PRI | Principles for Responsible Investment

PRI RESPONSE

UNFCCC TECHNICAL ASSESSMENT COMPONENT OF THE FIRST GLOBAL STOCKTAKE

9 March, 2023

PRI Association
Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

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, of the financial markets and economies in which they operate and ultimately of 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 range 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.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the United Nations Framework Convention on Climate Change SB Chairs on the call for feedback on the first Global Stocktake.

ABOUT THIS CONSULTATION

The UNFCCC Global Stocktake of the Paris Agreement (GST) is a process for taking stock of the implementation of the Paris Agreement with the aim to assess the world's collective progress towards achieving the purpose of the agreement and long-term goals. Parties of the Paris Agreement, observer States, admitted observer organisations, United Nations organisations, international organisations and other non-Party Stakeholders are invited to submit inputs to the process.

For more information, contact:

Edward Baker
Head of Climate Policy
edward.baker@unpri.org

Jodi-Ann Wang
Senior Climate Policy Analyst
jodi-ann.wang@unpri.org

KEY RECOMMENDATIONS

The Global Stocktake (GST) is the heart of the Paris Agreement's ambition mechanism for all actors to review current efforts and align progress with the goals of the Paris Agreement. This is an important opportunity for the public and private sectors to reflect on implementation of this Agreement to date and build momentum to address outstanding ambition and delivery gaps.

In particular, the PRI wishes to highlight:

- The progress that has been made in the eight years since the signing of the Paris Agreement. Globally expectations for end-of-the-century temperature rise have reduced from 4~5 degrees in 2015 to 2.7~3.2 degrees[1]. A more ambitious outcome remains feasible. A PRI-commissioned programme tracking energy policy development in G20 countries over 18 months found that 90% of the 211 policies tracked were consistent with a 1.8c degree pathway[2].
- Progress can also be measured in financial flows. Investments in clean energy have doubled since 2015 $818bn in 2022[3]. However, investments in fossil fuels have remained constant throughout this period and even increased since 2021[4]. An estimated 4x increase in the rate of annual clean energy investment every year between now and 2030, combined with a comparable scaling back of fossil fuel investing is needed to get on track with a trajectory consistent with the Paris Agreement[5].
- Sufficient private capital is available, yet it needs to operate within the envelope of fiduciary duty to its beneficiaries. To attract private investment, governments need to provide the right enabling environment that offer stable and robust policy frameworks as well as investable business models for not only renewables and electric vehicles, but also the hard-to-electrify sectors.
- Investors are ready to support more decisive action by governments to rapidly reduce and phase-out unabated fossil fuels whilst scaling up the clean energy solutions in order to reduce global emissions by 45% against the 2010 baseline by 2030 and to get on track with net-zero by mid-century.
- A whole-of-government approach on the economic transition, that tie real economy policies and financial policies together is especially important to shift financial flows to address key societal concerns including biodiversity loss, rising inequality as well as climate change. Financial policies and regulations that work in tandem with real economy policies have played

[1] https://www.ipcc.ch/report/sixth-assessment-report-working-group-3/

[2] https://www.unpri.org/q4-2022-quarterly-forecast-tracker/11049.article

[3] https://about.bnef.com/blog/investment-requirements-of-a-low-carbon-world-energy-supply-investment-ratios/

[4] https://www.mining.com/g-20-nations-provided-693-billion-in-support-for-coal-fossil-fuels-in-2021-report/

[5] https://about.bnef.com/blog/investment-requirements-of-a-low-carbon-world-energy-supply-investment-ratios/

an important role in supporting the growth in sustainable investment practices, and in better aligning these practices with national and international objectives.

DETAILED RESPONSE

MITIGATION

Question 3: What efforts are being undertaken to plan, implement and accelerate mitigation action towards achieving the goals defined in Articles 2.1(a) and 4.1 of the Paris Agreement?

and

Question 5: In order to achieve the goals defined in Articles 2.1(a) and 4.1 of the Paris Agreement:

a) **What further actions is required?**
b) **What are the barriers and challenges, and how can they be addressed at national, regional and international levels?**
c) **What are the opportunities, good practices, lessons learned and success stories?**

Government Policy Action

With the understanding that government action to tackle climate change remains insufficient to achieve the commitments under the Paris Agreement, the PRI in 2018 commissioned the Inevitable Policy Response (IPR) project, aimed to prepare institutional investors for the portfolio risks and opportunities associated with a forecast acceleration of policy responses to climate change. IPR forecasts general acceleration in policy response to 2025 and contends that governments will be forced to act more decisively than they have thus far, leaving financial portfolios exposed to significant transition risk.

