the Spotlight (2025), Solvency II Wire – Insurance asset allocation of Europe's largest groups 2016 – 2023 (2024)

Securitisation works for green assets

In 2013, the UK's Green Investment Bank (GIB) and Greencoat UK Wind PLC successfully used securitisation to unlock scaled capital markets investment into the offshore wind market. The GIB made a first direct equity investment in offshore wind through the acquisition of a 24.95% stake in Rhyl Flats Wind Farm Limited (Rhyl Flats) from companies owned by RWE AG for a cash consideration of GBP 57.5m.[3]

The underlying assets had been fully operational since March 2010 and consisted of 25 Siemens 3.6 MW turbines with a total capacity of 90 MW. GIB acquired its stake alongside Greencoat UK Wind PLC, which also acquired a 24.95% interest from RWE.[4] Greencoat UK Wind PLC had been established as a UK Investment Trust for the sole purpose of investing in wind farm assets and became the first renewable energy infrastructure fund to list on the London Stock Exchange.

The successful listing of Greencoat UK Wind PLC on the London Stock Exchange demonstrated the benefits of securitisation as a mechanism for bringing scale capital investment into the renewable energy sector.

By selling a minority stake in Rhyl Flats, the developer RWE freed up additional capital which it invested in other renewable energy projects in the UK. At the same time, the successful listing of Greencoat UK Wind PLC on the London Stock Exchange demonstrated the benefits of securitisation as a mechanism for bringing scale capital investment into the renewable energy sector.

3. The Green Investment Group - UK Green Investment Bank invests £240m in UK offshore wind sector (2014)
4. Environmental Finance - Green bonds - asset-backed/asset-based bond of the year: Brighte Green Trust (2021)

Since then, there have been many other notable examples of the issuance of green securities linked to renewable energy projects – sometimes with public banks playing a cornerstone investor role. In 2016, FlexiGroup issued the first Climate Bonds certified green securitisation for AUD 50m (USD 39m) - a 'green' tranche of an AUD 265m (USD 204m) issue of securitised notes backed by loans for residential rooftop solar power systems. A second certified solar securitisation followed in February 2017. Both issuances received an AUD 20m cornerstone investment from the Clean Energy Finance Corp.

More recently in 2021, Australian fintech firm Brighte Green Trust issued the country's first green asset backed security (ABS) with an AUD 190m (USD 147m) bond issue. Backed by Australian solar and battery installation receivables, the securitisation will finance solar and energy related assets. The securitisation was structured into seven tranches and as an inaugural issuer, having only been incorporated in 2015, Moody's applied a ratings cap of Aa2 (sf) to the senior notes. Thirteen investors were involved, most of which invested in multiple tranches.

Why does securitisation need reviving in Europe?

The global financial crisis in 2008 was largely precipitated by the expansion of poor-quality subprime mortgage-backed securitisations and other analogous complex and opaque structures. As a result, the securitisation market became stigmatised and prudential regulation was brought in across Europe that limited its use. However, it is the quality of the underlying assets that drive the performance of a particular securitisation transaction, rather than the use of the technique itself. When properly structured and monitored, securitisation is a powerful technique that can drive scaled investment from institutional investors through the capital markets by creating funding platforms that develop new asset classes for investment: the key issue to address is to ensure the underlying assets are originated responsibly and generate an appropriate risk adjusted return to capital markets investors, who benefit from the portfolio effect created by asset pooling.[5]

A number of commentators have made thoughtful observations regarding the need to address the stringent regulatory treatment of securitisation in Europe if it is to be rehabilitated as an effective financing tool to unlock much needed investment. However, there are additional barriers to address when developing scalable financing solutions for the nascent technologies and infrastructure transition required by the Clean Industrial Deal.

For insurance and pension fund investors to participate, the risk associated with the underlying assets in a securitisation should be able to be identified, monitored and managed appropriately in accordance with an investor's fiduciary obligations under Solvency II (the 'Prudent Person Principle'). In established renewable asset classes such as wind and solar, this is achieved by relying on long-term performance and default data. However, the newer technologies and business models that are needed to deliver the Clean Industrial Deal in Europe will require 'wrappers' in the form of guarantees that mitigate 'first of a kind' default risk and thereby enable institutional purchasers to meet their regulatory obligations under Solvency II.

While the Matching Adjustment (MA) requirement was introduced to encourage institutional investors to invest in long-dated assets (including infrastructure) – by expanding asset eligibility and allowing them to discount long-term liabilities at a higher rate than the standard risk-free rate – investors are still required to demonstrate compliance with the Prudent Person Principle. So, despite the incentivisation inherent in the MA for non-bank investors to invest in infrastructure, the lack of performance data for newer technologies initially limits their ability to do so. To mitigate this risk, public sector support in the form of guarantees or alternative credit mitigation may be required within the securitisation structure or on its underlying assets at the outset. However, it is worth noting that performance data on the underlying assets will be collected over time, so, while not necessarily met initially, as a securitisation programme matures the Prudent Person Principle can be satisfied, making the programmes self-sustaining (i.e. without public support) in the medium and long term.

5. European Stability Mechanism - Reviving securitisation in Europe for CMU (2021)

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The role of public banks in reviving securitisation in Europe

In his report, Draghi discussed the potential to set up a dedicated securitisation platform, as other economies have done, to help to deepen the securitisation market in Europe, especially if backed by targeted public support (for example, well-designed public guarantees for the first-loss tranche). The GFI, in collaboration with the UK's Investment Delivery Forum (established by the Association of British Insurers), has been developing a series of proposals for green transition funds (GTFs) that are designed to support direct institutional investment into the green transition via securitisation.

The role of GTFs is to crowd-in private finance for green infrastructure projects that lack the performance data to attract private investors limited by their prudential investment mandates. Using capital from insurance and pension fund investors through their subscription for bonds issued in the debt capital markets, the GTFs are designed to make loans to critical infrastructure developers. Repayments under these loans, which are secured on the relevant infrastructure assets, are the primary source of repayment on the bonds.

During the early period of GTF operation, when long term performance data is accumulating, public support will play a crucial role in two ways. First, making sure that underlying assets satisfy a (qualitative) minimum standard; second, providing a financial guarantee or other form of credit enhancement to mitigate 'first of a kind' default risk. In Europe, the European Investment Bank (EIB) is a well-established entity with the relevant expertise and financial capacity to structure such solutions; in the UK the National Wealth Fund can also play a similar role. This public support is only needed in the first few years of a GTF programme - as the investments mature and performance data for good quality underlying assets becomes available, public support should no longer be required.

In summary

Designed well with full transparency on levels of risk taken by investors and/or appropriate mitigants such as guarantees, securitisation is a key means to mobilize private capital into Europe's clean transition by aggregating smaller green projects to make it easier to raise the large sums of money needed to deliver this investment. By pooling capital and spreading risk across multiple projects securitisation makes green investments more attractive to investors who might otherwise be cautious about committing to high-risk or novel technologies.

Liquidity is key to success and further work is needed to increase market liquidity. Public banks have historically played a pivotal role in funding green projects and making markets in Europe: EIB-led GTF structures have the potential to significantly scale up private investment in Europe's Clean Industrial Deal, in the way the Draghi report proposes, and thereby use public capital in the most efficient way.

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