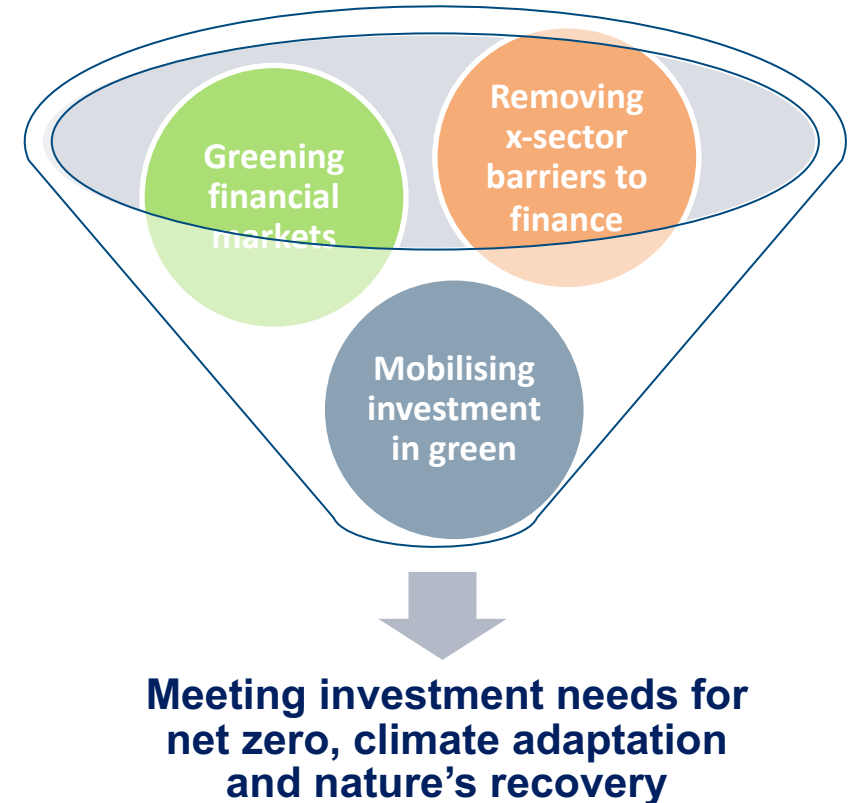


Mobilising Green Investment: 2023 Green Finance Strategy

Ben Fagan-Watson, Head of Green Finance,
Department for Energy Security and Net Zero
September 2023

Why is green finance critical for our delivery of net zero and environmental goals?

- To deliver on the UK's net zero ambitions, through the late 2020s and 2030s, an **additional £50-60 billion of capital investment** will be required **each year**.
- Estimates suggest that over **the next ten years**, our domestic **nature-related goals** could require between **£44-97 billion** of investment
- For the UK to **adapt to the physical effects of climate change**, indicative estimates from the Climate Change Committee suggest that additional investment of **around £5 billion per year** this decade will be needed.
- **Globally**, additional annual investment needs are in the trillions.



Green finance is a growth opportunity for the UK’s financial and professional services sector, and for the economy more broadly...

‘Green finance’ refers to financial products/services for which climate/environment risks and opportunities are a central consideration. There is a growing market for such products/services which can drive FS growth & attract investment for UK net zero.



Grown fivefold since 2017 and doubled from 2020 to 2021 across Europe - \$1.6tn green debt issued in 2021 globally ([graph below](#)).

UK already perceived as a market leader. London ranked #1 on Global Green Finance Index (since 2021).

