



Forum for the Future

Financing the Future  
The London Principles project  
UK financial services  
and sustainable development

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## The London Principles project

- Examining the role of UK financial services in sustainable development
- One of UK initiatives at WSSD
- Commissioned by UK's DEFRA
- Chaired and funded by Corporation of London
- Research by the Centre for Sustainable Investment



## Four dimensions to the London Principles project

- Analysis of sustainability and the key functions of financial services
- Case studies of innovation today
- Blue skies thinking on innovation tomorrow
- The London Principles



# Analysis of sustainability and the key functions of financial services

- Pricing equity/debt and exercising ownership
- Providing new capital
- Risk management products





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# Pricing equity/debt and exercising ownership

Functions	Business area	Sustainability problems	Solutions	UK innovations
Pricing assets and exercising ownership	Asset management <ul style="list-style-type: none"> <li>- stock selection</li> <li>- corporate governance</li> </ul> Investment banking <ul style="list-style-type: none"> <li>- research</li> <li>- trading</li> </ul>	Equity/debt prices not reflecting sustainability performance.  Ownership not being exercised to promote sustainable asset use.	Measurement of corporate performance and impact on business value/risk.  Shareholder engagement on sustainability performance.  Create market in unpriced environmental asset/service.	Pensions Act Regulations  Corporate reporting on sustainability performance  SRI asset management techniques (both stock selection and corporate governance)  Emissions/ waste trading



# Providing new capital

Functions	Business area	Sustainability problems	Solutions	UK innovations
Providing new finance	Commercial banking - credit - leasing Investment banking - project finance - new issues - private equity	<p>Sustainability risks not integrated into credit risk assessment/due diligence.</p> <p>Access to finance difficulties for new technologies/ processes.</p> <p>Access to finance difficulties for the poor.</p>	<p>Assess and integrate sustainability risks into credit risk assessment/ due diligence.</p> <p>Include sustainability impacts (to project viability and bank's reputation) in project finance cost-benefit analysis.</p> <p>Easier listing requirements for small sustainable venture IPOs.</p> <p>Set up private equity/VC funds to invest in environmental technologies/ sustainable new businesses.</p>	<p>Specialist banks in credit, community finance, micro-credit and leasing for sustainable businesses</p> <p>Investment bank due diligence</p> <p>IPO capacity.</p> <p>Private equity/VC funds (biggest in EU, 2<sup>nd</sup> only to the US).</p>



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# Risk management products

Functions	Business area	Sustainability problems	Solutions	UK strengths
Risk management	Insurance - reinsurance - non-life  Investment banking - derivatives	<p>Lack of insurance cover for new environmental technologies</p> <p>Threat to reinsurers and lack of insurance cover for business and households as a result of climate change.</p> <p>Contaminated-land brownfield redevelopment hindered by risks of unforeseen liabilities and clean-up cost overruns.</p>	<p>Underwrite risk in emerging technology sectors</p> <p>Transfer weather risk to capital markets through new weather hedging instruments.</p> <p>Encourage mitigation and adaptation by the companies and households seeking insurance for extreme weather events.</p> <p>Cost-cap, liability and other insurance instruments to mitigate risks and facilitate brownfield redevelopment transactions.</p>	<p>Underwriting risk in the wind energy sector.</p> <p>Environmental liability insurance.</p> <p>Lobbying on planning regulations and education programmes to mitigate climate risks, especially flooding.</p> <p>LIFFE and derivatives capacity</p>



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# Case studies in innovation today

	<b>Process innovations</b>	<b>Product innovations</b>	<b>Market innovations</b>
<b>Pricing assets and exercising ownership</b>	1.ABI guidelines on SRI	6.MLIM New Energy Technology Fund	11.UK Emissions Trading Scheme
	2.IIGCC climate engagement coalition	7.Henderson Asia-Pacific Fund	
	3.Carbon Disclosure Project	8.FI&S Engagement product	
	4.HSBC sell-side research	9.Morley Sustainable Futures Funds	
	5.Schroders investment process	10.Jupiter Ecology Fund	
<b>Providing new finance</b>	12.The Big-4 commercial banks' environmental credit risk assessment	13.Deutsche Bank UK Micro-credit Development Fund	
		14.CDC risk capital in low income countries	
		15.Impax Capital/IFC PV investment fund in developing countries	
		16.HBOS Community Banking Agreement	
		17.Bridges Community Venture Fund	
<b>Risk management</b>		18.R&SA underwriting of wind energy	





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# Thinking about innovation tomorrow

	<b>Process innovation</b>	<b>Product innovation</b>	<b>Market innovation</b>	<b>Regulatory innovation</b>
<b>Pricing assets and exercising ownership</b>	1. Sell-side research	6. Indexed funds	10. New commodity markets	12. Disclosure regulations
	2. Buy-side disclosure	7. High-impact asset classes	11. Carbon trading	13. Stock exchange listing requirements
	3. Risk management	8. Specialist technology funds		14. Tax incentives
	4. Investor collaboration	9. Training		
	5. Globalisation			
<b>Providing new finance</b>	15. Corporate finance advice	17. Exit opportunities		19. Emerging markets task force
	16. Public-private partnerships	18. Finance for small-scale intermediaries		20. Loan/ equity guarantees
				21. Enabling environment
				22. Tax incentives
<b>Risk management</b>		23. Agricultural yield guarantee		
		24. Discount rate reduction		
		25. Premium linkage to risk		

# The London Principles

## Financial market system mechanisms to promote sustainable development

**Signatories agree, where relevant to the product and geographical scope of their business, to:**

### **Economic Prosperity**

- Principle 1: Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets;
- Principle 2: Promote transparency and high standards of corporate governance in themselves and in the activities being financed;

### **Environmental Protection**

- Principle 3: Reflect the cost of environmental and social risks in the pricing of financial and risk management products;
- Principle 4: Exercise equity ownership to promote efficient and sustainable asset use and risk management;
- Principle 5: Provide access to finance for the development of environmentally beneficial technologies;

### **Social Development**

- Principle 6: Exercise equity ownership to promote high standards of corporate social responsibility by the activities being financed;
- Principle 7: Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies.





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# Concluding summary

- Identify innovative financing in the UK
- Practitioners suggest future innovations
- Mechanisms to promote opportunities
  - The London Principles
  - MoU with UNEP Finance Initiatives