

Sustainable Investing & Innovative Finance

Assess opportunity for Anguilla Financial Services sector to participate in recent developments in global investment sector and contribute to the strengthening of the Anguillan Economy

- What is Sustainable Investing or SRI ?
- What is Innovative Finance
- Current Situation in & Challenges for Anguilla
- What green project finance is there in the Region ?
- Proposed green actions for Anguilla
- New big opportunity
- What should the Financial Services Sector do ?
- Who do you want to get to know ?

What is Sustainable Investing or SRI ?

- Sustainable (or Socially Responsible) Investing integrates various non financial, so-called ESG (Environmental, Social and Governance) criteria, into a financials driven investment process
- The market size (EU, USA & Canada) was \$ 21.4 Trillion (in 2014), up from 13.3 Trillion in 2012, representing some 30% of the total AuM and continuing to grow fast. All asset classes are involved.
- EU is largest with 13 Trillion, followed by US with \$ 7 Trillion (spread over a 1,000 funds) and Canada with 1 Trillion
- There are 4 major sub sectors in SRI by which investors:
 - Use Screening to select and/or exclude certain companies and sectors
 - Use ESG criteria alongside financial return criteria
 - Focus on Thematic Investments (away from traditional relative investing framework)
 - Focus on Impact Investments to seek measurable positive impacts (more active)
- Private investors are particularly interested in SI

The Anguilla Financial Sector should learn about this “new world”

What is Innovative Finance ?

- Innovative Finance is bringing together new products and new investors
- In 2000, the UN formulated the 8 Millennium Development Goals (poverty reduction, hunger eradication, education improvement etc), which in 2015 were superseded by the Sustainable Development Goals
- Over the last 10 years, ODA has been an insufficient source of funding to achieve these Goals; the funding gap is \$ 2.5 Tr. p.a.
- The private sector stepped in some 10 years ago and it “invented” what is now called Innovative Finance for Development
- Initial financing instruments were focused on air ticket levies, debt conversions, diaspora bonds, carbon and financial transactions taxes
- IF has added recently the Environment as an additional sector leading to green bonds and other **Impact Investment** instruments
- Impact Investing attracts increasing interest from the SRI community

Anguilla should explore what Financial Services it can create for SI & IF

Major issues and proposed actions for Anguilla:

The IMF (in 2011) gave some good (still valid) advice

- Issues are fiscal policy, transport access, business environment, skills shortages, lack of diversification
- Economy has experienced boom-bust cycles undermining the fiscal position and accentuating weaknesses in the financial sector
- Deal with weak banks and enhance supervision; strong governance attracts offshore business contributing to economic growth
- **Offshore financial sector offers some potential to diversify economy,**
- **Some recent actions:**
 - Banking Act and Bank Resolution Act
 - UK is paying for Financial & Infrastructure Advisers; get them involved
 - CDB has allocated funding to Infrastructure and suggesting **PPP's**

Can Anguilla start to gear up for some decisive actions now ?

Anguilla: Current Situation & Challenges

Anguilla has winning attributes:

- Liberalised economy, no exchange or price controls
- No borrowing restrictions, streamlined business licensing process
- Stable political & legal systems based on English Common Law
- Transparent tax system
- Although global offshore sector is under scrutiny: Panama papers, banks de-risking, more compliance,.. Anguilla still has a good image

But....

- Although the tourism sector remains the biggest earner, the island could benefit from becoming more green and focusing on eco-tourism

Anguilla's new **“big idea”**, proposed by the Financial Services sector, could be to do something innovative.... and contribute the move to a green economy

CDB & others: many proposed green actions in region

The Caribbean Development Bank (“CDB”) has been promoting and advising on transition to a green economy to most Caribbean Islands:

- UK Overseas Territories have a Biodiversity Strategy (issued in 2013)
- CDB’s AGM in 2014 was focused on transitioning to Green Economy
- CDB is accredited by the Green Climate Fund and has funded many projects
- Caribbean Green Economy Conference in 2015 sponsored by UNEP
- Development Bank of Jamaica: stimulating private sector investments
- CDB (and partners) have set up a US \$ 1.2 billion regional PPP support facility focused on infrastructure, which includes green projects
- Dominica and St Kitts have initiated their own “green economy” projects supported by the CDB: easy for Dominica, a bit more difficult for St Kitts, but both are ongoing

So, has the CDB, a key player, shown an interest in Anguilla ?