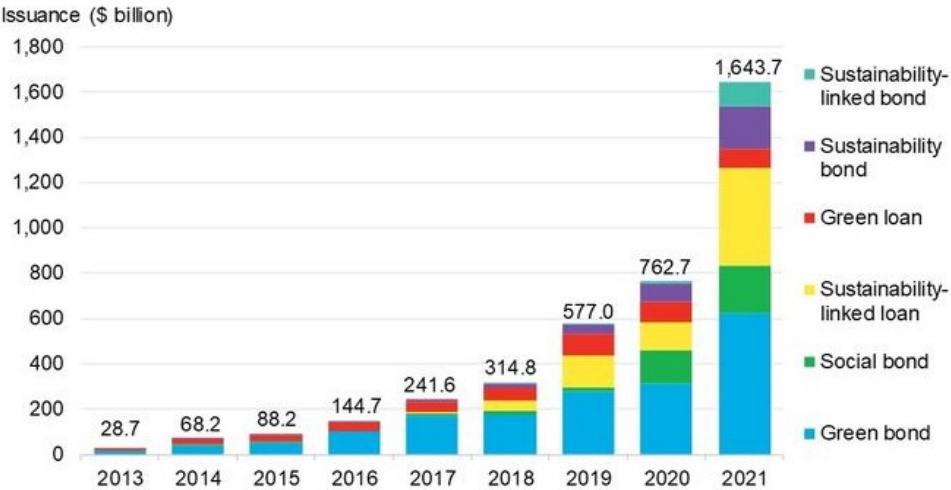


This reflects the increased focus on ‘sustainable’, ‘green’ or ‘ESG’ factors in global financial markets

- **Change in financial asset management:** Half of UK assets under management (£4.6 trillion) apply ESG, climate or environmental considerations in investment decision making
- **Organisational commitments:** 500+ investors globally committed to net zero as part of Glasgow Financial Alliance for Net Zero (GFANZ), representing over \$130 trillion in assets under management
- **Consumer interest:** 70% UK public interested in making their investments ‘sustainable’



Annual issuance of ‘green’ labelled debt globally, showing x11 since 2016



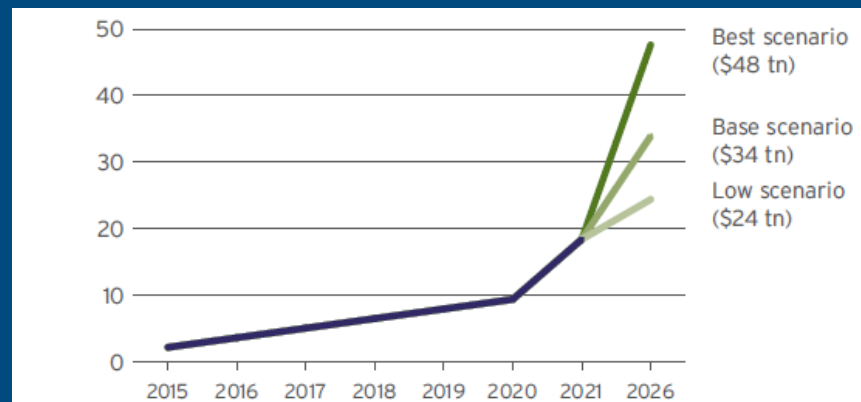
Source: BloombergNEF, Bloomberg LP. Note: See BNEF’s Sustainable Debt Tool for most up-to-date data. Issuance in the tool is updated as information is released and may include historical changes.

The UK opportunity:

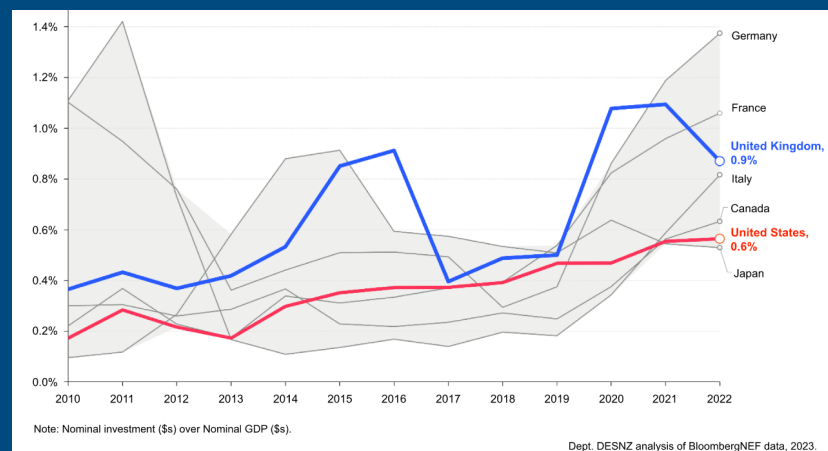
1. **Grow UK domestic and international financial services sector***
2. **Attract investment into UK net zero and energy security goals**
3. **Use UK leadership position to support net zero alignment of global financial flows**

