Response ID ANON-RWCB-469N-Y

Submitted to Transition Finance Market Review: call for evidence
Submitted on 2024-05-09 15:10:18

About you

What is your name?

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What is the name of the organisation you represent?

Organisation:
Investment Association

We usually publish a summary of all responses, but sometimes we are asked to publish the individual responses too. Would you be happy for your response to be published in full?

Yes

What type of organisation do you represent?

Representative/industry body

If other, please explain:

If other, please describe:

What regions do you primarily operate in? (tick all that apply)

UK

What sectors or industries are you active in? (select all that apply)

Financial Services

If other, please explain:

Chapter 2 - Scope of Transition Finance

1) Do you consider there to be a lack of clarity around the scope of transition finance? Why / Why not?

Agree

Please expand on your response here:

As the consultation notes, there are a range of existing definitions of transition finance in use. For instance, ICMA has characterised three broad definitions that capture current market activity. These include an economy-wide transition aligned with the Paris Agreement goals, climate transition focusing on energy and high-emissions sectors, and a transition focused on reducing the emissions of the fossil fuel and hard-to-abate sectors (or promoting low-emission alternatives).

At the conclusion of the TFMR, it is important that capital markets should remain able to provide transition finance which is dynamic and responsive to the evolving evidence base and policy landscape. Investment management involves assessing the prospects and performance of different entities and activities in the context of changing market conditions, regulations, consumer preferences, and environmental and social factors. Investment managers have a fiduciary responsibility and a financial incentive to identify and support the most promising and sustainable opportunities for value creation and risk mitigation across the economy.

It should be noted that a lack of clarity and understanding of what qualifies as transition finance, and how to credibly assess transition, presents a perception of future reputational risk for investors should prevailing attitudes change. Policymakers should seek to foster an environment which encourages and supports reasonable endeavours and innovation in transition investment and a high level, internationally adopted description of transition finance (such as that developed by GFANZ) could provide clear direction to policies and delivery of financing. There is, however, likely to be a limit to the extent that further definitions of transition finance will satisfy some market participants' desire for clarity. The TFMR should not expend excessive resources on defining the scope and boundaries of transition finance and potentially creating a discrete and small market segment or asset class, but rather to focus on providing clear and practical means for issuers and investors to support the achievement of the UK's climate objectives while allocating capital to assets and sectors based on their expected returns, risks, and impacts.

However, we acknowledge that the TFMR has a specific mandate to provide recommendations for the development of the UK transition finance market, and that it may be necessary to adopt a more focused and operational definition of transition finance for the purpose of making targeted recommendations to build the UK market for transition finance services.

2) Have you faced challenges in accessing or deploying transition finance because of a lack of clarity around its scope?

Disagree

Please expand on your answer here:

The IA's membership of UK-based investment managers has not reported any significant barriers or challenges in deploying transition finance due to the lack of a clear definition or scope. They are investing across a range of sectors and activities that contribute to the net zero transition.

There is a possibility, by contrast, that efforts to provide absolute clarity might prove limiting for future deployment of transition finance. This is because the net zero transition is a dynamic and evolving process that requires flexibility and innovation to respond to changing circumstances and opportunities. A rigid definition or scope of transition finance could exclude some sectors or activities that have a legitimate role to play in the transition or discourage investment in novel or emerging solutions that have not been previously recognised or validated.

Please upload any supporting evidence:
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3) Do you agree with the approach that transition finance includes all sectors of the economy to the extent that it is part of a credible net zero transition? Why / Why not? If not, please specify which should be excluded and why.

Agree

Please expand on your answer here:

It is right in principle that the concept of transition finance should include all sectors of the economy, as this is essential for achieving net zero emissions by 2050. No sector can be excluded from the need to reduce its environmental impact if the whole economy is to align with the Paris Agreement goals.

We acknowledge, however, that different sectors face different challenges and opportunities in the transition to net zero emissions, and that some sectors are more carbon-intensive and harder to decarbonise than others. Therefore, we suggest that the primary focus of the TFMR should be on supporting these hard to abate and high-emitting areas of the economy, as they require more investment, innovation, and incentives to achieve a credible net zero transition.