Also, many (green) actions/projects in Anguilla

In last 10 years many projects/studies have been undertaken to strengthen Anguilla's green economic growth. Recent examples:

- Greening the Economy (2013), major report funded by UK OT
- Development of renewable energy options
- Ecosystem Services mapping in Anguilla

CDB has also agreed an Anguilla partnership strategy for \$ 35m

- Banking stability, financial sector reforms and reinforcing private sector
- Upgrade transport Infrastructure projects (through PPP's)
- Increased renewable energy capacity etc

The **UK's financial advisor** to Anguilla has in his mandate (a.o.):

- Greening of Anguillan economy, Energy independence, Fisheries Developm.
- Sustainable Tourism master plan, new forms of Tourism (sports, health)
- Development of financial services, a global centre for innovative finance

So, both the Financial Sector & the Green Economy are mentioned and it is for us to connect them...into a Project

So, there is a now a big opportunity ...

Anguilla's new “ **big idea**” could be to pursue two interdependent ambitions, where the Financial Services sector can be a catalyst...

1. **Build out local financial sector** and connect it to parts of the SI and IF communities, by offering services and participating in green investments
2. Start **Conversion to a green island** and a “sustainable economy”, which is a more challenging task but will increase the potential for economic recovery

What is needed for the “greening” of the Anguillan economy?

1. It needs a commitment to limit waste, recycling, bio sources, renewable energy, clean transport, (eco) tourism etc . It has been done before: Aruba is an example
2. The commitment translates to (typical) projects: a green (free) zone, non-polluting transportation hub, waste management & recycling plant, a regional training-center for sustainable tourism, self sufficiency in energy.
3. One challenge is that Anguilla is small: will it attract the funding ? Do you need to work with other islands?
4. What can you contribute for PPP's ? Land in Anguilla is largely (95%) privately owned

The catalyst is to connect the world of SI & IF to funding green economy and v.v.

Firstly: Steps to diversify Financial Services Sector

Anguilla's Financial Services sector needs and can diversify

A step by step approach will start to answer questions such as:

- Is there a market for registry services for ESG companies and investors?
- Does the possibility exist to set-up registries for ships, fishing vessels, aircraft etc. whose owners commit to charters related to sustainability, recycling, environmental protection etc.
- Can Anguilla use some of its existing assets and raise (offshore) funding to invest in local projects that will transform the island into a circular economy?

If yes, set up a (free zone) services centre and select products/services:

- Expand registration and domiciliation capabilities for companies and funds
- Set up registers ESG/ethical/impact registry services, including IP registries
- Set up an “Free Zone” for financial innovation for the environment: green bonds, debt swaps, social impact bonds etc.

A first step by the Financial Services Sector can be followed by a bigger step involving investments

Further proposed actions for local Financial Sector

1. Form Taskforce to develop action plan to be 1st Caribbean island to reach out to the SRI and IF community and build up a network of clients for financial services and partners for green financing
2. Prepare to get involved in financing of green projects yourselves; assess NCBA's capabilities or follow advice (from IFC & ECCB) to create a stronger bank by "injecting" NCBA into a consolidation play
3. Or bring back Offshore bank branches focused on wholesale banking; in both cases there will be a need for training of local professional staff
4. Create a "Green Impact Investment Company" and bid for distressed assets (including the ones being transferred from Anguilla to ECAMC), which have potential for sustainable development and impact investment
5. Prepare for PPP's by bringing in financial and strategic partners
6. Get support from Regional Development Banks and UK Government.

Build up capability to be a service provider to international SI clients and a financial partner to regional financiers (like CDB, IDB & others)

Some of the Parties you want to get to know and/or join

UNEP, World Energy Council, CDKN

Green Investment Bank, Triodos Bank, First Green, Turquoise etc

Leading Group in Innovative Finance

GSI Alliance, UKSIF, Green Climate Fund,

Green Alliance, Principles for Responsible Investment

Global Impact Investment Network

Parties you would like to become involved

UK Government

Anguilla Government

CDB, IDB, EIB, JDB, Green Banks

Impact Investors such as: Generation Invest, Virgin, Platina, Portfolio 21
and resident billionaires.....

Anguilla can strengthen its own Financial Services industry by participating in the world of sustainable (and socially responsible) investing and innovative finance. It requires:

1. Positioning itself as a service provider to institutional and corporate investors involved in SRI by offering registry and other services supporting commercial activities focused on development & the environment
2. Participate as an investor, through an investment company or fund in specific innovative & sustainable Impact Investments by setting up a Free Zone

In order to achieve this, Anguilla and its FS sector need to:

1. Join the SRI & IF worlds by networking and lobbying
2. Demonstrate initial commitment to becoming green in terms of energy, transportation, tourism, fisheries etc
3. Through this new network, mobilize financial resources to finance its own “green and clean” transition