Trends in green finance and investment

Global increase in green finance activity (Graph 1): Global ESG assets under management set to grow to \$34 trillion by 2026



Increased competition for investment (Graph 2): low carbon investment as a % of GDP between 2010-2022 across major economies



Green investment is growing...

- Since 2010, the **UK has seen £198 billion of investment into low carbon energy**, through a mixture of government funding, private investment and levies on consumer bills.
- We are seeing a step-change in the UK, with annual investment in low carbon sectors **more than doubling in real terms over the past five years**.
- Across **2021 and 2022 alone, over £50 billion of new investments** were delivered in low carbon sectors in the UK.

Snapshot of stakeholder views



BlackRock

“Climate change is different. Even if only a fraction of the projected impacts is realized, this is a much more structural, long-term crisis. Companies, investors, and **governments must prepare for a significant reallocation of capital.”**
(Larry Fink, BlackRock CEO letter)



“Investing in the energy transition... the cost is upfront and the investment is long term. This is **highly suitable for debt capital markets financing**, and it is highly suitable for Legal & General” *(Nigel Wilson, CEO of Legal & General)*



“The next phase of development will require more than just capital market activity. It will require a fundamental reengineering of the commercial banking sector to support the activities of the corporates we serve” *(Noel Quinn, CEO of HSBC)*



“We need to unlock trillions of private finance to speed up the [global] transition to net zero. It starts with **policies that genuinely drive technology, innovation and finance in the right direction”**
(Amanda Blanc, CEO of Aviva)



“We work with asset managers, insurers, banks and whole finance sector under GFANZ [Glasgow Financial Alliance for Net Zero]... **The money is brought to the table**, how do we then get money into the system to decarbonise”
(Alison Rose, CEO of NatWest)



“Governments and global regulators need to **work faster, together** to ensure the world’s economic and regulatory framework supports and incentivises green investment.”
(Glasgow Financial Alliance for Net Zero, Call to Action)

Timeline of UK green finance policy to date



Mobilising Green Investment: 2023 Green Finance Strategy



- Published on 30 March 2023, alongside Powering Up Britain, the 2023 Green Finance Strategy will **strengthen the UK's leading position** at the forefront of the global green finance market and will **unlock the financing needed** to drive progress towards our energy security, net zero and environmental goals.
- The Strategy sets out a framework for the UK to become the **world's first Net Zero Aligned Financial Centre** – equipping the market with the information and tools necessary to meet this goal.
- It also sets out how **government and public finance institutions act to mobilise the private capital needed** in line with our net zero, environmental and climate adaptation commitments.
- For the first time, **nature is integrated into our policy framework**. To boost investment in our natural world, we have also published the **Nature Markets Framework** alongside this Strategy.
- The Strategy shows how the UK is building on the legacy of COP26 to enable **global growth of green financing, including in emerging markets and developing countries** by harnessing UK financial sector capabilities and our global partnerships.

Press & stakeholder reaction

CITYA.M.

How the new Green Finance Strategy hopes to make London the world's first net zero financial centre

Bloomberg UK

UK Pushes for 'Step Change' in Green Financing to Reach Net Zero

- Up to £60 billion of extra capital investment needed each year
- Financing support for fossil fuels undercuts low-carbon goal

 **REUTERS®**

Britain sets out next steps to green its financial system

TheCityUK

"The government's updated Green Finance Strategy is a significant and welcome step forward on the UK's path to net-zero transition. It is very positive to hear the Chancellor recognise the vital enabling role of financial and related professional services in achieving the transition to net zero and supporting nature and climate adaptation."