This does not mean that other sectors should be neglected or excluded from transition finance, but rather that they should be prioritised according to how challenging they find it to access and operate within the market for transition finance.

One of the main barriers for transition finance in hard to abate sectors is the lack of clear and consistent policy signals and support from the Government on how these sectors can achieve net zero emissions. Without a credible sectoral pathway, it is difficult for investors and businesses to assess the risks and opportunities of investing in low-carbon solutions, and to align their strategies and plans with the long-term climate goals. In the absence of adequate guidance for hard to abate sectors on how they can transition to net zero emissions, including milestones and expectations for each sector, the proposed TFMR approach risks excluding the sectors which most need the support of transition finance. It is also essential to provide incentives not only to investors but to real economy actors to encourage the adoption and implementation of plans to transition to net zero. Such an approach will help to generate investible opportunities which are aligned to the transition.

Please supply any supporting evidence:
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4) Do you agree that the primary focus of transition finance should be on a credible net zero transition in hard to abate and high emitting areas of the economy? Why / Why not?

Agree

Please expand on your answer:

For the purposes of this review, transition finance should prioritise the sectors that contribute the most to greenhouse gas emissions and face the greatest challenges in decarbonising. These sectors, such as heavy industry, aviation, shipping, and agriculture, are essential for the functioning of the economy and society, but also have significant environmental and social impacts. Transition finance can help these sectors to adopt cleaner technologies, improve efficiency, reduce waste, and enhance resilience.

5) Do you agree with the approach that transition finance includes all types of economic activity that is compatible with a credible net zero transition? Why?/Why not? If not, please specify which should be excluded and why.

No view

Please expand on your answer:

Please supply any supporting evidence:
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6) Do you agree with the approach to not demarcate between 'transition finance' economic activities and 'green finance' economic activities? Why?/Why not?

Agree

Please expand on your answer:

We acknowledge that the concepts of 'transition finance' and 'green finance' have differences and reflect different aspects of the net zero transition. However, we agree with the approach of not demarcating between them, as this could create unnecessary barriers and inconsistencies.

Please supply any supporting evidence:
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7) Do you agree that transition finance includes all types of financial products and services that support a credible net zero transition? Why?/ Why not? If not, please specify which should be excluded and why.

Agree

Please expand on your answer:

Transition finance is a broad concept that encompasses all types of financial products and services that support a credible net zero transition. This includes not only green bonds, loans, and equity, but also insurance, risk management, advisory, and research services that enable and incentivise the shift to a low-carbon economy.

Therefore, it may be useful to define some criteria or principles that can help identify and prioritise the most impactful and urgent transition finance opportunities. For example, the TFMR could focus on the sectors and activities that are most carbon-intensive and have the highest potential for emission reduction, as well as those that face the most barriers and risks in accessing finance. The TFMR could also target the financial products and services that can provide the most effective and efficient support for the transition, such as those that can mobilise large-scale capital, catalyse innovation, and enhance transparency and accountability. Transition finance might focus on sectors where evidence suggests that cost of capital has been a barrier, but where there are opportunities for transition or technology roll-out if this were different. By applying these or similar criteria, the Government could better allocate its resources and interventions to the areas where it considers transition finance can make the most difference.

Please supply any supporting evidence:
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8) Please describe any concerns you have with the application of transition finance through certain types of financial products or services?

Please describe:

Please supply any supporting evidence:
No file uploaded

9) Do you agree with the approach that non-emissions-based and non-climate-based considerations are included in the scope of transition finance? Why?/ Why not?

No view

Please expand on your answer:

Please supply any supporting evidence:
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Chapter 3 - Ensuring the Credibility and Integrity of Transition Finance

10) Do you agree there is a significant role for good quality transition plans aligned with the TPT Disclosure Framework in the provision of transition finance? Why/ Why not? If yes, please describe this role?

