

Financing the transition: options and opportunities

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Financing the Transition: a growing momentum

- ❖ **Climate Policy:** For the first time, green finance included as a key mechanism for delivering climate targets through **Clean Growth Strategy**
- ❖ **Financial Policy:** A roadmap for action just presented by **Green Finance Task Force**, including place-led initiatives at the local level
- ❖ **Investors:** Increasing allocations to green investment across asset classes and looking for stronger pipeline
- ❖ **Banks:** Start of specialised green products for residential, SMEs and large corporates as well as their own green bond issuance
- ❖ **Innovation:** Growth in new financing models and institutions to match supply and demand for green assets

Financing Inclusive Green Finance

Greater action needed to unlock full potential of place-led investment across UK regions and cities. GTF recommended:

- Establish a Local Development Finance fund
- Boost demand for diverse place-based low carbon investments
- Set up Clean Growth Regeneration Zones
- Raise awareness of green finance opportunities among local authorities.

A report to Government by the Green Finance Taskforce

ACCELERATING GREEN FINANCE

The landscape of finance: sources, intermediaries, assets, themes

Sources of Funds

Household savings

Corporations

Governments

Monetary

Asset Classes

Loans

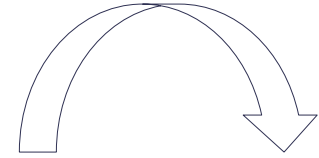
Fixed Income/Bonds

Listed Equity/Stocks

Private Equity

Property

Unlisted infrastructure



Green Investment Themes

Agriculture & Forestry

Circular Economy

Sustainable Energy

Green Buildings

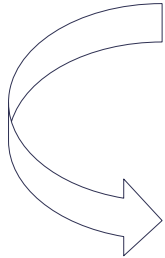
Low-carbon industry

Clean tech innovation

Mobility

Public Sector

Water & Resilience



Financial Intermediaries

Banks

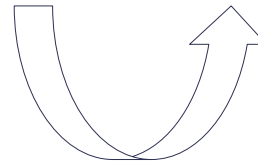
Pension Funds

Insurance Firms

Fund Managers

Crowdfunding

Social Finance



The spectrum of sustainable finance: from margin to impact

	Financial-only	Responsible	Sustainable		Impact		Impact-only
	Delivering competitive financial returns						
	Mitigating Environmental, Social and Governance (ESG) risks						
		Pursuing Environmental, Social and Governance opportunities					
			Focusing on measurable high-impact solutions				
Focus:	Limited or no regard for environmental, social or governance (ESG) practices	Mitigate risky ESG practices in order to protect value	Adopt progressive ESG practices that may enhance value	Address societal challenges that generate competitive financial returns for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors
Examples:		<ul style="list-style-type: none"> • PE firm integrating ESG risks into investment analysis • Ethically-screened investment fund 	<ul style="list-style-type: none"> • "Best-in-class" SRI fund • Long-only public equity fund using deep integration of ESG to create additional value 	<ul style="list-style-type: none"> • Publicly-listed fund dedicated to renewable energy projects (e.g. a wind farm) • Microfinance structured debt fund (e.g. loans to microfinance banks) 	<ul style="list-style-type: none"> • Social Impact Bonds / Development Impact Bonds 	<ul style="list-style-type: none"> • Fund providing quasi equity or unsecured debt to social enterprises or charities 	

Challenges to be addressed

- ❖ **Pipeline:** inadequate pipeline of green assets to meet demand
 - ❖ **Policy:** uncertainty over key policies impacting risk: return ratios
 - ❖ **Capacity:** a lack of capacity for local project development
 - ❖ **Funding:** potential loss of EU sources of finance (EIB, EIF, ERDF)
 - ❖ **Visibility:** weak links along the investment chain to ultimate savers
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Opportunities ahead

- ❖ **Strategy:** Connect proposed National Capital Raising Plan with local needs and requirements
- ❖ **Pensions :** Pivotal role of new local authority pension pools to expand investment in sustainable infrastructure
- ❖ **Bonds:** Issuance of regionally targeted green bonds by banks to channel debt capital to project finance, SMEs and households.
- ❖ **Impact:** Connect green finance agenda with growing demand for social investment products and funds to deliver a 'just transition'

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