PRI Principles for Responsible Investment

POLICY BRIEFING ROAD TO COP28

NOVEMBER 2023

UN environment programme | finance initiative

United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, the financial markets and the economies in which they operate, and ultimately the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

This PRI briefing represents key policy priorities and recommendations to support PRI signatories and their engagement in effective climate policy action.

We invite and encourage signatories and investors to engage with policymakers and Parties to the UNFCCC to act on priority issues outlined in this briefing.

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KEY RECOMMENDATIONS

COP28 represents a significant – and perhaps final – opportunity for Parties and non-state actors to escalate their efforts to deliver on the Paris Agreement. As emphasised by the IPCC, the "*choices and actions implemented in this decade will have impacts for thousands of years*".

The conference is occurring against a backdrop of the insufficient action taken at previous COPs to close the 'ambition gap' between both what is proposed in Nationally Determined Contributions (NDCs) and what is being delivered through current policies to keep global warming below 1.5 degrees. Meanwhile, the mounting impacts of climate change – floods, droughts, hurricanes and heatwaves – are already taking a major global toll on human lives, economies, and livelihoods.

Achieving the transition to economies that are net zero and climate resilient requires strong public and private sector leadership and collaboration. COP28 concludes the first global stocktake: a landmark moment for measuring progress on the Paris Agreement. The global stocktake must prompt clear actions from Party and non-Party stakeholders to increase ambition across all aspects of climate action, including climate mitigation and adaptation, while ensuring a just transition. Critically, the outcomes of the global stocktake require full political support from all Parties to raise ambition on NDCs while also generating the required financial support. The financial sector will play a vital role at COP28 by demonstrating credible action to achieve net zero emissions and advocating for more ambitious policy action to support the goals of the Paris Agreement.

PRI's key policy recommendations include:

- **Pursue foundational financial policy reforms enabling financial flows to align with a pathway towards 1.5°C**. This will require changes in the laws and regulations that govern financial markets, including those related to disclosures, duties, stewardship and outcomes-focused tools such as sustainable finance taxonomies and transition-related disclosures (including transition plans).
- **Develop a whole-of-government approach to the transition of the real economy to net zero**. The economic transition to net zero must be placed at the heart of public policymaking. A whole-of-government approach to the economic transition will help alleviate the isolation of climate policy from economic and social policy. For investors, this will provide the policy certainty needed to rapidly upscale finance into low-carbon solutions, adaptation measures and more resilient economies. Socioeconomic considerations and impacts should be embedded throughout transition policies and strategies.
- **Connect climate mitigation, adaptation and nature policy reforms**. The climate and nature crises are interconnected: we cannot reach net zero without halting and reversing biodiversity loss, and we cannot tackle biodiversity loss without addressing climate change. Additionally, adaptation is urgent to mitigate the impacts and risks being experienced in all regions and systems as a result of global warming to date and the expected impacts and risks as temperatures continue to rise. Governments must take coordinated action across the climate mitigation, climate adaptation and nature agendas to realise synergies and successfully manage trade-offs.
- **Align the multilateral financial architecture with sustainability goals**. The requisite capital for tackling today's interconnected crises is beyond the capacity of the public or private sector alone. The stability and suitability of the global financial system are highly relevant to responsible investors, not only for mobilising and aligning financial flows to emerging economies and the areas most in need but also for strengthening the broader global finance policy agenda.

PURSUE FINANCIAL POLICY REFORM TO ALIGN WITH 1.5°C

Making financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development requires foundational changes in the laws and regulations that govern financial markets, including those related to disclosures, duties, stewardship and outcomes-focused tools such as sustainable finance taxonomies.

Climate-related data and information are a prerequisite for aligning financial flows with 1.5°C. Despite progress on hardwiring climate into securities disclosure regulations around the world, investors still lack decision-useful[1] climate information across their portfolios, including the most basic sustainability-related data.[2] This makes it more challenging for them to allocate capital efficiently while accounting for sustainability-related financial risks and opportunities and addressing sustainability goals.

