



## Joint Actions on Climate Change

8-10 June 2009, Aalborg Congress & Culture Centre, Denmark

Institutionalizing climate change requirements in lending and investment practices

Wednesday June 10 – 09.00-11.00

### Panellists:

Julie LaFrance (Chair), Financial Markets Sustainability, International Finance Corporation (IFC); Matthew Haigh (Moderator), Aarhus University; James Gifford, Executive Director, Principles for Responsible Investment (UNPRI); Victor Kjær, Deputy Director General, Danish Commerce & Company Agency (DCCA); Dr. Asish Saha, Director, National Institute of Bank Management, India

### Setting the scene

Public policy coupled with financial institution capacity may be the balance required to institutionalize climate change requirements in both commercial lending and institutional investment practices. Over the past several years, the perceived role of commercial banks in climate change mitigation has grown significantly in attention. The potential leverage effect for a lending institution and investors to influence the behaviour of clients and investee companies has resulted in the notion that financial institutions can impose conditions that will have a positive impact on reducing greenhouse gas emissions.

For commercial banks, a tremendous opportunity exists to manage the environmental risks associated with the business activities of portfolio clients (reducing portfolio footprint) as well as to structure financial products and steward portfolio clients to pursue carbon-related income streams. However, in practice many commercial banks are reluctant to systematically apply environmental considerations to lending operations.

This is a common reality amongst emerging market banks that fear loss of business to competing banks that have not applied the same environmentally stringent principles.

For institutional investors and fund managers, an opportunity exists to encourage investee companies to improve their management of issues such as climate change. There has been a multitude of investor initiatives emerge in recent years leveraging the power of large investors to seek improvements in corporate behaviour.

A new approach currently being piloted combines:



- a) strengthening institutional capacity of commercial banks and investors to the benefits of integrating environmental considerations into lending and investment with
- b) direct engagement with regulators to develop public policy to support the application of environmental guidelines to lending and investment.

Time will tell whether this approach may strike the balance required to move the commercial banks and investors in emerging markets to action.

**Format:**

1. Opening, Julie LaFrance
2. Perspectives
  - a. The Science of Climate Discourse; Matthew Haigh
  - b. Perspectives from PRI; James Gifford
  - c. Perspectives from Denmark; Victor Kjær
  - d. Perspectives from IFC; Julie LaFrance
  - e. Perspectives from India; Asish Saha
3. Open debate

Presentation and papers can be found at:

<http://gin.confex.com/gin/2009/webprogram/Session998.html>

**Key points:**

Julie LaFrance presented IFC's experiences from piloting public policy interventions with central banks in Pakistan, India, China, the Middle East North Africa region (MENA) and Brazil.

Following Julie's opening remarks and presentation, Matthew Haigh gave his view on the current discourse on climate change and greenhouse gas abatement in the lending/investor context. His main critique of the information currently being developed and presented is that this information is largely unusable for the right people to act upon.

James Gifford subsequently presented focus and experiences from the United Nations Principles for Responsible Investment. From an outset of 'Money Talks', the Principles' current activities focus strongly on combining investors' (as owners) power to influence corporate behaviour. This influence comes primarily as engagement rather than avoidance, which has otherwise been the predominant rationale in traditional SRI. The new approach provides possibilities for synergy between the PRI and public policy and a convergence zone between moral implications and hard legislation. And, hopefully, also a competitive



advantage for those who then enact the changes requested. James gave some examples of these.

The dialogue and interaction between investors and policy makers currently go on in both developed countries, e.g. UK, Sweden, Denmark, South Korea, and in developing nations such as India, South Africa, etc.

Following this presentation and discussion, Victor Kjær provided viewpoints from the public policy side of the table and presented the new Danish Action Plan on CSR, which very much includes possibilities and responsibilities for investors. The driving question currently is how to make Responsible Investment mainstream and how to utilise it also to change companies' behaviour. It seems that currently, 75 percent of large Danish companies do not see Climate Change as a physical or economic risk. Only 30 percent see it as a business opportunity. A strengthened investor-side demanding or encouraging modifications to business practices may change this.

Finally, Asish Saha presented some experiences and perspectives from India, where for example the Clean Development Mechanism (CDM) has created great opportunities, however, has also shown that strong policies need to be in place in order to spur stakeholders' willingness to participate. Further, Dr. Saha provided details about the current cleantech opportunities in India; opportunities that show an enormous market size. With Indian firms currently bypassing the financial crisis and realising that climate change is in fact a threat, according to Dr. Saha, innovative policies supporting the finance sector's engagement could prove crucial in reaching critical mass for the green sector and move India closer to a Green New Deal. It may, however, require also a change in broader mindset: from NIMBY (Not In My Back-Yard) to NIABY (Not In Anybody's Back-Yard).

Following the presentations, the ensuing discussion focused on a couple of issues:

- The possibilities of the banking sector to participate in the Carbon Market,
- The opportunities to reduce risks in volatile markets by introducing lock-in periods of shorter or medium lengths, and
- The need for more direct incentives from governments, e.g. resource use taxation, feed-in tariff's to create a stronger demand side, and combining development policies with principles for responsible investment.