"The Green Finance Strategy contained important positive signals. It acknowledged the importance of reaching both nature and net zero goals and that real economy incentives and green finance must work hand-in-hand in net zero investment roadmaps."



"The package of measures the Chancellor has announced in the updated Green Finance Strategy provide a platform through which our sector can deliver on the ambitions set in the ABI's world leading Climate Change Roadmap. In particular, it is important that the Government remains committed to mandatory publication of Transition Plans and sets out how nature can be incorporated into these plans."

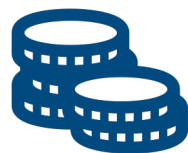
Chapters of the Strategy: Foundations, Align and Invest



Chapter 1: Foundations sets out **progress made** so far in the implementation of the 2019 Green Finance Strategy, the 2021 Greening Finance Roadmap, and the 2021 Net Zero Strategy (Green Investment chapter). **Green finance is a priority area** for this Government, and presents a significant growth opportunity. The UK is also well positioned to be a leader in **transition finance**, and we have announced a Transition Finance Market Review to enable that.



Chapter 2: Align sets out the framework and next steps for the UK to become the world's first **Net Zero-aligned Financial Centre**, including ambitious next steps in the delivery of the UK's **Sustainability Disclosure Requirements**. It includes updates and new policy on **transition plan disclosures**, the **UK Green Taxonomy**, **Scope 3 emissions reporting**, and **ESG ratings regulation**.



Chapter 3: Invest sets out how Government is using the full suite of **government and public finance institution levers**, from innovation grant funding through to co-investment for major infrastructure projects and regulation, supporting green and established sectors to **attract investment in line with our climate and environmental goals**.

Chapter 2 (Align): What were stakeholder asks in our call for evidence (Summer 2022)?



1. **Ask 1:** Give **clarity** on the UK government's expectations for the **UK finance sector** and the action they should take in response to the global transition to a net zero, resilient and nature positive economy



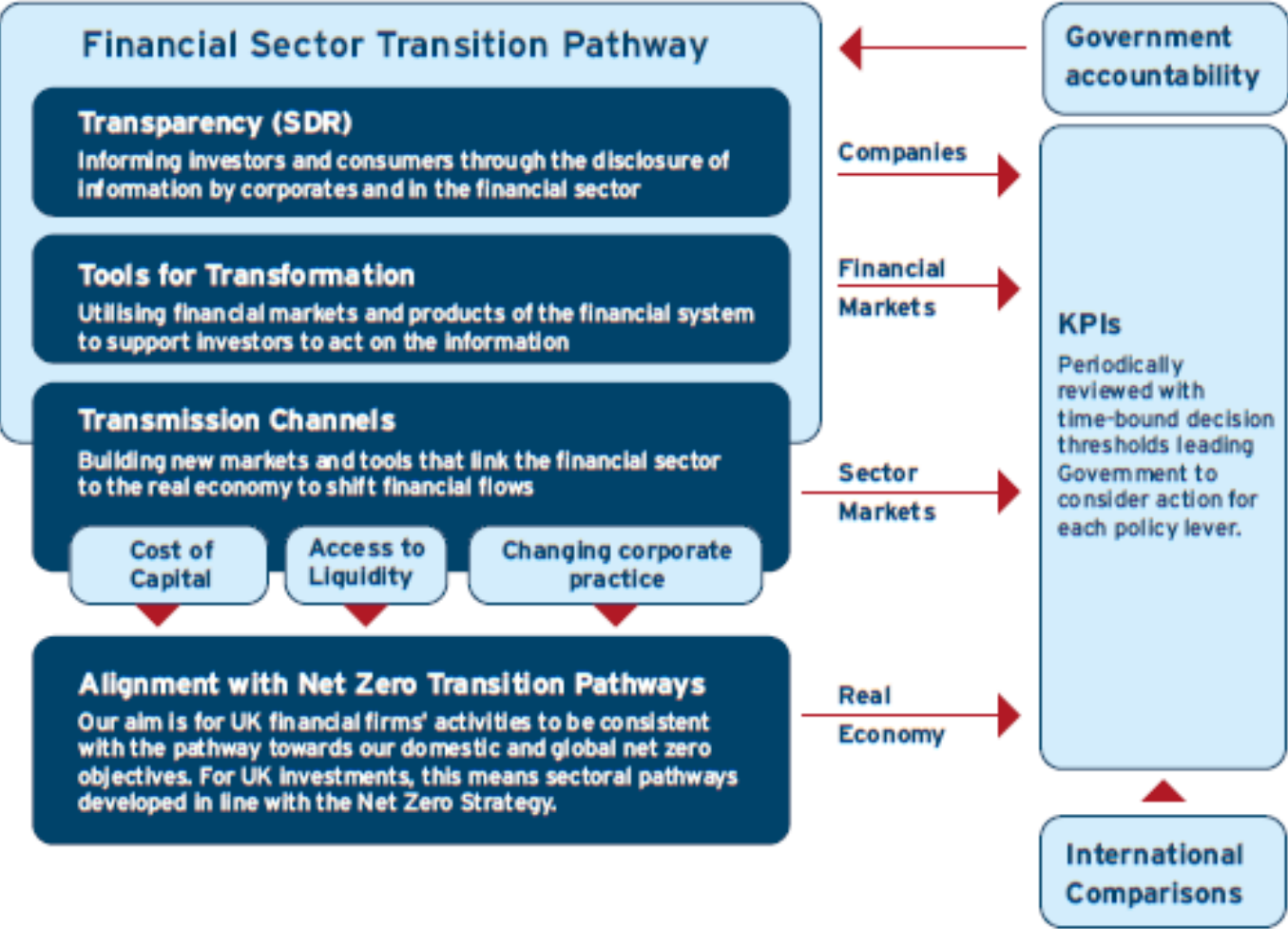
2. **Ask 2:** Implement a **regulatory and disclosure framework** that ensures investors and consumers receive the **information** they need from businesses and financial firms, and that new **investment tools** and **market frameworks** are robust and protect consumers.