The issuance of the ISSB (International Sustainability Standards Board) standards provides a unique opportunity to build a global baseline of comparable, decision-useful and material climate-related information, provided that policymakers adopt these into disclosure requirements. The ISSB standards are built upon the Taskforce for Climate-related Financial Disclosures (TCFD) framework and have been endorsed by IOSCO.[3]

The adoption of these new standards is the next step towards building on existing progress and prompting companies to report material information on climate and other sustainability-related risks and opportunities. This is also crucial to enable global interoperability[4] of corporate sustainability disclosure requirements, promoting comparable data across investment portfolios.

Disclosure reforms should be considered within broader, comprehensive policy frameworks to support the transition to net zero. Further policy reforms include clarifying that investors are not only permitted – but may be required – to pursue sustainability outcome goals such as net zero emissions (as outlined in PRI, UNEP FI and the Generation Foundation's project Legal Framework for Impact). Related policy reforms also include science-based taxonomies to identify activities aligned with the goals of the Paris Agreement and national climate goals and clear guidance on Paris-aligned transition plans.[5]

KEY RECOMMENDATIONS

- **Embed the ISSB standards within standard disclosure requirements and require mandatory S1 and S2 disclosures**.
- **Codify active ownership**[6] for investors to support corporate transitions towards net zero and maximize the overall long-term value of investments.
- **Clarify when investors' legal duties enable or require them to consider pursuing sustainability impact goals** and disclose how they do so.[7]
- **Implement science-based taxonomies of sustainable economic activities**.[8]
- **Support investors and companies with clear guidance on Paris-aligned transition planning,** as transparent transition planning provides crucial decision-useful information for investors.
- **Develop and implement framework(s) to finance the transition**, including definitions and methodologies to guide investors and companies, and support regulators in monitoring financial flows in the transition.
- **Enable regulatory alignment**: when developing such requirements and tools, regulators should work closely across different jurisdictions to align approaches to the extent possible, aim for interoperability, share best practices, and avoid market fragmentation.

DEVELOP A WHOLE-OF-GOVERNMENT APPROACH TO THE TRANSITION OF THE REAL ECONOMY

The economic transition to net zero must be placed at the heart of public policymaking. A whole-of-government approach to the economic transition will help alleviate the isolation of climate policy from economic and social policy. For investors, this will provide the policy certainty needed to rapidly upscale finance into low-carbon solutions, adaptation measures, and more resilient economies. Socioeconomic considerations and impacts should be embedded throughout transition policies and strategies.

Addressing economic externalities and incentivising real economy shifts as part of a whole-of-government approach to net zero can be achieved through a range of policy levers, including pricing instruments, performance standards, the setting of phase-out dates for polluting sectors, demand-side measures for hard-to-abate sectors, subsidy reform, and requiring minimum social safeguards from economic actors, among others. Efficiently using these policy levers will be particularly important for the energy sector, given that the global economy still depends on fossil fuels for more than 80% of primary energy use.

A politically acceptable and economically successful transition requires that socioeconomic impacts on living standards, incomes and communities be understood and managed in an inclusive and equitable way. Acknowledging this, the Paris Agreement calls for a 'just transition'. Its signatories recognise the need to take "*into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities*".[9]

KEY RECOMMENDATIONS

- **Implement robust carbon pricing mechanisms** to incentivise cross-sectoral low-carbon innovations and increase attractiveness for sustainable solutions. Effective carbon pricing must provide a predictable price signal, minimise competitive distortions, promote international cooperation, show appropriate coverage and ambition, and deliver on a just transition.[10]
- **Increase ambition through revised and future NDCs**: G7 and G20 economies must ensure that 2030 NDCs are revised to align with keeping emissions within 1.5°C pathways, with a focus on early and sustained emission reductions. As highlighted in the IPCC's 6th Assessment Report, NDCs communicated ahead of COP30 should ensure a collective reduction of greenhouse gas emissions by 43% by 2030 and 60% by 2035 relative to 2019 emissions levels.[11]
- **Commit to a clear timeline and implement the full and equitable phaseout of all fossil fuel subsidies** by all G20 members, including the elimination of all subsidies for fossil fuel exploration and production, consistent with the recommendations of relevant international bodies, including the IEA.
- **Commit to tripling global installed renewables capacity** to 11,000 gigawatts[12] and doubling the annual rate of energy intensity improvement by 2030 in line with the IEA Net Zero Emissions by 2050 Scenario.[13]
- **Embed considerations of human rights and socioeconomic impact throughout policy reforms**, including minimum decent work safeguards and social dialogue, consultation with affected stakeholders, and due diligence requirements.

