GFANZ
Glasgow Financial Alliance for Net Zero

Act Now

Financial leaders urge more climate action from the G20

A call to governments of the G20 to take action on climate change

Climate scientists warn that time is running out in the battle against climate change. We must act now. Many governments and businesses have committed to reaching net zero GHG emissions by 2050 at the latest. But much more needs to be done for the world to avoid a catastrophic, irreversible rise in temperatures and to increase global resilience.

The Glasgow Financial Alliance for Net Zero (GFANZ) represents more than 295 firms from across the financial sector in 40 countries, collectively responsible for more than 90 trillion dollars[1] in assets. We acknowledge the critical role that we must play to support the transition to a green economy, which requires clean energy investment to triple by 2030.[2] By mobilising the world's capital, we can power growth and create green jobs, while cutting emissions and protecting nature. Furthermore, we can mobilise billions of our investors and customers – individuals and businesses – by helping them to go green.

To achieve this, we have committed to use science-based guidelines to reach net zero emissions, 2030 interim target setting, and transparent reporting and accounting in line with the United Nations Race to Zero criteria.[3]

However, if the world is to avoid a disorderly transition to net zero – which would create massive economic and financial instability – more governments must follow through on their commitments to the Paris Agreement objectives, whilst ensuring a Just Transition for all.[4] Governments need to set out the specific steps they plan to take nationally, while delivering on their goal to mobilize at least 100 billion dollars[5] annually in climate finance to support the needs of emerging markets and developing countries. They must lead by establishing global policy frameworks that correct existing market failures and enable action at scale. Doing so will enable GFANZ to turn the billions of dollars currently invested in climate finance into the trillions of dollars that are required to affect real change. Action by financial institutions, while critical, is no substitute for action by government and certain responsibilities cannot be shifted to finance. As a sector we are committed to supporting these ambitious policy proposals as they are advanced by governments and working with G20 governments to do so. To accelerate our progress, there is a need for more:

Commitment

More governments need to commit to the Paris target of 1.5 degrees Celsius by 2050. They need to make immediate cuts to emissions and explicitly pledge to sustainable and climate-resilient development.

Clarity

Governments need to establish practical steps to cut emissions and clarify the roles expected to be played by different agents. Making clear the ambition and the pathway to net zero alignment is key for success.

Coordination

Governments and global regulators need to work faster, together to ensure the world's economic and regulatory framework supports and incentivises green investment.

1

Set economy-wide net zero targets for 2050 or earlier

Leaders must give certainty of ambition, direction, and alignment to the Paris Agreement while underpinning bold ambitions with detailed and expansive plans.

To accomplish this, G20 governments should:

Declare net zero targets in line with 1.5 degrees C warming by 2050 at the latest with interim targets for 2025 and/or 2030.[6]

Complement net zero targets with clear communication to the private sector and consumers, and an economy-wide transition plan.[7]

Issue credible and predictable sector-specific policies, targets, and transition plans to ensure concrete and effective actions. Governments should institute pathways[8] that align the most carbon-intensive sectors with net zero. They should develop supportive public policies to address the impact that firms have on the climate and environment.[9] This should include phase-out of unabated coal and oil power plants by 2040.[10, 11, 12]

Set phase-out goals for fossil fuels and fossil fuel subsidies and ensure that these subsidies are redistributed to support the 'Just Transition' for all.

Set a target for TCFD-aligned[13] risk management and disclosures, and net-zero transition plans by 2024 for public and private enterprises, including Financial Institutions and SMEs.[14] A phasing-in of requirements will be required in case of SMEs.

Align debt issuance with sustainability goals and create market for net zero-aligned sovereign debt to ensure portfolios line up with net zero targets and to incentivise governments to cut emissions and protect biodiversity.

2

Green the multilateral and international financial architecture to deliver net zero

Given the global nature of climate change, we need an effective coordinated global response to help developed and developing countries reach net zero faster. Critically, all of society – public and private enterprises in all regions – must move forward together and the global financial architecture must ensure this. The current architecture was born in the age of fossil fuels to meet the challenges of the post-war era. We need to reset it in order to address the challenges of the green transition. The success of individual companies or sectoral initiatives depends on global action by those who oversee and govern financial markets.

To address this, G20 governments should:

Align regulatory frameworks to net zero and ensure consistency and coherence across global regulatory frameworks aligned to net zero, including disclosures, metrics, and methodologies.[15]

Encourage global coordination between regulators on issues such as central bank climate stress testing[16] to create a level playing field and to avoid penalising certain jurisdictions. Timely action should be taken and ensure coherence.