3. **Ask 3:** Maximise **interoperability** between the UK's green finance regulatory framework and those of other major financial centres and **raising global standards** whilst enabling market participants to operate seamlessly between jurisdictions.

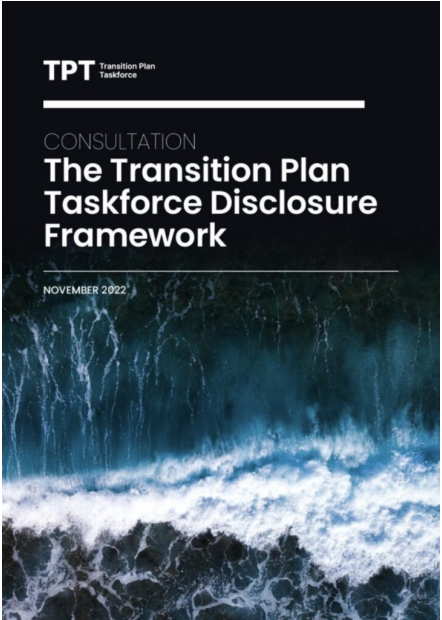
Ask 1: Clarity on the UK government's expectations for the UK finance sector

Net Zero-aligned Financial Centre



Transition plans

- We will consult on the extension of **transition planning disclosure requirements** to the largest private companies, where they have one, to complement existing rules in place from the Financial Conduct Authority



Ask 2: An effective regulatory and disclosure framework for green finance

Taxonomy

- A Green Taxonomy sets definitions for green economic activities and can prove an important tool to support the quality of standards, labels and disclosures used in the industry for green finance activity.
- We will deliver a **UK Green Taxonomy**, with a consultation due by Autumn 2023