CONNECT CLIMATE MITIGATION, ADAPTATION AND NATURE POLICY REFORMS

The climate and nature crises are interconnected: we cannot reach net zero without halting and reversing biodiversity loss, and we cannot tackle biodiversity loss without addressing climate change. Additionally, adaptation is urgent to mitigate the impacts and risks being experienced in all regions and systems as a result of global warming to date and the expected impacts and risks as temperatures continue to rise[14]. Governments must take coordinated action across the climate mitigation, climate adaptation and nature agendas to realise synergies and successfully manage trade-offs.

In parallel with the work ongoing through the UNFCCC and multilateral finance, action on nature will have positive spillover effects on the climate mitigation and adaptation agendas. Healthy natural ecosystems can help mitigate climate change, build resilience and adapt to climate impacts. The adoption of the Kunming-Montreal Global Biodiversity Framework in 2022 was an important first step. In its wake, governments should take coordinated action across the climate and nature agendas, including on food systems and agriculture strategies, to realise synergies and successfully manage trade-offs.

KEY RECOMMENDATIONS

- **Deliver on commitments from the Glasgow Leader's Declaration on Forests and Land Use to halt and reverse forest loss and land degradation by 2030**. Specifically, ensure robust policies and systems to facilitate the alignment of financial flows with the goal of reversing forest loss and degradation (Action 6); and conserving and accelerating the restoration of forests and other terrestrial ecosystems (Action 1).
- **Align national food systems and agriculture strategies with climate and nature commitments under the Paris Agreement and Global Biodiversity Framework**. This should be done in a proportionate, effective and equitable way to successfully address forest loss and land degradation and reduce emissions from the agricultural sector and wider food system while ensuring the resilience and long-term efficiency of production.
- **Support the Global Goal on Adaptation by implementing the Sharm-El-Sheikh Adaptation Agenda** and mobilising financing for adaptation and resilience, integrating the private sector into the development of National Adaptation Plans, and scaling up nature-based solutions and ecosystem-based adaptation approaches.
- **Establish policy frameworks that provide guidance on how to operationalise physical climate risks assessment and management; quantify resilience benefits; adaptation and resilience targets and metrics and integrate them into financial decision-making processes**.
- **Scale up the deployment and utilisation of nature-based solutions to capture climate and nature co-benefits**. For climate mitigation, this means prioritising nature-based carbon sinks over industrial carbon removal techniques. For climate adaptation and increased resilience, it means focusing on ecosystem-based adaptation approaches that help protect communities, ecosystems and economies from climate impacts such as droughts, wildfires, heatwaves, coastal flooding, landslides and erosion, and desertification and sandstorms.[15]

ALIGN THE MULTILATERAL FINANCIAL ARCHITECTURE WITH SUSTAINABILITY GOALS

The requisite capital for tackling today's interconnected crises is beyond the capacity of the public or private sector alone. The stability and suitability of the global financial system are highly relevant to responsible investors, not only for mobilising and aligning financial flows to emerging economies and the areas most in need but also for strengthening the broader global finance policy agenda.