Provide central banks and finance regulators with specific climate change and net zero financial stability mandates, so that they can address climate change across all of the activities they currently conduct.

Direct the G20 Sustainable Finance Working Group to undertake a collaborative review of the work to date on climate change by the bodies that make up the international financial architecture, to identify enhancements for financial stability, net zero alignment, climate resilience and wider consideration of impacts on nature.[17, 18]

3

Commit to pricing the externalities of carbon emissions

Pricing the externality of carbon emissions is an essential way to drive the transition and we do not see industry moving fast enough without it. There are a range of ways to do this, and the definition of "price" is broad, and it is the decision of member states to implement an approach appropriate to each jurisdiction, whilst ensuring coherence between jurisdictions as much as possible.

G20 leaders must therefore go beyond the positive language in the July 2021 Finance Leaders communique to:

Introduce policies, regulatory approaches and incentives that price the externalities of carbon emissions in line with the science and that give clear, credible and specific forward guidance on measures to value carbon and the actual carbon price, allowing businesses to adequately prepare and fund the transition.

States should work with, e.g. the Network for Greening the Financial System (NGFS) to produce credible and specific forward curves on carbon pricing. Other interventions could include market-based solutions, regulatory standards (e.g. for clean energy in the case of the energy sectors), market regulation (including monetary policy and data standards) and taxes. It is up to each member state to determine the most appropriate solution such that the cost of capital reflects the full cost of carbon.

Reinvest proceeds from direct carbon pricing regimes into a just and green transition through, e.g. clean energy research and development; worker retraining; and dividends to lower income households. (See topic 4.) Carbon pricing, alone, will not get the world to reach net zero emissions by 2050.

Commit to supporting efforts to standardise and scale the Voluntary Carbon Market globally. Ensure that there is coherence across jurisdictions to prevent double counting of carbon credits.[19]

Commit to supporting an international body to provide guidance on appropriate use of offsets, including quality standards and acceptable offset types (e.g. carbon removals), that would indirectly price carbon as companies implement net zero transition mandates.

4

Create incentives to help people, businesses and communities to go green as countries recover from the pandemic

While unlocking the trillions of dollars of capital needed to fund the green transition, we must also support millions of people and small and medium-sized businesses as they go green. Millions of new jobs must also be created to help companies and nations transition.

To achieve this, G20 governments should work with the private sector and financial institutions to:

Create incentives for people, businesses, and communities to go green as countries recover from the pandemic. Ensure solutions are affordable, accessible, and well understood – consistent with the principles for a Just Transition and gender equality – in relation to purchases and services such as buying a car, saving for retirement, buying and/or retrofitting a home, and choosing an energy provider.

Develop a plan to help retrain people in industries that need to transition and equip new entrants to the workforce with skills required in a sustainable and economically just economy.[20]

Work with farmers and businesses to stop illegal deforestation and to provide viable alternatives. Promote sustainable regenerative agricultural practices.

Support research and development that will lower the cost of green energy solutions such as green hydrogen and sustainable aviation fuels. Fund sustainable infrastructure.[21]

5

Mobilise capital flows to emerging markets and developing countries

There is an urgent need to deploy private capital in emerging markets and developing countries to enable them to realize the commitments made in the Paris Agreement. The current scale of public and private capital flows is modest in relation to the trillions of dollars in sustainable investment needed for these nations to meet the challenges ahead.

To unlock this capital, the international community, led by the G20, should coordinate to:

Develop a network of country mobilization platforms, supporting the work of Climate Finance Leadership Initiative (CFLI) country pilot platforms,[22] to bring together governments and policy makers with public and private finance institutions and catalytic initiatives. These platforms would help identify barriers to investment, support the creation of investment friendly policy frameworks, better coordinate financial and technical assistance, and mobilize international and domestic private capital, to support the delivery of ambitious NDCs.

Ensure that changes in global financial regulation recognize the unique challenges faced by EM&DCs in their transition to net zero, and enable the increased mobilization of public markets and institutional investors to increase the level of finance they deploy to these markets in the future.

Support the work of multilateral development banks (MDBs) and development finance institutions to strengthen their private climate finance mobilization plans to enable increased private sector capital deployment in emerging markets and developing countries. When geared to catalyze private sector investment, MDBs have already demonstrated that they can mobilize twice as much private capital as the public resources they deploy in a project or fund.[23]

GFANZ commits to use our collective positive influence to work with governments, regulators, societies, and others to accelerate the world's transition to net zero.