Agree

Please expand on your answer:

A good quality transition plan is not only relevant for the provision of transition finance, but also for the overall sustainability and resilience of a business in the context of the low-carbon transition. A transition plan with high quality information and data can demonstrate that a company has assessed its exposure to climate-related risks and opportunities and has set clear and credible targets and actions to reduce its greenhouse gas emissions and align with the Paris Agreement goals. A transition plan also signals to investors, customers, regulators, and other stakeholders that a company is committed to addressing the worst impacts of climate change, and is prepared for the potential changes in policy, market and social preferences that may affect its operations and competitiveness. A transition plan can enhance the reputation, trust, and value of a company, as well as facilitate its access to financing from various sources, including transition finance.

However, we acknowledge that the TPT Disclosure Framework is a comprehensive standard, which some entities might initially find highly demanding. It may not be feasible or appropriate for all companies, especially small and medium-sized enterprises (SMEs) that may face resource constraints or lack of expertise. While we support the TPT Disclosure Framework as a 'gold standard' offering best practice guidance and benchmarks for transition plans, we do not yet favour a presumption of 'alignment' with the framework as a prerequisite for accessing transition finance. Rather, we suggest that transition finance providers assess the quality and credibility of transition plans on a case-by-case basis, considering the context, sector and size of the company, as well as the availability and reliability of data and methodologies. This approach would allow for more flexibility and inclusivity in the provision of transition finance, while still ensuring a high level of transparency and accountability.

Please upload any supporting evidence:
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11) Which core transition principles, such as transition plan disclosures, science-based targets, and capital allocation plans, and other key metrics and tools for assessing the credibility and integrity of transition finance do you consider essential for its success? Please describe these in detail.

Transition plan disclosures, Science-based targets, Capital allocation plans

Please expand on your answer and set these out in detail:

The credibility and integrity of transition finance depend on the alignment of the investment with the goals of the Paris Agreement and the country's net zero commitment. Therefore, we suggest that the core transition principles should include a clear demonstration of how the investment contributes to the overall reduction of greenhouse gas emissions, make use of science-based targets and methodologies, disclose other expected environmental and social impacts and benefits of actions, and consider the potential risks and trade-offs. Listed companies and financial institutions are already subject to requirements under the Companies Act and within FCA rules to make climate-related financial disclosures. A targeted review of these requirements could provide investors with decision-useful, forward-looking information on transition strategies.

We recognise that the disclosure of transition plans is a valuable tool for enhancing the transparency and accountability of companies and investors in their efforts to align with the Paris Agreement. However, we also acknowledge that the development and communication of such plans may not be feasible or appropriate for all types of investments, especially those that are more focused on specific projects or activities that have clear and measurable decarbonisation benefits.

It would be counterproductive for a more targeted investment in a project with clear decarbonisation benefits to be denied because of a lack of disclosure of transition plans. Such an investment may still be considered as transition finance, if it meets the other core principles outlined above.

Transition finance should not be limited by the availability or use of specific labels or classifications, but rather by the actual impact and contribution of the investment to the low-carbon transition in the real economy. Standardising transition finance definitions and criteria may help to improve the consistency and comparability of reporting of such investments, but it may not necessarily lead to an increase in the volume or quality of transition finance if the underlying demand and supply factors are not addressed. Therefore, we suggest that the UK Government should focus on creating the enabling conditions and incentives for both public and private actors to invest in the low-carbon transition, rather than imposing rigid or prescriptive requirements for transition finance.

Please supply any supporting evidence:
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12) Which standards, frameworks, guidance or tools are you using to guide your approach to transition finance and why? If your approach varies between jurisdictions, please explain why.

Please summarise your approach:

Please expand on your answer:

Please expand on your answer:

Please expand on your answer:

Please expand on your answer:

Please expand on your answer:

Please expand on your answer:

Please supply any supporting evidence:
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13) Do you consider current guidance for transition finance to have credibility and demonstrate integrity from an economic, environmental and a broader sustainability perspective? Why / Why not?

