

## Update to Green Finance Strategy: Call for Evidence

June 2022

The Zoological Society of London (ZSL) welcomes the opportunity to provide written evidence to the call for evidence on the update to the Government's Green Finance Strategy.

### Introduction to ZSL

Founded in 1826, ZSL (Zoological Society of London) is an international scientific, conservation and educational charity working to create a world where wildlife thrives through the conservation of animals and their habitats. Our mission is realised through our ground-breaking science, our active conservation projects in more than 50 countries and engaging millions of people through our two zoo's: ZSL London Zoo and ZSL Whipsnade Zoo.

Within the work of ZSL also lies the Sustainable Business & Finance programme (SBF). SBF works with commercial organisations, financial intermediaries, communities, NGOs and governments to address major global challenges to land-use change and biodiversity loss. Working with actors in commodity supply chains - from producers to buyers and investors - to achieve supply chain transparency and by integrating biodiversity impact into decision-making. SBF supports business and financial practices which protect and enhance biodiversity and support local and indigenous communities.

### Response to inquiry questions:

#### Summary

The UK is a laggard in investing in nature globally, having lost its early lead in the space and has since fallen behind Amsterdam, Paris, New York, Switzerland and Singapore and even Sydney in being a centre of green finance.

The UK does have some successes to point to. These include the hosting the Taskforce on Nature-related Financial Disclosures (TNFD); active university research programmes on the topic funded through the National Environment Research Council, and the development of domestic regulations enabling green investment such as the various Carbon Codes, Biodiversity Net Gain and the new schemes rewarding environmental land management due to come into force in the coming years.

However, the above-mentioned financial centres are ahead in significant ways; namely launching strong green financial products, managing nature impact funds, hosting innovative biodiversity and finance start-ups, business investment in nature, hosting international NGOs originating natural capital investment opportunities, and having an international development bank with the capacity to play a significant role catalysing investment in nature.

There is a vital need for the UK to learn from the successes of these other centres, as the future of being a leading global financial centre will be dependent on putting green finance at the heart of all financial decision making.

### What are the key characteristics of a leading global centre for green finance?

There is a need for a leading global finance centre to have several key characteristics. These include:

- A high level of deep technical expertise and business activity in the key sectors for green finance is needed from employees and leadership. This includes carbon, agriculture, soft commodities such as timber, palm oil, cocoa etc. Such technical insight must sit alongside financial expertise as the default.
- The creation of multi-sectoral relationships and footprints across developing countries with large amounts of natural capital, such as Brazil, Indonesia, Central Africa, India, and China is also vital.
- Companies and investors who are dedicated to going beyond regulatory compliance to position themselves as leaders in this space and set a baseline of best practice as standard.
- There is a need for strong collaboration across government, academia, business, nature and finance that extends internationally to create a strong investment origination pipeline for firms.
- An international development bank with the capacity and resources to de-risk and crowd in private sector engagement.

### Do you consider the UK's green finance regulatory framework to be world-class?

Most green finance activity is occurring beyond the frontier of regulation and is instead taking place in voluntary markets. As such, there is a need for the UK green finance regulatory framework to understand and build tools to bring green finance into the regulatory space.

### To what extent does the UK's private and public sectors have appropriate skills/capacity to attract international green finance flows?

The UK has relatively few UK-based multinational companies active in soft commodity production and emerging markets compared to previous decades and to competing green finance centres such as Amsterdam. This means the required career pathways, technical expertise and relationships are limited. It is hard to identify an easy way to rebuild these relationships and expertise domestically and this will be a major limiting factor. This is a broader issue, but the UK government needs to consider ways to incentivise UK firms to invest more in emerging market operations.

The UK has few boutique fund managers with the technical expertise (carbon, biodiversity etc) to manage international natural capital investment funds. The market leadership sits with Mirova, a French company that took over its UK equivalent. The UK government should consider how it can place funds with fund managers to build capacity and support deal origination through blended finance instruments similar to the Dutch Fund for Climate and Development (DFCD).

British Investment International (BII) has neglected investing in nature due to its focus on poverty reduction. It appears relatively conservative in its investments and does not seem particularly engaged with biodiversity and the broader development sector, both private sector and NGOs. A change in mandate to include biodiversity and a more relaxed financing approach by the UK government would allow it to be more risk-taking and innovative in its approach, building its own capacity and trialling some of the innovations that other DFIs have piloted.

The UK's international biodiversity NGOs have historically been conservative in their activities, disengaged from business, and are at least a decade behind their US counterparts in developing natural capital investments and attracting venture philanthropy and impact investments into their global project portfolio. Catalytic grant funding should be considered to promote innovation and change within these institutions to take advantage of the high degree of interest in biodiversity within the business and finance sectors.

The Monetary Authority of Singapore (MAS) working with Temasek (its Sovereign Wealth Fund) offers a potential model for the UK to catch up with its foreign counterparts. It requires avoiding complacency; long-term strategic planning; close alignment and collaboration between business, finance, academia and not for profit organisations; the provision of grants to catalytic agents to drive innovation; and the strategic placement of government investment funds with fund managers to incentive increased action and investment in nature.

**What are the UK's comparative strengths and weaknesses in its green finance offering compared to other international financial centres? What are these are for:**

- a) Asset management
- b) Capital markets
- c) Banking**
- d) Insurance
- e) Professional services
- f) Fintech**

Banking offers limited opportunities in the UK as UK companies have little exposure to highly nature- dependent sectors. The insurance sector is less dependent on commodity expertise and may provide opportunities for innovation if properly incentivised. The UK has strong fintech expertise and we are seeing some start-ups in carbon accounting, remote sensing and biodiversity valuation that offer innovation and can compensate for the lack of domestic business exposure to soft commodities. These need to be nurtured and grown.