Reporting of scope 3 emissions

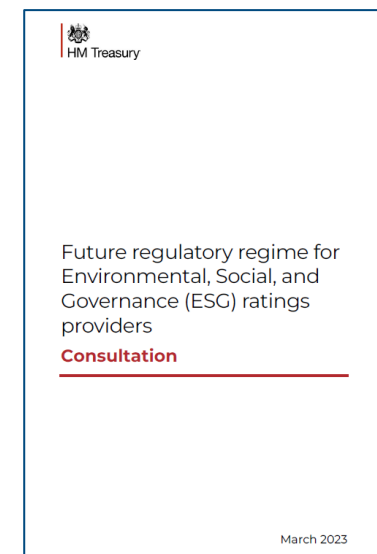
- Scope 3 encompasses emissions that are not produced by the company itself, and not the result of activities from assets owned or controlled by them, but by those that it's indirectly responsible for, up and down its value chain.
- We will issue a call for evidence on **Scope 3** emissions reporting

Fiduciary duties

- Pension trustees want clarity on their fiduciary duty in the context of the transition to net zero.
- We will review DWP Stewardship Guidance and engage stakeholders through various forums on next steps.

ESG ratings

- Environmental, Social, and Governance (ESG) ratings are assessments of ESG matters, which increasingly drive investment decisions in financial markets.
- We published alongside the Strategy, a consultation on the **regulation of ESG ratings providers**



Ask 3: Maximise interoperability and raise global standards

International standards

- The **International Sustainability Standards Board (ISSB)** is a standard-setting body under the International Financial Reporting Standards Foundation, with the objective to set a global baseline for sustainability reporting.
- We will continue to support the work of the **ISSB** and have set out further detail on the planned framework to assess the suitability of final standards for adoption in the UK.

What is International Sustainability Standards Board

Four key principles of International Sustainability Standards Board Reporting (ISSB)



Interoperability

- Given the global nature of financial systems, **harmonisation and interoperability between jurisdictions is a priority** for the UK in developing our approach to greening the financial sector.

Taskforce for Nature Related Financial Disclosures

- **Taskforce for Nature-related Financial Disclosures (TNFD)** is a risk management and disclosure framework which aims to enable organisations to report and act on evolving nature-related risks.
- We will explore how best the final TNFD framework (expected September 2023) should be incorporated into UK policy.

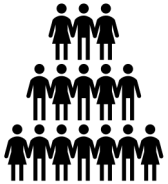
Chapter 3 (Invest): What were stakeholder asks in our call for evidence (Summer 2022)?



- **Ask 1:** Improve the long-term clarity investors and businesses have in the **pathways for key sectors and technologies** that will underpin a net zero, resilient and nature positive economy.



- **Ask 2:** Work closely with **public finance institutions** such as the UK Infrastructure Bank, British Business Bank, UK Research & Innovation and UK's export credit agency, UK Export Finance, to **deploy public levers that will crowd in and de-risk investment** in key sectors and technologies.



- **Ask 3:** Ensure all parts of the project development and investment chain, including **local government** and **businesses**, have the **capacity** to develop investor ready projects and raise capital.



- **Ask 4:** Improve the technical capacity of **emerging markets and developing economies** to attract green investment and use public finance levers to de-risk investment, building new export markets for UK businesses and supporting a **global transition**.

Ask 1: Clarity on pathways for key sectors and technologies

Powering Up Britain publication

Sets out the UK's plan across net zero sectors, including:

- £20bn for CCUS
- Next steps on Hydrogen
- Launching Great British Nuclear
- Great British Insulation Scheme
- Floating Offshore Wind Manufacturing Investment Scheme



