ESSAY

SUSTAINABLE FINANCING

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Closing the Funding Gap for Green Urban Infrastructure

Waterlogged street in Dhaka, Bangladesh.
Image: Nayan Kar / SOPA Images / LightRocket via Getty Images

There are insufficient funds going towards building the infrastructure needed to make cities greener and mitigate climate change risks, particularly in the developing economies. How do we plug this financing gap? Standard Chartered's Group Chief Executive Bill Winters outlines how financial organisations can support climate action.

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The clock is ticking on climate change. Temperatures are rising, sea levels are going up and we have more greenhouse gases in our atmosphere than at any time in human history.

In a rapidly urbanising world, where two out of every three people are forecast to live in cities by 2050, this is a formidable challenge. Unless we act fast, 800 million people living in low-lying coastal cities—particularly in Asia and the US coast—will be hit by sea level rises and coastal flooding by 2050 according to the UN. As many as 1.6 billion city-dwellers will suffer the effects of extreme heat and 650 million will find it more difficult to access fresh water, according to the UCCRN Technical report.

There is no denying it—we need to start making our cities more sustainable and resilient now. But there is a big problem: a lack of funding to build the infrastructure needed to make cities greener and mitigate climate change risks.

Mind the Funding Gap

At present, there is simply not enough capital flowing to the countries where investing to achieve the United Nations' Sustainable Development Goals (SDGs) matters most. The UN has calculated a financing gap of at least US$2.5 trillion per year up till 2030 for emerging markets alone.

Looking more closely at infrastructure-focused SDGs reveals the scale of the problem—and the potential. Standard Chartered's Opportunity 2030 report reveals a US$10 trillion financing gap across 15 high-growth markets in Asia and Africa.

This presents a clear business case and investment opportunity for the private sector to contribute to three of the most tangible, infrastructure-focused goals—SDG 6: Clean Water and Sanitation, SDG 7: Affordable and Clean Energy, and SDG 9: Industry, Innovation and Infrastructure.

A surge in demand is coming for transport, housing, energy, digital connectivity and water. An enormous infrastructure buildout

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is needed. The challenge is to ensure that it happens sustainably and in a manner resilient to the changing climate.

None of this will be easy. Many governments may be financially constrained in the aftermath of the COVID-19 pandemic, having taken on more debt to shore up struggling economies. Investors too have been wary in the face of an uncertain outlook.

However, our research suggests the private sector appetite for sustainable finance is holding up. In fact, over the next three years, 42% of investors are considering putting 5-15% of their funds into sustainable investments, according to the Sustainable Investing Review 2020. We believe this trend is set to continue despite the significant disruption brought about by the pandemic.

Reshaping Financial Services for Sustainability

So how can we ensure that the work of financial organisations both promotes and entrenches sustainability, and attracts the new wave of investors looking for green returns?

Backing Projects

In 2019, Standard Chartered helped finance one of Singapore's largest-ever green loans for the acquisition of DUO Tower and DUO Galleria. Both buildings are renowned for their green credentials, including a rainwater harvesting system and a special glass exterior that keeps the building cool, reducing the need for air conditioning.

The Greater Bay Area in Hong Kong has also secured its first-ever green bond. The money raised will finance or refinance green assets to help create a low-carbon economy, including renewable energy, cleaner transport and wastewater management.

Singapore's DUO Tower is recognised for its green features.
Image: Fadh.graphy / Flickr

A solar array that Standard Chartered financed in Vietnam.
Image: Asian Development Bank

But finance for emerging markets has historically proved challenging. Truly transformative projects often cannot be funded by the public sector alone.

Innovative forms of finance such as blended deals are one way to unlock progress—with NGOs, governments, the private sector and insurers working together to help the world's poorest cities transition to low-carbon economies.

Standard Chartered participated in one such deal in January 2020. Working alongside the Asian Development Bank, we provided long-term financing to develop and operate a 50-megawatt photovoltaic solar power plant in Tay Ninh Province in Vietnam.

