What role for finance in climate policy?

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Issuer of report: HSBC Bank Plc
Overview

• Investor engagement is growing and significant

• The global green stimulus marks a new point in the transition

• The coming step change involves multiple elements
Helping HSBC and its clients integrate climate into strategy

- **Macro**
  - The Climate Change Centre performs macro research on climate change science, impacts, policies and markets. e.g. Green Stimulus

- **Sector**
  - The Centre also publishes joint research pieces in collaboration with fundamental analysts, helping highlight valuation impacts of climate change.

- **Region**
  - Global and country-specific reports highlight investment potential related to policy and market changes. e.g. India
Growing investor engagement

• Boosting disclosure
  – Carbon Disclosure Project: 534 institutions with a combined US$64 trillion assets under management
  – Water Disclosure Project: 137 financial institutions globally with a combined US$16 trillion in AUM

• Promoting integration
  – UN Principles for Responsible Investment: 720 institutions with US$18 trillion in AUM

• Backing policy reform
  – Investor Statement on a Global Agreement: 187 institutions with USD13 trillion in AUM support a global deal pre-Copenhagen

• Allocating capital
  – HSBC Climate Change Index: over USD530bn in climate revenues from companies listed on the world’s stock markets
Steady growth in the climate economy

Climate revenues have been growing at a CAGR of 29% since 2004.

Source: HSBC Quantitative Research
Building a green recovery: USD521bn in climate themes

Asia leads the way with almost 2/3rd of green stimulus

Source: HSBC estimates, government websites, others
A wide spectrum of commitment

Green stimulus as % of total fiscal plans

Source: HSBC estimates, * Includes only EU’s central recovery plan, member states listed separately
Investing in environmental infrastructure

Theme allocation of global green stimulus

- Energy Efficiency: 64%
- Water: 16%
- Other Low Carbon: 13%
- Renewable: 8%
- Buildings: 16%
  - Low Carbon Vehicles: 4%
  - Rail: 25%
  - Grid: 18%
Stimulus delayed is stimulus denied?

Implementation delays have pushed spending back

Source: HSBC; Government websites; (*compared with our earlier analysis in Taking stock of the green stimulus Nov 2009)

Estimates of green stimulus spending (USDbn)

| Year | Feb 2010 | Nov 2009*
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Source: HSBC; Government websites; (*compared with our earlier analysis in Taking stock of the green stimulus Nov 2009)
2010: the year of delivery

Thematic allocation of 2010 green stimulus (USDbn)

Country allocation of 2010 green stimulus

Source: HSBC estimates

Source: Government websites, HSBC estimates
Green stimulus: lessons so far

• Public finance can ‘crowd in’ private capital
  – Underpinning clean energy investment in 2009

• The green stimulus has been a national phenomenon
  – Copenhagen Accord: USD30bn in ‘fast start’ funding

• Beyond commitments, transparency on delivery is vital
  – Regular reporting of disbursements builds confidence

• Operational efficiency is crucial
  – Fears of delay have been realised risking retrenchment

• Designing a smooth transition from stimulus to recovery
  – How can the needed x3-x6 increase in public RD&D, for example, be delivered in a time of austerity?
Elements for a step change

1. Investment: public-private synergies

2. Institutions: green funds and banks

3. Incentives: from carbon to industrial policy

4. Instruments: across the asset classes

5. Integration: ensuring markets are ‘fit for purpose’
Disclosure appendix

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