Agree

Please expand on your answer:

The TFMR is right to start from the assumption that all transition finance should meet and demonstrate core environmental credibility and integrity expectations. This is essential for ensuring that transition finance contributes to the global goals of mitigating and adapting to climate change, and enhancing biodiversity within the Paris Agreement and the Global Biodiversity Framework.

Current guidance within the financial services sector, including that produced by GFANZ, ICMA and the Climate Bonds Initiative, demonstrate high standards and enhance the sector's reputation for supporting environmental transitions. The consultation notes that standards focused on credibility must include sectoral or regional pathways which define a suitable rate for entities to transition. The Transition Plan Taskforce's Sector Summary demonstrates that comparable standards are not in place to the same extent across the economy, making it difficult to assess the credibility and integrity of transition plans within some sectors. Similarly, regional (and national) policy pathways are often not sufficiently detailed for either issuers or investors to be able to fully determine whether an entity's transition plan is credible.

In sectors which are experiencing a transition finance gap, it may be necessary to encourage the development of industry-led transition pathways to supplement (or temporarily substitute for) policy pathways issued by government. There is, however, a limit to which policymakers can expect industry-led guidance to either anticipate or shape future policy decisions for which governments bear ultimate responsibility.

Please upload any supporting evidence:
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14) Do you consider there to be a role for regional or national pathways to be incorporated in transition finance standards, frameworks or guidance? Why or why not? Please describe any international examples.

Agree

Please expand on your answer:

It is essential that entities' transition plans take account of regional or national pathways and advisable that transition finance standards, frameworks and guidance allow for these pathways to be incorporated in disclosures and strategies. The financial risk arising from the transition to a low-carbon economy (which may involve extensive policy, legal, technology, and market changes) can affect the profitability and viability of certain sectors and assets in a manner similar to physical risks (such as extreme weather events or ecological disruption).

However, the wholesale incorporation of regional or national pathways in transition finance standards risks a failure to acknowledge the potential for such pathways to change. For transition finance standards to remain relevant and for their users to remain agile, it is important that they are not dependent on information which might quickly become outdated. It is also important to acknowledge that some elements of the transition will not be wholly science-based but informed by what is technologically possible or what is currently acceptable to political and public opinion. Any transition finance framework which does not allow for such variables will risk breaking the link between climate change goals and considerations of financial risk and opportunities.

Please supply any supporting evidence:
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15) Do you consider there to be a role for taxonomies in the provision of transition finance? Why / Why not? If yes, please describe this role and consider any interaction with the role of transition plans?

Disagree

Please expand on your answer:

There is a role for taxonomies in the provision of transition finance, but it should be a flexible and context-sensitive one. Taxonomies can help to define common standards and expectations for what constitutes a credible and impactful transition, as well as provide transparency and comparability for investors and regulators. However, taxonomies should not be seen as rigid or prescriptive rules that constrain the potential for innovation and adaptation in different sectors and regions. Transition finance should allow for diverse and dynamic pathways that reflect the specific challenges and opportunities of each context, as well as the pace and scale of change required to meet the global climate goals.

Therefore, we suggest that taxonomies should be used as a reference point rather than a requirement for transition finance. Where they exist, they should be regularly updated and aligned with the best available science and practice and incorporate feedback from relevant stakeholders. They should also acknowledge the limitations and uncertainties of current data and methodologies and accommodate different levels of ambition and disclosure.

Please upload any supporting evidence:
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16) What are the specific challenges in ensuring both the credibility and integrity of transition finance, whilst addressing the contextual needs of local decarbonisation pathways? What can the UK market for financial and professional services do to address these challenges?

Please describe:

Please supply any supporting evidence:
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17) Do you think there is a need for different approaches to transition finance across different jurisdictions, considering they may have different transition pathways?

Agree

Please expand on your answer:

Variations in approaches to transition finance across jurisdictions are not a necessity, but likely to be a reality which cannot be avoided. Different jurisdictions have different disclosure rules and transition pathways based on current economic conditions, which need to be accommodated while ensuring environmental credibility and integrity. For instance, we would highlight the prevalence of hard to abate sectors in some emerging and developing economies. However, different jurisdictions also have a common goal of aligning with the Paris Agreement and its objectives, which should guide the design and implementation of transition finance frameworks and instruments.