One pillar of IPR's work has been the Quarterly Forecast Tracker (QFT), which assesses in detail the developments in policy, technology and land use in key sectors and regions which drive the energy and land transition. They determine any acceleration, deceleration, or stagnation in energy and land related policy ambition and technology developments. These developments are assessed against two scenarios covered under Article 2.1(a), which are the Forecast Policy Scenario (FPS) which results in 1.8c of warming, and the context of the 1.5c-aligned Required Policy Scenario (RPS).

Overall, the IPR Quarterly Forecast Tracker has found that across 2022, climate announcements have provided evidence of an acceleration in efforts that are broadly in support and confirmatory of the IPR 1.8c FPS pathway. In Q4 of 2022, this effort has largely been driven by the catalytic global impact from the Inflation Reduction Act in the United States.[6]

[6] For more, please see the *Inevitable Policy Response* Q4 2022 Quarterly Forecast Tracker: https://www.unpri.org/q4-2022-quarterly-forecast-tracker/11049.article

Overall, to align with Article 4.1(a), the IPR Gap Analysis finds that a 1.8c scenario is still in reach, under which policy announcements accelerate between 2023-2025 in advance of countries submitting their 3rd round of NDCs. Policy response is more delayed in non-OECD economies, reflecting rapid energy growth and later net zero targets. To keep warming below the 1.5c limit, massive acceleration in policy ambition and implementation is needed, particularly in the non-OECD.[7]

Investor Climate Action

Effective policies, in line with the goals of Article 2.1(a), are essential for accelerating and scaling up private capital flows needed for a climate resilient, net-zero taransition. Investors are urgently seeking to manage their exposure to climate risks and increase the contribution that their investments make to the Paris Agreement goals. Investors are taking action as it is not only permitted by law but is in many cases required to ensure their ability to generate returns in the long-term as a core fudicary duty and benefit from the opportunities associated with the shift to a net-zero emissions economy.

For example, the third edition of the UN-convened Net-Zero Asset Owner Alliance's Target-setting Protocal demonstrates that leading asset owners remain steadfastly commited to achievng net zero and aligning with 1.5c pathways with no or limited overshoot.[8] Based on the best available science and most recent pathways from the Intergovernmental Panel on Climate Change (IPCC), the Alliance identified emissions reduction requirements for sub-portfolio targets in the range of -22% to -32% by 2025 and -40% to -60% by 2030.

For investors, a clear, consistent, and enabling policy environment is critical to the viability of the net-zero transition, and successful policy implementation helps minimise risks to the real economy, to individual entities and to the financial systems as a whole. Advancing rapidly with existing plans outlined in countries' NDCs and national net zero strategies (if applicable), including with consultations, sectoral policies, and enabling mechanisms to drive climate action and ramp-up private investment.

ADAPTATION

Question 7: What efforts are being undertaken to plan, implement and accelerate mitigation action towards achieving the goals defined in Articles 2.1(b) and 7.1 of the Paris Agreement?

and

Question 10: In order to achieve the goals defined in Articles 2.1(b) and 7.1 of the Paris Agreement:

a) **What further actions is required?**
b) **What are the barriers and challenges, and how can they be addressed at national, regional and international levels?**

---

[7] For more, please see the *Inevitable Policy Response* 2022 Policy Gap Analysis: https://www.unpri.org/inevitable-policy-response/ipr-2022-policy-gap-analysis/10836.article

[8] The UN-convened Net-Zero Asset Owner Alliance is a member-led initiative of 84 institutional investors, with over US$11 trillion in assets under management, committed to transitioning their investment portfolios to net-zero GHG emissions by 2050. For more information on the AOA and its Target-setting Protocol, please see: https://www.unepfi.org/industries/net-zero-asset-owner-alliance-raises-expectations-for-members-real-economy-impact-with-updated-protocol/

c) What are the opportunities, good practices, lessons learned and success stories?