One of Tanzania's biggest-ever infrastructure projects is now underway, after Standard Chartered arranged US$1.46 billion of financing for the construction of a new railway. Not only will it reduce congestion and pollution in cities like Dodoma and Dar es Salaam, it is also notable for its diverse mix of investors and stakeholders.

The private sector plays a pivotal role in helping emerging economies realise the SDGs. Standard Chartered has committed to providing US$40 billion of project financing services for infrastructure that promotes sustainable development by the end of 2024.

Measuring Impact

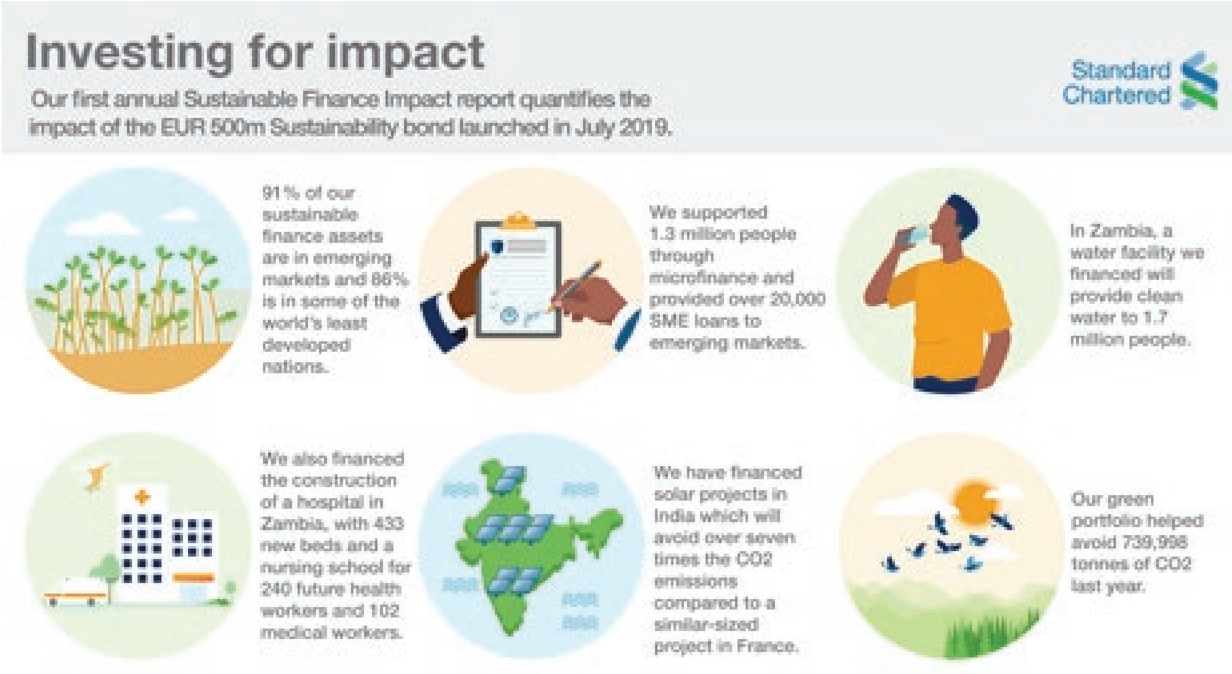
Measure, manage and ultimately reduce—this is Standard Chartered's commitment to lessen our financing for activities that will accelerate climate change. To make good on our word, metrics are proving essential.

We have developed a Green and Sustainable Product Framework in collaboration with Sustainalytics, a leading provider of ESG and corporate governance research, so that funds can be directed to projects that will have a positive impact.

In the same way, we need to embed sustainability into the core thinking of mainstream financial markets.