Notes

1 Asset data compiled from data at an institution level provided by each Sub Sector Alliance in September 2021 for their member firms.

2 As defined in the IEA report, "Net Zero by 2050: A Roadmap for the Global Energy Sector."

3 The Marrakech Partnership for Climate Action have set out recommendations for action, including related to the issues included in this call to action, in a thematic Climate Action Pathway for finance. The High Level Climate Action Champions have outlined 2030 Breakthroughs which summarise the key actions that different actors can and must contribute to drive progress along these pathways.

4 As referenced by the UK's Department for Business, Energy & Industrial Strategy (BEIS) in their written evidence underpinning the Government's Ten Point Plan for a Green Industrial Revolution.

5 100 billion dollar figure as defined by the COP16 accord. Refer to "Delivering the $100 billion climate finance commitment and transforming climate finance" report available here for further detail.

6 Intermediate targets should be commensurate with 'fair-share' of reductions and accelerate progress towards net zero. NZBA members, a sub-sector alliance of GFANZ, has committed to setting an intermediate target for 2030 or sooner, using robust, science-based guidelines.

7 Please refer to GFANZ Workstream on Sectoral Pathways on retiring assets responsibly.

8 The Investor Agenda, formed by AIGCC, CDP, Ceres, IGCC, IIGCC, PRI and UNEP FI, have set out a '2021 Global Investor Statement to Governments on the Climate Crisis' signed by 587 investors representing over $46 trillion dollars in assets. It urges governments to address gaps in climate ambition, policy action and risk disclosure with urgency. Specifically, it calls upon governments to "outline a pathway with ambitious interim targets including clear decarbonization roadmaps for each carbon-intensive sector".

9 G7 Finance Ministers and Central Bank Governors Communiqué. More information available here.

10 As defined in the IEA report, "Net Zero by 2050: A Roadmap for the Global Energy Sector."

11 G7 communique recognises that continued global investment in unabated coal power generation must stop.

12 The We Mean Business Coalition – with the core group of BSR, CDP, Ceres, CLG Europe, Climate Group, The B Team and WBCSD – has set out a call for phase out coal-fired power generation by 2030 for advanced economies, and 2040 for other countries. See the rest of the Call to Action here.

13 Task Force on Climate-Related Financial Disclosures. More information available here.

14 Small and Medium-sized Enterprises (SMEs) employ fewer than 250 people. See OECD definition here.

15 Please refer to GFANZ Workstreams on Real Economy and Financial Institution Transition Plans, respectively.

16 Other considerations to include would be harmonisation of disclosure requirements, taxonomies, and rating methodologies. With regards to stress testing: The Bank for International Settlements' paper on 'Stress-testing banks for climate change – a comparison of practices', discusses the challenges that emerge when trying to adapt traditional stress tests to banks' climate-related risks including the lack of well-established common practices for banks' climate risk stress testing across countries.

17 Includes IMF, FSB, OECD, global standard setters and the multilateral development banks.

18 Specifically, the G20 Sustainable Finance Working Group should conduct a stock take of article 2.1.c of the Paris Agreement on international flows of public and private finance and to make specific policy recommendations to Indonesia's 2022 G20 Presidency on how to enhance the international financial architecture to support greater consistency with article 2.1. The review should provide recommendations of how these bodies could better oversee and manage financial flows towards net zero with amendments of their mandates to explicitly direct this, including the creation and stewardship of a Global Finance Transition Strategy. Such a strategy would ensure consistent and predictable regulatory signals to market participants, and coordination of action by the international financial regulatory architecture to avoid regulatory market fragmentation as well as seeing the implementation of the Paris commitment to make finance flows consistent with a pathway towards low emissions and climate-resilient development.

19 Article 6 of the Paris Agreement recognizes that some Parties choose to pursue voluntary cooperation in the implementation of their NDCs to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.

20 Education and Training under Article 6 – seeks to reduce the impact of climate change by enabling society to be part of the solution.

21 Policymakers can leverage suitable recommendations from across the body of climate action work focused on scaling up innovative climate technologies and lowering associated green premiums. The Mission Possible Partnership and the World Economic Forum's Financing the Transition initiative are some examples of the industry-led work in this space.

22 Refer to CFLI and their approach here.

23 The recent report, Joint Report on Multilateral Development Banks' Climate Finance 2020, references private funding that was catalysed as a result of public investment.