In terms of Paris Agreement Article 2.1(b), Development Finance is leading the way on resilience finance for vulnerable communities. Examples include:

- MDBs reaffirmed their commitment to boosting adaptation finance, especially for low-income countries, small island developing states and disadvantaged populations, at COP27, as part of the Joint MDB Climate Finance Report. Currently 35% of their total climate finance goes to adaptation.
- Mission 1 for 200: IFAD and the African Development Bank are leading an initiative to increase access to an affordable and nutritious diet to 200 million food-insecure people in Africa, through financing the delivery of climate resilient technologies to 40 million farmers. While the initiative was proposed back at COP26, they have cemented their commitment to launch it at the Africa Food Summit in Jan 2023.

  The Green Climate Fund's Low Emissions and Climate Resilient Agriculture Risk Sharing Facility continues to dispense funds sourced primarily from private sector co-financing (focused on Guatemala and Mexico currently). However, further expansion in implementation scope is needed to invest in regional resilience. The core challenges are that there are too few actors in the private sector working on climate-smart agriculture technologies and practices. There is an opportunity post-COVID to improve the number of bankable projects linked to the Facility. In terms of asset-class opportunity sets, there is strong demand for debt and guarantees from project-executing entities, but less on equity.
- Insurers also need to be engaged to improve data integration and explore innovative options to improve coverage while reducing insurability risk: the Swiss Re Institute estimates that the rise in insured losses from natural catastrophes is increasing by 5-7% annually. The most extreme of all events annually are also impacting the ability for the reinsurance market to completely insure tail risk.

In terms of Article 7.1, there is still more progress needed on a global goal, with evidence of alignment in targets and implementation expectations still lacking:

- Among the 37 countries that have generated a National Adaptation Plan (NAPs), only 63% of NAPs that mention a separate resource mobilization strategy, and among these, **only 24% have private sector financing components.**
- Nonetheless, 65% of these NAPs have committed to reporting on their progress, which provides the opportunity to align different countries with the principles of the Race2Resilience campaign (and for investors to use this to track opportunities).[9]
- Investor Adaptation Plans are needed to develop driving forces across the private sector that can both empower NAPs, and develop them in line with economically and financially responsible adaptation pathways.

[9] NAP Trends (napglobalnetwork.org)

- A holistic perspective is needed on adaptation: private sector adaptation finance may be counter-productive when social aspects are not considered, they could shift vulnerability to others, leading to irresponsible/unjust adaptation in the broader context. Scenario analysis on mitigation progress must also be integrated to better project future physical risks. Increasingly comprehensive climate-related standard-setting (across disclosure and risk assessment policies) is essential to making sure these components are integrated and adaptation is globally transparent.

As an overarching issue, vulnerability datasets need to be built up by both governments and investors, to inform adaptation planning, to fill an essential data-gap. While the data landscape on hazard exposure is expanding, the features of assets, communities, and ecosystems are all lacking, making meaningful progress difficult.

FINANCE FLOWS AND MEANS OF IMPLEMENTATION

Question 15: In order to achieve the goal defined in Article 2.1(c) of the Paris Agreement as well as scale up the provision and mobilization of means of implementation (including finance, technology development and transfer and capacity-building), including in the short term, both from public and private sources, at the national and international levels to achieve the Paris Agreement goals:

a) What further actions is required?
b) What are the barriers and challenges, and how can they be addressed at national, regional and international levels?
c) What are the opportunities, good practices, lessons learned and success stories?

While there is progress towards achieving the goal defined in Article 2.1(c), most notably through commitments made by development finance institutions (DFIs) and multilateral development banks (MDBs), more can still be done in incentivising the allocation of private capital towards the goals of the Paris Agreement. Below are identified areas that could generate further opportunities for the mobilisation of private finance at the scale required to achieve Article 2.1(c).

Creating an enabling policy environment for private capital mobilisation

Climate change poses significant risks for society and the economy, but the net zero transition also provides opportunities to build the industries of the future, support sustainable development and prosperity. Investors are signalling their interest to invest in these opportunities, but to do so, they require reliable and concrete policies.