In this area, we have two innovative partnerships. The first is a research project with Imperial College London, looking at how best to identify climate risks and include them in financial decisions. The second is working with Munich Re, using its software to allow companies to analyse the climate change-related risks for holding assets or liabilities in specific locations.

Unsurprisingly, data is also instrumental in the capital allocation process. Our Sustainable Finance Impact Report has shown that a dollar invested can have a



Extract from Standard Chartered's Sustainable Finance Impact Report.
Image: Standard Chartered

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significantly different outcome depending on where and how it is deployed. The greater the information at our fingertips, and the deeper our understanding of the issues we are working to solve, the better the decisions we can make to meet our sustainability goals.

Withdrawing Services

Our first instinct is always to engage with and support clients in their transitions to more sustainable pathways, if possible, by providing the capital to do so. But if needed, we are prepared to move money away from activities today to avoid creating climate risks tomorrow.

Power generated by burning coal is a major cause of pollution and must be actively avoided as cities grow their energy infrastructure to meet increased demand. At Standard Chartered, we are gradually withdrawing our services from clients who rely on coal for a large part of their income. From January 2025, we will only work with clients who are less than 60% dependent on earnings from thermal coal, with this threshold dropping to 40% in 2027, and then 10% in 2030 (based on % EBITA at group level).

The example of coal is relatively clear-cut. The difficulty comes in measuring the impact of more complex activities, like city infrastructure projects, which may have a negative impact on wetlands, forests or peatlands.

That is why everyone—banks, city planners and NGOs—needs an established methodology to measure CO_2 emissions from planned developments to help us all manage the climate impact.

We have reviewed more than 1,100 client relationships and transactions, checking their compatibility with Standard Chartered's position statements on industries such as power generation, agriculture, transport and mining.

Findings from Standard Chartered's $50 Trillion Question Survey show that sustainable investment is growing but not enough is reaching the markets that need it most. The survey was conducted between July and August 2020 among a panel of the world's top 300 investment firms, with total assets under management of more than US$50 trillion.
Image: Standard Chartered

COORDINATING FINANCING FOR TANZANIA'S RAILWAY PROJECT

Tanzania's new 550 km railway will link the capital city of Dar es Salaam with the commercial hub of Dodoma, before further connections are built to Rwanda, Uganda and the Democratic Republic of Congo.

There are many benefits for Tanzania's people: it allows for the economic development of the region, with increased trade and job creation. It will also provide communities living alongside the railway with better access to social services, healthcare and education. Every train is estimated to take about 500 lorries off the highway, significantly cutting pollution and congestion.

In terms of the US$1.46 billion investment needed, Standard Chartered has overcome one of the most common challenges experienced by African governments in accessing funds. The bank's long-term financing proposal—backed by Export Credit Agencies (ECAs) and a diverse investment community—meant Tanzania's government could start building without having to source for additional financing as the project progressed.

