



Forum for the Future

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

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29 August 2002

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



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">- stock selection- corporate governance Investment banking <ul style="list-style-type: none">- research- trading	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	<p>Commercial banking</p> <ul style="list-style-type: none"> - credit - leasing <p>Investment banking</p> <ul style="list-style-type: none"> - 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, 2nd 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

	Process innovations	Product innovations	Market innovations
Pricing assets and exercising ownership	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	
Providing new finance	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	
Risk management		18.R&SA underwriting of wind energy	



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Thinking about innovation tomorrow

	Process innovation	Product innovation	Market innovation	Regulatory innovation
Pricing assets and exercising ownership	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			
Providing new finance	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
Risk management		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