

PRESS RELEASE

Embargoed: Monday 12th October, 00:30

New financial strategy required to meet UK carbon targets

A more radical approach to financing low carbon projects is needed to ensure carbon targets are met, according to a report by the Aldersgate Group [1] to be launched on Thursday [2]. It argues that a new strategic approach to reduce investor risks, mobilise capital and streamline institutional structures would accelerate the transition to a low carbon economy and reduce costs.

The report finds that major reform is required to significantly shift the UK's greenhouse gas emissions trajectory and ensure that a minimum of £250 billion of private sector investment flows into the low carbon economy by 2020. The adoption of new financial mechanisms, such as green bonds and a dedicated infrastructure bank, would reduce investor uncertainty and costs of capital.

The report builds on key observations from two high level roundtables held in the City of London with leading representatives from high street banks, institutional investors, pension funds, insurers, venture capitalists, accountants, financial consultants and NGOs.

Peter Young, Chairman of the Aldersgate Group, said: **“The Climate Change Committee today called for a step change in Government policy to ensure carbon budgets are met and it is clear that mobilising the required finance is a vital component. Instruments that reduce investor risks and attract private sector capital would accelerate progress and maximise the economic benefits in terms of jobs and wealth creation.”**

Emma Howard Boyd, Head of Socially Responsible Investment and Governance at Jupiter Asset Management and Chair of the Aldersgate Group finance roundtables, said: **“There remains a credibility gap between policy and delivery which has resulted in too much uncertainty and risk for investors to finance at the scale that is required. Leadership in financial innovation would help reduce these risks and cement the City of London’s position as the global centre for green and sustainable finance.”**

The Aldersgate Group report, entitled '*Financing the Transition: A Strategy to Deliver Carbon Targets*' argues that the UK needs an active financial strategy that should aim to:

1. Reduce the risk of investing in low carbon projects. Significant advances in public policy will be required to make the necessary cuts in carbon emissions. Concern that progress will not be fast enough or emission cuts deep enough increases the financial risk of low carbon projects. This could be addressed by issuing public guarantees or index linked bonds to emission reductions or carbon prices that can provide a hedge for investors.

2. Mobilise private sector capital flows. The Government must ensure that appropriate public policy mechanisms are in place to mobilise capital from institutional investors at scale. Climate bonds could be particularly effective by offering secure and long-term returns but these must be competitive and asset backed.

3. Reform institutional structures. Current structures which work on an ad hoc basis need to be reformed and rationalised so that they can deliver in a more strategic and synchronised way. A Government-linked financial institution, such as a Green Infrastructure Bank, could play a major role in financing the low carbon transition. It would also create competitive advantage for the UK and reduce dependency on the European Investment Bank (EIB) which cannot meet predicted future investment demand in the medium term.

ENDS

[1] The Aldersgate Group is a high level coalition of progressive companies, environmental groups, MPs and others that provide the economic case for high environmental standards.

[2] The report will be launched at the House of Commons on Thursday 15th October 2009 at 7pm – 9pm. Invitation attached.

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