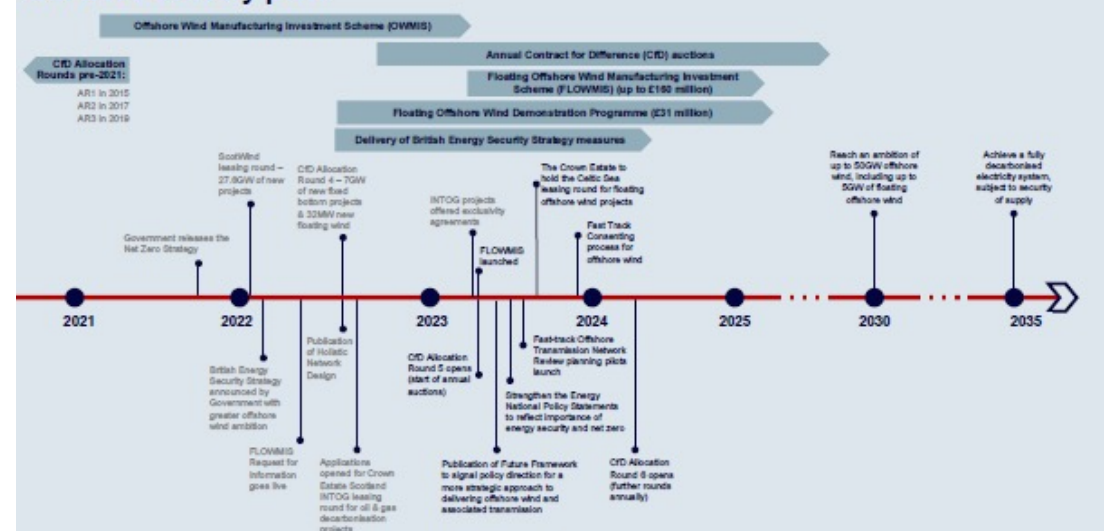
Investment tracking

- Tracking investment flows will help industry and the UK government to monitor progress against our targets
- We are developing a pilot **Landscape of Climate Finance** model to track investment into net zero sectors, concluding an initial methodology research project this Summer

Investment Roadmaps

- In 2023 we will publish new and updated **investment roadmaps for key net zero and nature sectors** to articulate investment needs, government policy and investment opportunities available.
- New roadmaps for offshore wind, CCUS, heat pumps and hydrogen published in April 2023

Our 2035 delivery plan



Ask 2 and 3: Working with public finance institutions, local authorities and businesses

Public finance institutions

- The UK's public finance institutions play a key role in supporting sectors and technologies to commercial maturity and scale

Figure 7: Focus of public finance institutions and UK Export Finance across the commercial maturity spectrum



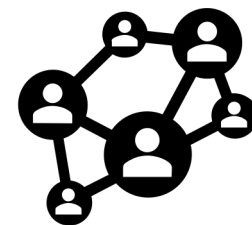
- We will intensify our work with them, and the new **UK Public Financial Institutions Green Finance and Sustainability Forum** announced alongside Strategy

Local authorities

- Local authorities and other local organisations can often face a lack of resources and skills needed to develop commercially viable investment propositions
- We support capacity building through funding **Local Net Zero Hubs** and the **Net Zero Go Platform** and we are working with UK Infrastructure Bank & Green Finance Institute to pilot local advisory functions through 2023

Net Zero Business & Investment Group

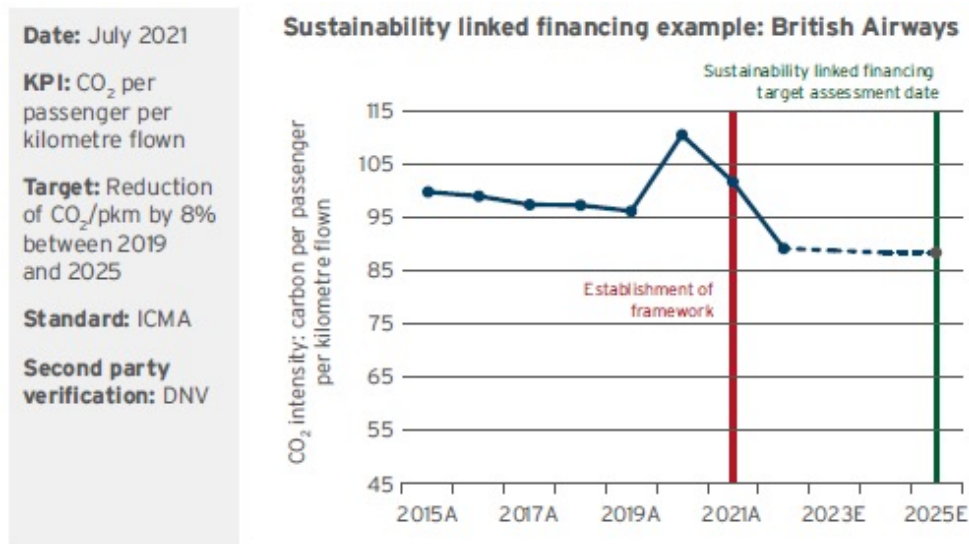
- Established a new partnership with senior business and finance leaders to support the delivery of our net zero target
- Aim to develop a shared view of **NZ finance barriers** across different **business sectors**