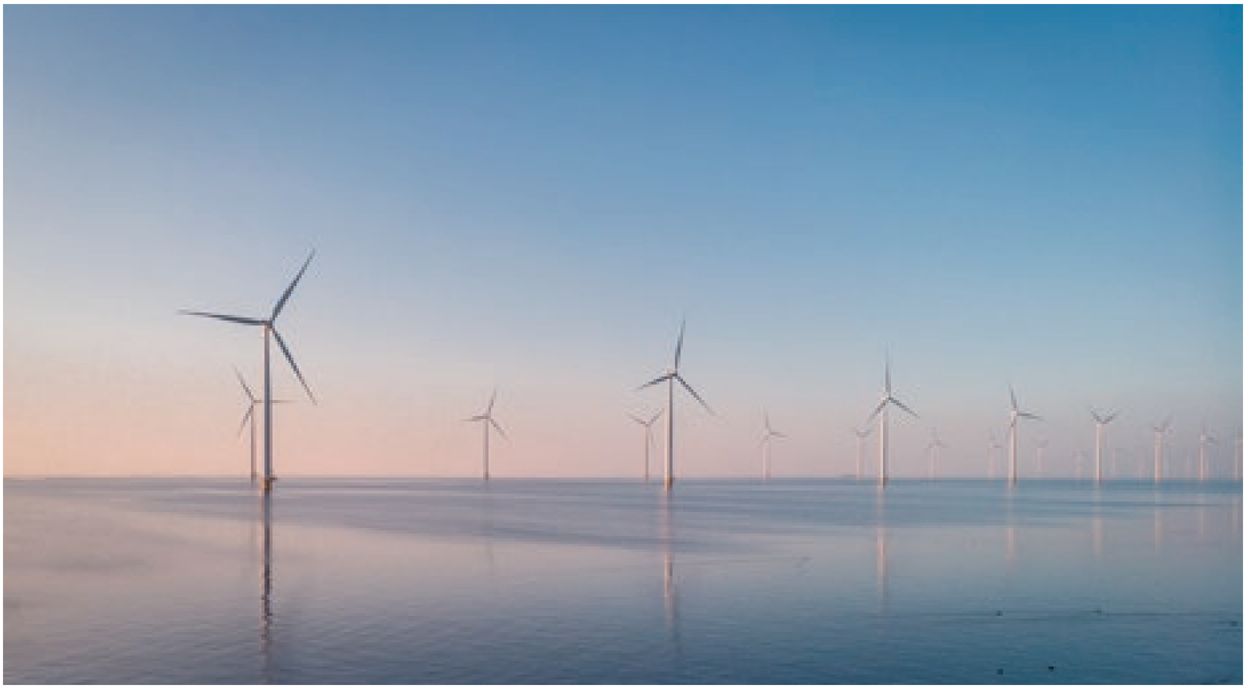
Standard Chartered drew on expertise from around the world, bringing together international and domestic investors with complementary objectives, including ECAs to guarantee the loans. We had existing relationships with both Tanzania's Ministry of Finance and the Turkish rail contractor Yapi Merkezi, and an agreement from the start to ensure the project would be built in line with international best practices.

The project's social and environmental credentials were key to investors. The ECAs, for example, established criteria such as livelihood restoration, biodiversity and community engagement. The Ministry of Finance's commitment to independent monitoring of the project management was also key.

Standard Chartered coordinated the demands of all parties and changed the accepted norms of how such deals are structured, using its experts to review the economic, social, environmental and other risks.

The offer was heavily oversubscribed, proving that there is investor appetite for well-planned, well-executed projects that meet international standards and have demonstrable benefits for the local community.

Dar es Salaam, one of the cities that will be linked by the new 550 km railway line in Tanzania.
Image: K15 Photos / Unsplash



Off-shore wind farms offer a reliable source of energy.
Image: Getty Images

Real progress requires multilateralism and partnerships at every step of the journey.

The Power of Collaboration

No single organisation can plug the sustainable financing gap alone. We must all work together to share best practices and develop a common set of standards.

The Taskforce on Climate-related Financial Disclosures has developed a new way of reporting CO_2 emissions alongside financial results. The Taskforce for Scaling Voluntary Carbon Markets, which I chair, is bringing together the entire carbon value chain to create a blueprint to enable private sector companies to reach their net-zero goals and sustainability-related aspirations through a liquid, transparent and reliable carbon market.

Real progress requires multilateralism and partnerships at every step of the journey. We must continue to learn from one other and extend a helping hand to those who need it most, as we work for the greater good.

Creating a Sustainable Legacy

As cities grow and develop, sustainability must be built into every level of organisational decision-making. At Standard Chartered, our position on climate change not only informs all our decisions on project finance but also gives us a sense of purpose. A sustainable city is a liveable city—one that has not just environmental benefits, but health and economic ones, too.

By directing the flow of money to infrastructure projects that will leave a positive legacy, we want to play our part in creating a more sustainable and resilient world for generations to come.