

**Notes of a Roundtable Discussion on**  
**Investing in a Sustainable Recovery:**  
**Exploring the investor dimension to the economic crisis and the**  
**transition to a low carbon economy**

held on Tuesday 17 February 2009 organised by  
Tomorrow's Company and UKSIF – the sustainable investment and finance association  
and hosted by HSBC plc

### **Introduction**

UKSIF, Tomorrow's Company and HSBC Climate Centre share a sense that there are substantial risks and opportunities flowing from the current economic crisis for the shift to a low carbon, sustainable economy. Climate change is already emerging as an important theme in government efforts to restart the economy with 'green new deals'. The run-up to the Copenhagen conference in December also requires fresh thinking on the mobilisation of private capital for low carbon growth and climate-resilient investment.

They convened a roundtable meeting on Tuesday 17 February to respond to the critical window of opportunity over the next weeks and months for investors to contribute to the shape of these emerging policy and market frameworks. The roundtable took place at HSBC in Canary Wharf and considered three key questions:

1. What are the **implications** of the economic downturn and the growing number of recovery plans for climate change investing and responsible investing more broadly?
2. What can investors do – individually or collectively - to **maximize the effectiveness of these recovery plans in terms of environmental impact and economic returns?**
3. Learning from this, **what other actions** by investors, policy makers and civil society are needed to ensure that we encourage and enable the finance sector to invest in an environmentally, socially and economically sustainable recovery?

### **Attendees**

Lawrence C Bloom	Global Agenda Council on Urban Management
Mark Campanale	
Paul Dickinson	Carbon Disclosure Project
Sean Kidney	Network for Sustainable Financial Markets
Robert Knowles	The Omni Group
Tony Manwaring	Tomorrow's Company (Chair)
Adam Ognall	UKSIF
Nick Robins	HSBC
Penny Shepherd	UKSIF
Richard Spencer	ICAEW
Raj Thamotheram	AXA Investment Managers
David Vigar	
Helen Wildsmith	CCLA

Attendees participated in a personal capacity and organizational affiliations are given for information only. A number of additional invitees were unable to participate but expressed an interest in joining future meetings. These notes summarise points made during the discussion. They do not intend to suggest that any or all points had the support of all present.

### **Points Made**

#### **1. Background and Context**

- Addressing climate change and sustainability through the stimulus packages is “an intelligence test for humanity”.
- We recognise the importance of job protection / creation as a political driver; we see security of energy supply as another key political driver.
- There is a strong link between sustainability and stability that is not being recognised sufficiently.

- We have significant concerns that the stimulus packages will go into “shovel ready” projects that deliver jobs but fail to address (or exacerbate) climate change and potentially delay rather than accelerate the need to transition rapidly to a low carbon economy.
- There is still a major disconnect between the recognition of climate change and investment decisions that are being made. We see no sign of moves away from financing fossil fuels. London has “dried up” as a capital market for clean tech. In Canada, there is much discussion of low carbon solutions but they are still going into tar sands.
- It can be argued that both ESG integration and carbon markets have failed to address the current challenge.
- While some sustainable investment champions flagged up aspects of today’s financial and economic problems in advance, their views did not have the traction to result in widespread changes to financial institution behaviour.
- The millennium development goals may play a useful role now in creating solutions with traction.
- We are learning about the key barriers to change in existing business models. For example, during an attempt to create a major public-private ESCO partnership, all of over 50 economically viable investment opportunities were rejected because they failed one or both of the following tests in the private sector partner’s business model: (a) IRR of 15% or above and (b) 50 megawatts or above (set in the business model as the minimum size to justify putting through planning). A similar problem may well arise with the government’s recently announced “energy efficiency retrofit” plans. There needs to be a better mechanism to tap into capital markets and move the money to “ground level”.
- There are practical delivery issues with the green aspects of the US stimulus package eg. No contact point / capacity at the US Treasury to process requests.