18) What principles, considerations and common approaches are needed to ensure both flexibility and environmental credibility and integrity across diverse jurisdictions and sectors with varying transition pathways, ensuring global coherence and effectiveness?

Please describe:

The likelihood that different jurisdictions and sectors will have varying transition pathways underlines why it would be inappropriate to hardwire specific national transition pathways into transition finance frameworks. It may, however, be appropriate to provide general guidance and criteria that can be adapted and applied to different contexts and circumstances. This would include transparent and consistent disclosure of transition strategies, objectives, targets, risks, and indicators, in line with international standards and frameworks such as the IFRS sustainability standards and the TCFD and TNFD recommendations.

Integrity can also be demonstrated through regular and comprehensive monitoring and reporting of the progress and performance of the transition finance activities, using quantitative and qualitative data. A collaborative approach to fostering transition finance should also involve collaboration between relevant actors from public and private sectors and cross-border coordination and learning.

Please supply any supporting evidence:
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19) Are there any unintended consequences of scaling up transition finance in the UK or internationally that you are concerned about? If so, what can be done to avoid or mitigate them?

No view

Please expand on your answer:

Please supply any supporting evidence:
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Chapter 4 - Barriers to the Applications of Transition Finance

20) Do you consider there to be major barriers that currently limit your ability to access or deploy capital or financial services to support a credible net zero transition? Why / why not? If so, what are these?

Not Answered

Please expand on your answer and describe major barriers you face:

Please supply any supporting evidence:
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21) What barriers or disincentives do you face in providing or accessing investments, products and services for transition finance?

Please describe:

Please supply any supporting evidence:
No file uploaded

22) What examples are there of where finance is being deployed effectively to support a credible net zero transition, and what lessons or precedents can be learnt from this which could be expanded further?

Please describe:

It can be difficult to form a holistic view of finance being deployed to support the net zero transition since the scale of the challenge is so large that investment will be required from a range of public and private sources, including as an integral part of day-to-day business investment that aims to enhance resilience, competitiveness, and innovation. While the Green Finance Strategy (2023) has stated that the Government intends to track financial flows, the output of this project has not been made public. The tracking of financial flows is not an end in itself but could be a useful tool in understanding barriers to investment and facilitating better public-private dialogue. The TFMR may wish to consider if sufficient public data exists to properly assess how effectively private finance is being deployed for the transition. The increased publication and standardisation of transition plans may present an opportunity to aggregate this information.

A commonly cited example of UK success in deploying finance to support a credible net zero transition is in the offshore wind sector. While it is regularly discussed it is worth restating the elements that contributed to this success. The offshore wind sector in the UK was supported by the public Green Investment Bank (GIB), strategic policy interventions and an ongoing dialogue between industry and policymakers. The UK Government's GIB used a new strategy to raise a fund from private investors, including UK pension funds and a sovereign wealth fund, instead of using its own public capital. It then transferred two of its offshore wind assets, Rhyl Flats and Sheringham Shoal, into the fund, selling its equity stake. This showed that UK pension funds could invest safely in UK offshore wind, which the state helped to make possible by first investing and then managing the fund. This also freed up the GIB's capital for more new investments. [IPPR, bit.ly/4cWT7cG]. The UK Infrastructure Bank (UKIB) is an effective, if partial, successor to the Green Investment Bank. Evidence to a UK Parliament inquiry into the financial sector and the UK's net zero transition stated that the UK Infrastructure Bank (UKIB) has created £4 of private capital investment for every £1 of public funding [EAC, bit.ly/3xz5ifk].

