

# CISL's Centre for Sustainable Finance's analysis of the Green Finance Strategy

The new strategy acknowledges the scale of the challenge ahead of us if 1.5C is to remain a feasible limit, echoing the call for urgency already heard from UK and wider European business leaders, the science community, the third sector and an increasing number of adults and children protesting here and around the world.

The paper addresses three main challenges: greening finance, financing green and capturing the opportunity of transition to net zero. Sectorally, the focus is on cities, energy systems and land use.

The geographical focus is on China, India, Brazil and Mexico, complemented by underscoring of the importance of local green finance action. In terms of creating opportunities, the emphasis is directed towards green fintech and climate and environmental data and analytics.

Since the GFS's release, its suggestion that listed companies and pension funds may face mandatory climate-risk reporting has gained significant attention. A potential 2022 deadline for TCFD-compliant disclosure is mooted, alongside CDC - the UK's development finance institution, and UK Export Finance to report in line with TCFD for 2020/21, and the creation of a joint regulator taskforce to discuss mandatory disclosure

Although these suggestions are welcome, arguably a more important factor in greening the financial system as a whole is the redefinition of regulatory responsibilities in line with the Paris Agreement for the Bank of England (including the Prudential Regulation Authority), the Financial Conduct Authority and the Financial Policy Committee.

As is the UK Government's intention to partner with private sector stakeholders on the phasing out of unabated coal, and the development of sustainable supply chains.

The GFS is the result of a huge amount of expert input and recognises the progress already achieved, including work done by the G20 Green Finance Study Group, referencing CISL's input paper on environmental risk analysis. Further, it acknowledges the need for more research on sustainable finance, such as that conducted by the Global Research Alliance for Sustainable Finance, with the University of Cambridge as a founding member.

The UK Government launched its much-anticipated Green Finance Strategy (GFS) this week at the Green Finance Summit in London. The strategy was released just days after the UK became the first major economy to enshrine a net zero emissions target of 2050 into law, and is a good first sign that the UK Government is serious about tackling the changes needed to deliver the UK's climate and economic goals.

## Key strengths:

- The GFS defines greening the financial system as ensuring that both climate and environmental factors are fully integrated into mainstream financial decision-making. The focus on environmental issues beyond climate raises awareness in the financial system of the importance of issues such as biodiversity.
- New initiatives outlined in the GFS include the development of a new global biodiversity framework, the introduction of a mandatory biodiversity net gain for developments in England; and a commitment to work with international partners to improve nature-related financial disclosures. The GFS also reiterates the importance of the upcoming Environment Bill that will put the UK's 25 Year Environment Plan into law.
- The focus on the cost of inaction is essential. Frequently it is assumed that transition to a net zero economy will be costly, and business-as-usual will not. The GFS states that population health impacts on not delivering on emission reductions will cost £1.7bn per year by 2020 and £5.3bn per year by 2030.
- There is significant emphasis on capacity building and education in GFC, launching a Green Finance Education Charter for building green finance capacity in the public sector. The focus here is on collaboration with professional bodies. The tangible step on this road is the announcement of the first public sector conference on green finance in October 2019.
- The understanding of the challenges and where the solutions lie, indicates the UK's strong ambition to deliver substantive plans towards a net zero economy, potentially leading the way to the UK becoming a major sustainable finance hub and positioning it well within a growing green finance market.

## Recommendations:

- Despite the presence of the UK Shared Prosperity Fund, social issues are conspicuous by their absence in the GFS, relegated as next step actions. The challenge of transitioning to a net zero economy in the next 30 years will need to be fair and the impacts on communities and ways of life will need to be understood. In order to have the best chance to deliver to the urgent timescale, a large number of stakeholders and sectors of society will need to be convened so just solutions can be found together.
- The Green Finance Strategy is an important and welcome document, but as with the new net zero legislation, it is only the first step on the road to implementation. The Government promises to lead the way by delivering a series of proof point reviews starting with a consideration of financial risks from transition in 2020. This would provide the first opportunity to test the strength of commitments outlined in the strategy, with an interim review at the end of 2020 and an official strategy review in 2022.