Transition finance, Adaptation finance & Ask 4 (investment in a global transition)

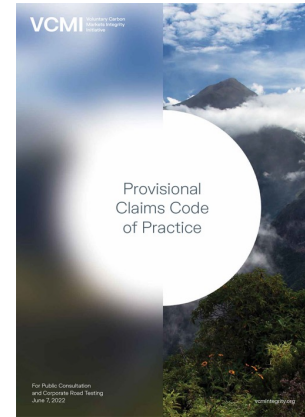
Transition finance

- While green finance refers to the financing of activities that can already be deemed as 'green', **transition finance** refers to financial products and services that support higher emitting companies and activities to become green
- We are launching a **Transition Finance Market Review**, which will deliver recommendations as to how the UK can become the best place in the world for raising transition capital.



Unlocking high-integrity carbon and nature markets

- Voluntary carbon and nature markets have potential to drive investment into net zero solutions, supporting a global transition
- We will **consult** later this year on specific steps and interventions needed to mobilise additional finance through high-integrity voluntary markets and protect against the risk of greenwashing



Adaptation finance

- The Climate Change Committee's report 'Investment for a well-adapted UK' set out the need to scale adaptation finance in the UK.
- We are working with the Environment Agency to set a **adaptation finance deliverables and action plan in 2024**.

The 2023 Green Finance Strategy set our three T's approach to mobilise investment from financial markets to NZ projects

1 'Greening finance' – Aligning financial markets with NZ

Transparency – Inform financial firms where green projects are

- Disclosure of net zero Transition Plans
- International sustainability standards (ISSB)
- Regulatory architecture: Fund labels, ESG
- UK Green Taxonomy

PM commitment - UK to become world's first NZ aligned financial centre

Tools – Supporting market to shift capital, e.g.

- Transition Finance Market Review (TFMR)
- Pension reforms (Solvency UK, fiduciary duties)
- Review of Stewardship Code

'Transparency' case study – In 2019 International Airlines Group (IAG) set out their strategy for net zero by 2050, including targets such as 10% use of SAF by 2030. **Disclosure of high-integrity transition plans will encourage transparency on NZ ambitions and targets like these, creating opportunities for investors.**

'Tools' case study – In 2021 British Airways (part of IAG) was the first airline to use transition finance to raise capital, linking interest terms to emissions reduction targets. **Our TFMR will scale market for transition finance in the UK, linking more capital raising to NZ aligned economic activity.**

2 'Financing green' – Mobilising investment into NZ projects

Transmission – Helping financial capital move into NZ opportunities

Long-term sectoral policy

- We provide clarity for investors through clear sectoral policy and support as set out in the **Net Zero Growth Plan and our Net Zero Investor Roadmaps**
- In the future, will better understand where investment is flowing through our **pilot investment tracking**.



Promoting investment opps

- XWH coordination e.g. through DBT's **Office for Investment**, Venture Capital Unit and Investment Atlas; and via our **global events and engagement** e.g. Global Investment Summit Q4 2023
- We convene leaders in investment and business, e.g. through **Net Zero Council**



De-risking projects to unlock investment

- We work with key partners, such as **public finance institutions** (e.g. **UKIB, BBB & Innovate UK**) and local authorities to address finance and investment barriers for projects



'Transmission' case study - Teesside-based Nova Pangaea is working with **British Airways** to produce SAF in UK. Support from **British Business Bank** and **DfT Advanced Fuels Fund** have enabled Nova Pangaea to access investment needed to build a demonstration plant (construction expected this year).