In the public sector, finance is being deployed effectively to support a credible net zero transition through the issuance of green gilts by the UK Government. The first green gilt was issued in September 2021 and raised £10bn, with a record level of demand from investors [HM Treasury, bit.ly/4cRnJMt]. While green gilts are a form of public borrowing, they can also be seen as a way of mobilising private finance to support both adaptation and mitigation. This is because green gilts offer an attractive investment opportunity for institutional investors, such as pension funds and insurance companies, that are looking for long-term, low-risk, and green assets. Borrowing to fund green investment has become a politicised topic but we would encourage the current Government to be proud of its record in creating the green gilt and consider how it can continue to utilise this source of finance for the transition.

Please supply any supporting evidence:
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23) Do you consider risk to be a major barrier to accessing or deploying capital or financial services to support a credible transition? If so, please provide examples and highlight any supportive de-risking tools.

Agree

Please expand on your answer:

Risk is not an inherent barrier to accessing or deploying capital or financial services to support a credible transition. Risk is a normal feature of investment that reflects the uncertainty and variability of returns and costs associated with different projects, sectors, and markets. Investors and financiers seek to balance risk and return in their portfolio decisions and price risk accordingly.

However, some specific risk factors might act as barriers for certain types of transition finance if the degree of risk is considered significant. This might be the case for low-carbon or climate-resilient investments that are new, innovative, or unfamiliar to the market. These risk factors might include the possibility that a technology does not perform as expected or the possibility that changes in government policies, regulations or incentives affect the viability or profitability of an investment.

While there are a range of ways in which a perception of risk can be reduced, including reducing policy uncertainty [Review of Financial Studies, bit.ly/3JhQc0q] and providing credible transition plans, the TFMR should consider the potential for strategic and selective use of blended finance models as specific de-risking tools. The Grantham Research Institute recently published a report, Investing in our Future, which detailed a range of catalytic instruments and policy tools that can be used in blended finance structures, including grants, guarantees and anchor investment [bit.ly/4aTglye, see table 2.1].

Please supply any supporting evidence:
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24) Do you consider the availability or cost of insurance products to be an issue for access or deployment of transition finance? If so, please provide examples and highlight any good examples of efforts to address this.

Not Answered

Please expand on your answer:

Please supply any supporting evidence:
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25) Do you consider there to be gaps in the provision of advisory or transactional services (e.g. legal, consulting, data provision, or analytical support services) that you need to support your approach to transition finance? If so, what are these and what recommendations would you have to develop these?

Not Answered

Please expand on your answer:

Please supply any supporting evidence:
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26) Do you consider the availability or cost of developing viable capital projects to be an issue for the access or deployment of transition finance? If so, please provide examples and highlight any good examples of efforts to address this.

Not Answered

Please expand on your answer:

Please supply any supporting evidence:
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27) Do SMEs face particular barriers to the access and deployment of transition finance? If so, please provide examples and highlight any good examples of efforts to address these.

Not Answered

Please expand on your answer:

The role of investment managers in the direct provision of capital to SMEs has historically been limited. SMEs typically rely on cash reserves, bank loans, trade credit, or personal investment by owners and management to finance their operations and investments [Bank of England, bit.ly/3Jf8L5d]. The IA's annual Investment Management Survey has found that close to all investment managers in the UK are invested in listed equities (97%) and four in five are also invested in fixed income (80%). Total assets held in listed equities were 42% of total assets under management (AUM) in the UK, the proportion of fixed income assets (including listed company and sovereign debt) in 2022 were 28% of total AUM [IA, bit.ly/3xvlcaK].

The combined total of equities and fixed income as a proportion of all AUM has steadily declined (from 83% in 2007 to 70% in 2022) while over the same period private markets have experienced rapid growth, rising 22% in 2021 alone to reach over $10trn in global assets under management (up from $2.7trn in 2010).

While SMEs have not been the main beneficiaries of these trends, which are indicative of a growth in large private companies, this change does reflect a growing belief in the potential of private markets among investment managers which might be better utilised to allow SMEs to access transition finance.

The IA and its members have made recommendations for encouraging more capital investment in private markets including incentivising pension scheme investment in a wide range of private assets and broadening access to private market investment through the development of fund structures that remove barriers to investing in private assets, such as the Long Term Asset Fund [IA, bit.ly/3TU4ZTN].