Achieving the transition to a sustainable and equitable economy that supports resilient natural and social systems is impossible without meeting the financing needs of emerging markets and developing economies (EMDEs). While there is sufficient global capital and liquidity for tackling today's interconnected crises, the existing multilateral financial architecture has consistently failed to deliver financing and implementation at the necessary scale and speed. Reforms are needed across the multilateral financial system to enable institutions to more effectively help the world face today's challenges. Among other reforms, the multilateral financial architecture can achieve greater effectiveness through attention to sustained technical assistance, in-country capacity building and project and programme preparation to grow the pipeline of impactful investments for critical needs.

The PRI's work to date highlights the important role of National Finance Ministers, who can leverage their shareholding position and political capital to call for policy reforms at the multilateral level, deliver implementation guidance, and influence funding decisions to optimally incentivise and utilise blended finance approaches at scale.[16] These reforms should be implemented across the multilateral financial system to enable institutions to more effectively help the world face today's interconnected challenges.[17]

At the recent G20 Summit, member states showed positive action in this direction by supporting a stronger role for a reformed World Bank[18] and the Bank's new President remarked on the need to adopt "*a greater appetite for risk, meaningful private sector financing, and … a sense of urgency*".[19] The recent World Bank–IMF Annual Meetings highlighted the need for action, with the World Bank unveiling a new vision of "*creating a world free of poverty on a liveable planet*".[20]

KEY RECOMMENDATIONS

- **Review and revise organisational mandates of international financial institutions** (IFIs) and multilateral development banks (MDBs), operating models and expected outcomes to align with current and expected future global challenges.[21] Promoting sustainable economic growth and social equity and tackling the planetary crisis of climate change and biodiversity loss should be conducted in an interconnected manner and be enshrined in the mandates of the institutions.
- **Enhance catalytic financial instruments for global sustainability outcomes** by reforming capital adequacy frameworks and exploring new financial structures.
- **Scale and aggregate concessional finance** to increase financial efficiency and leverage greater lending.
- **Prioritise the mobilisation, alignment and delivery of private finance at scale** with strong incentives, risk sharing, in-country capacity building, robust project pipelines and mission clarity.

REFERENCES

[1] As set out in the PRI's Investor Data Needs framework, to be decision-useful, sustainability information must be available, accessible, verifiable, comparable across multiple dimensions, a faithful representation and relevant to investors.

[2] For example, FTSE Russell found that of the 4,000 large and mid-size constituents in the FTSE All World index, 58% disclose both Scope 1 and 2 carbon emissions. Mind the gaps: Clarifying corporate carbon

[3] IOSCO's endorsement recommends that its member jurisdictions consider ways in which they might adopt, apply or otherwise be informed by the standards.

[4] Interoperability between jurisdictional reporting requirements – allowing companies to collect and report in a manner that effectively serves both local and global requirements – is a key concern for investors who allocate capital globally and require comparable sustainability-related information across their portfolios.

[5] Further foundational policy reforms are outlined in PRI and World Bank's Policy toolkit.

[6] How policymakers can implement reforms for a sustainable financial system: stewardship

[7] Legal framework for impact: Briefing for policymakers

[8] How policymakers can implement reforms for a sustainable financial system: taxonomies

[9] https://unfccc.int/sites/default/files/resource/Just%20transition.pdf

[10] Position paper on Governmental Carbon Pricing

[11] AR6 Synthesis Report: Climate Change 2023

[12] Total global renewable energy capacity amounted to 3,600 gigawatts in 2022.

[13] Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach

[14] IPCC Sixth Assessment Report

[15] Six ways nature can protect us from climate change

[16] The Coalition of Finance Ministers for Climate Action global consultation: Strengthening the role of finance ministers in driving climate action

[17] Reforming the multilateral financial architecture: why, how and the case for acting now

[18] G20 backs bigger role for reformed World Bank

[19] Remarks by World Bank President Ajay Banga at the 2023 G20 India Leaders' Summit "One Future" Session

[20] 2023 Annual Meetings: A New Vision for Challenging Times

[21] This includes challenges such as the climate and biodiversity crises, international armed conflict, macroeconomic imbalances, growing inequality, and public health risks, both in their individual impact and the implications of their cumulative impact.