## 2. Recommendations to Policy Makers

- In relation to **government as direct investors, co-investors and facilitators of investment**
  - Public money should be directed into funds to support clean tech, sustainable forestry, etc that cant currently attract private sector funds
  - UK government should bring together a package of stimulus measures into a “Green New Deal UK” that seeks to leverage in investment that is currently withdrawn from the market, eg. “infrastructure for a sustainable economy” bonds at 3% return to fund renewables infrastructure and heat infrastructure
  - Mechanisms such as green and energy bonds are needed to facilitate north to south transfers. For example, proposals on Forest Bonds are available at [www.forestbonds.com](http://www.forestbonds.com) and two further papers (supplied by Mark Campanale) are available on request from [info@uksif.org](mailto:info@uksif.org).
  - Governments should bring together consortia of large investors to make major project investments with government facilitation (eg. say government making a project bankable by underwriting a certain level of initial losses).
  - The McKinsey report “Pathways to a low-carbon economy” should be reviewed for “shovel-ready” projects [http://www.mckinsey.com/client-service/ccsi/pathways\\_low\\_carbon\\_economy.asp](http://www.mckinsey.com/client-service/ccsi/pathways_low_carbon_economy.asp)
- In relation to **government as facilitators of private sector activity**, policy makers should
  - develop their competencies in facilitating private sector activity – facilitating change rather than mandating change eg. priming markets, cutting inappropriate red tape, co-investing in major projects or funds.
  - create a framework that raises the bar on risk assessment: understanding risk; how risk is defined, a meta-system for risk assessment, systemic risk tools.
  - create an expert committee to facilitate the relationship between capital providers, business and government to advance sustainable investment.
  - develop mechanisms to remove key barriers within private sector (utility) business models, eg. target IRR, minimum project size
- In relation to the **Copenhagen climate negotiations**
  - the Copenhagen negotiations should be integrated into the “public stimulus” narrative and used to facilitate investment in smaller developing countries
- In relation to **other changes of approach**
  - Policy makers should increase their willingness to base interventions on currently emerging scientific evidence and conclusions even though these have not yet been in the public domain long enough to build a solid scientific consensus rather than only science published a few years ago which has had time to attract greater consensus.
  - Government support for the finance sector should support the depositors not the structures.

- Is a carbon rationing structure needed? It was proposed that all carbon production should be rationed while carbon consumption should be taxed. It can be argued that carbon markets were an appropriate neo-liberal solution for their time but it can be questioned whether they are still a credible solution in the current environment.

### 3. Recommendations to Responsible Investors

This is a major opportunity for leadership by responsible investors. Investors typically underestimate their power as an ally. Responsible investors should

- build their capacity in leadership to respond to this crisis. Working collaboratively and taking account of their collective interest in the long-term, responsible investors should and could model the behaviour that others should follow.
- react to the crisis with integrity – acknowledging their limitations as well as highlighting their strengths. There is a major disconnect between the scale of the current crisis and the current responsible investor offer.
- expand their thinking beyond short-term opportunities eg. for thematic investments. Consider the systemic and disruptive change to economies and societies that may result from climate change and resource scarcity and the investment implications of these.
- articulate, with the private sector, a vision and a set of practical proposals for ways forward so that this is available when needed by farsighted politicians and regulators with moral courage. This vision could be based on concepts such as “economics of wellbeing” or “dematerialisation”.
- talk the language of “systemic risk”. CFOs are currently interested in risk.
- use their access to progressive finance sector and business leaders by developing together something credible for them to champion.

### 4. Other activities in progress

It was noted that

- Some are now seeking to work out all risks and the interconnections between them for projects they are preparing for investment.
- Nick Silver (for Institute and Faculty of Actuaries) is developing a risk management framework for climate change policy.
- Increased use of the Swiss WIR system is helping SMEs in Switzerland to ride out the current crisis (see [http://en.wikipedia.org/wiki/WIR\\_Bank](http://en.wikipedia.org/wiki/WIR_Bank))
- Potsdam Institute on Climate Change has been commissioned by the German Government to produce a “Green New Deal for the G20”.
- Lord Mandelson is looking for solid ideas with finance and business support for building a post-carbon green economy.

### 5. Next steps

- The conclusions of the roundtable will feed into the Emergency Congress on the Global Economy (co-organised by Tomorrow’s Company) and the next secretariat meeting of investor initiatives on climate change (co-organised by UKSIF), both later in February, as well as informing the continuing work of both organisations to support a sustainable recovery. It will also be made available to other relevant initiatives.
- Some participants identified the opportunity to feed proposal to G20 leaders outside as well as within the UK.
- There was support for future roundtables with the same invitee list. The aim should be to maintain a similar number of attendees (c.15) so that they remain “conversations” rather than “seminars”. They should be for one hour with each addressing a particular topic, taking place at a regular date/time.
- UKSIF will (a) invite roundtable participants to their seminar “Harnessing Sustainable Thinking - Making Change Happen” on the afternoon of Monday 16 March and (b) circulate material provided by Emma Howard Boyd.
- Tomorrows Company highlighted the opportunity to meet Bill Becker, Executive Director of the presidential climate action programme (which was initiated by those close to the Democratic Party) who is visiting the UK 23-25 March; and to sound out whether Lord Mandelson and his team at BERR would be interested in discussing our views at a future date.

Penny Shepherd

Last updated: 27 February 2009