However, the investment management industry faces challenges in assessing and monitoring the environmental performance and impact of SMEs, due to the lack of standardised and comparable data, reporting and disclosure frameworks, as well as the high costs and risks involved in conducting due diligence and verification. As such, we believe there is a place for innovative steps by policymakers (potentially including an intermittent trading venue) to support the expansion of private UK-based growth companies. We acknowledge that such an approach is only appropriate for SMEs with aspirations to grow and access capital markets. The TFMR may consider how the UK can better promote this option to SMEs.

Please supply any supporting evidence:
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Chapter 5 - The opportunity for investments, products and services to advance transition finance globally

28) What good examples are there of effective investments, products, mechanisms (e.g. results-based payments) and services for deploying transition finance to date? Are there opportunities to scale up or replicate these further?

Please expand on your answer:

Please upload any supporting evidence:
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29) Are there any needs or use cases that are not being met by the current instruments? Are new or additional financing strategies, market tools, practices or products needed?

Please expand on your answer:

Please supply any supporting evidence:
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30) Do certain 'labelled' transition finance instruments need to adopt additional requirements? Why and how could this be done in a way that is commercially viable?

Not Answered

Please expand on your answer:

Please supply any supporting evidence:
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Chapter 6 - Building the UK as a global hub for transition finance

31) How should government, and other public bodies such as public finance institutions and local authorities, collaborate with industry, the finance sector and investors to create a supportive ecosystem for transition finance? Please consider factors such as i) the balance of public

and private capital risk responsibility and ii) where expertise is located.

Please describe:

One of the challenges for transition finance is to identify and develop projects that are aligned with the net zero goal and that can attract private capital. This requires skills and knowledge across national and local government, as well as public bodies, to assess the climate impact, the financial viability, and the social benefits of potential investments. For example, the UK Infrastructure Bank will need to share its expertise in evaluating and managing complex and innovative projects that may involve new technologies, business models, or markets. Similarly, the National Energy System Operator, which will oversee the operation and planning of the energy system, will need to have a deep understanding of the opportunities and risks for investors, as well as the technical and regulatory aspects of decarbonising the power sector. The Net Zero Blended Finance Project is a welcome example of an initiative to improve capacity and expertise within the Government.

By building these skills and knowledge in the public sector, the UK can create a supportive ecosystem for transition finance that can mobilise private capital and deliver value for money for taxpayers. By developing this expertise, the UK can also position itself as a global hub for transition finance, offering advice and services to other countries that are seeking to decarbonise their economies. This can enhance the UK's diplomatic and commercial influence, as well as contribute to the global effort to tackle climate change.

Ultimately the legal responsibility for transition in the UK rests with the Secretary of State. The public sector must therefore take responsibility if it wishes to achieve its treaty and Climate Change Act responsibilities. However, the public sector cannot act alone. It needs to collaborate with industry, the finance sector and investors to create a supportive ecosystem for transition finance that can leverage the expertise, innovation and capital of the private sector.

Please upload any supporting evidence:
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32) Are there any international examples of best practice in providing the right ecosystem for transition finance that can be drawn on?

Please describe:

Please upload any supporting evidence:
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33) How can the UK better leverage its existing financial and professional services expertise to support the growth of transition finance capacity and related activity and revenue?

Please describe:

The UK can better leverage its existing financial and professional services expertise to support the growth of transition finance capacity and related activity and revenue by showing leadership and commitment to the decarbonisation agenda. The UK has already set ambitious targets for reducing its greenhouse gas emissions and has pledged to reach net zero by 2050. By demonstrating that it is serious about meeting these goals and supporting the transition of its own economy, the UK can inspire confidence and trust among domestic and international investors, as well as signal its expectations and standards to other countries.

The UK-based investment management industry is international by nature and will invest in UK companies and projects where these offer a return. Policymakers should focus on making UK projects and companies more attractive propositions. This can be done by providing clear and consistent policy frameworks, incentives and regulations that enable and encourage low-carbon innovation, investment and financing across all sectors and regions. It can also be done by ensuring that public sector spending aligns with the transition objectives and supports the development of green infrastructure, skills and technologies. By creating a favourable environment for transition finance within its own borders, the UK can showcase its expertise and experience to the rest of the world and attract more capital and talent to its financial and professional services sector.

A focus on making UK projects and companies more attractive investment propositions is then likely to help these projects and companies to benefit from proximity to a major global financial centre. The UK is already a leading hubs for green finance, with a pool of investors and advisers who have the expertise and capacity to facilitate the transition to a low-carbon economy. Financial and real-economy sectors can benefit from the exchange of innovation, knowledge and best practice. In addition, by being part of the UK market, which has a strong reputation for transparency, governance and regulation, UK projects and companies can enhance their credibility and attractiveness to international investors who are looking for high-quality and sustainable investments.

Please upload any supporting evidence:
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34) Do you think the UK government could make better use of blended finance approaches to de-risk and scale up transition finance? Why / Why not? If yes, please explain.

Agree

Please expand on your answer:

The UK Government could make better use of blended finance approaches to de-risk and scale up transition finance. Blended finance is a way of leveraging public funds to mobilise private capital for projects that have positive social and environmental impacts, but may not be commercially viable otherwise. Blended finance can help reduce the risks and costs associated with investing in low-carbon and climate-resilient infrastructure, technologies and businesses, and create a demonstration effect for other investors. We welcome the Government's Net Zero Blended Finance Project (NZBFP) and its focus on building the capacity of the state to understand blended finance. We hope that this project will lead to more innovative and effective use of blended finance instruments, such as guarantees, concessional loans, grants, equity and insurance, to support the UK's transition to net zero emissions by 2050.

We note that the NZBFP is focused on domestic investment. A global transition will require consideration of the role of blended finance for emerging markets, where the financing gap for sustainable development is large and the risks are often higher. Blended finance can help to bridge this gap by catalysing private capital flows towards low-carbon and climate-resilient solutions in developing countries, while also advancing the UK's foreign policy and development objectives.

Please upload any supporting evidence:
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35) Do you think the UK's public finance institutions could play a greater role to de-risk and scale up transition finance. If yes, please provide examples?

Agree

Please expand on your answer:

Public sector investment can help to de-risk investment in experimental and emerging technologies and asset classes by providing co-funding, guarantees, subsidies, tax incentives or other forms of support that reduce the cost or risk of innovation. This can stimulate private sector investment by lowering the barriers to entry, enhancing the expected returns, or sharing the losses in case of failure.

To support the development of greater public-private partnership to scale up transition finance, the IA recently supported IPPR and the Green Finance Institute to produce a report, Making Markets, looking at the financial services sector's role in industrial strategy. Making Markets argued that the Government has already successfully used public finance to lower the costs of investing in green markets, using the example of the Green Industries Growth Accelerator. It also highlighted how, during its time as a public finance institution, the Green Investment Bank had taken a range of approaches to invest public capital and raise private capital.

Making Markets now recommends that the UK Infrastructure Bank (UKIB) be granted a new mandate to allow it to catalyse more green lending and investment by making riskier investments [IPPR, bit.ly/4cWT7cG].

Please upload any supporting evidence:
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36) Do you think there is a role for the UK to facilitate the development of global thought leadership on transition finance, and if so, what strategies could it employ to influence and facilitate this development?

Disagree

Please expand on your answer:

The UK should not be overly pre-occupied by thought leadership when the focus should be on the practical achievement of transition in the UK. Being a global leader implies setting an example for others to follow. The UK has an opportunity and responsibility to demonstrate its commitment to the Paris Agreement and the net zero target by investing in infrastructure and supporting the sectors and regions that need to transition. This would not only benefit the UK's economy, society and environment, but also encourage and influence other countries to take similar actions. The UK can then use its diplomatic and financial standing to encourage international cooperation and alignment on transition finance, but not at the expense of its own domestic progress. In effect, rather than aspiring to be a thought leader, the UK should aim to be a leader in the action it takes.

Please upload any supporting evidence:
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