Ensuring transparency and consistency in disclosures and reporting

From a climate target-setting and delivery perspective, sector targets are the most relevant means for financial institutions of achieving real world emissions reductions, incentivising and providing capital support to companies which are the best carbon performers within the sector, and financing the global economy's transition to net zero. However, sector specific data from companies in the real economy remains insufficient, unreliable, incomparable, or non-existent. As a result, investors are not able to fully steer investment portfolios in line with sector decarbonisation pathways or set science-based

targets at the sector level. Appropriate regulation needs to be put into place for companies in the real economy to start sharing sufficient, reliable, and comparable data that is relevant for investor, and recent regulatory consultations from the International Sustainability Standards Board (ISSB) and regional/national regulators have also highlighted the importance of access to sector-specific data.

Specifically, with a view of staying invested in and providing capital to transform even the hard-to-abate sectors, the PRI recommends stronger disclosure regulations on industry metrics and corresponding targets for the 12 most energy-intensive sectors listed in Annex 1. These should include Scope 1, Scope 2 and relevant Scope 3 emissions where significant, capturing current data as well as data on a forward-looking basis (at 5-year and 10-year intervals). Doing so is a step towards allowing investors to fully steer their portfolios towards outcomes that are consistent with the goals of the Paris Agreement and the Sustainable Development Goals (SDGs).

Scaling financing on solutions

Blended finance is an instrument that can address structural deterrence to investments in emerging markets and developing economies and thus mobilise private sector capital. To scale up blended finance mechanisms, systemic changes are needed to create an investment environment where capital can flow to where it is most needed. International policymakers and Finance Ministers across developed countries and are in shareholder positions of international financial institutions should:[10]

- Scale and aggregate pools of concessional capital that create fiduciary investment assets
- Modernise the governance and business models of MDBs and DFIs to align with the SDGs and the Paris Agreement
- Support accurate risk pricing by providing access to core credit risk data
- Prioritise thematic parameters in official development assistance
- Make guarantees eligible for official development assistance

ADDRESS THE SOCIAL AND ECONOMIC CONSEQUENCES AND IMPACTS OF RESPONSE MEASURES:

Question 16: What is the collective progress in terms of the current implementation of, and ambition in, efforts made that address social and economic consequences and impacts of response measures while implementing mitigation policies and actions towards the achievement of the Paris Agreement goals?

- Mention: Investor Statement on Just Transition, JT financing tools (LSE/ILO), Advance, investors white paper on JT.

[10] For more information on the 5 recommendations, please see the UN-convened Net-Zero Asset Owner Alliance *Call on Policymakers to Support Scaling Blended Finance*: https://www.unepfi.org/wordpress/wp-content/uploads/2022/09/NZAOA_Scaling-Blended-Finance.pdf

Governments, businesses, and financial institutions are increasingly incorporating Just Transition in climate policies, and Just Transition is moving up the global climate policy agenda. Despite policy consciousness of the Just Transition spreading rapidly at the national level, implementation is still in its infancy.

In assessment of Just Transition elements in the Inevitable Policy Response, it becomes clear that there continues to be significant regional variation in the incorporation of Just Transition considerations.[11] Specifically:

- The strongest Just Transition elements continue to be observed in Europe and South Africa.
- Policies in Indonesia, Vietnam and Mexico also had strong Just Transition framings, particularly as propelled by the establishment of Just Energy Transition Partnerships in the first two. Whilst this is a positive signal, all policies were framed at a high-level in political statements and Nationally Determined Contributions (NDCs) submissions. Further details in implementation actions remain to be seen.

Achieving a no overshoot 1.5c pathway will require further actions that are implemented quickly. The only feasible transition is one that is coupled with the broader aims for equitable social-economic development. The just transition sits at the intersection of the climate emergency and the need to ensure inclusive socio-economic development, as underpinned by the Paris Agreement and international human rights standards. While net zero commitments and climate actions are multiplying, they need to have strong social component from the get-go in order to mitigate (or remedy) the unintended social implications these commitments might bring. Government ministries (including Finance,[12] Environment, Energy, Labour, etc) should actively consider the positive and negative social impacts, as well as affected stakeholders, in decision-making processes.[13] This can be through the development of just transition plans and policies for all key sectors in the equitable transition to net zero.

For investors, ensuring that the benefits of the low carbon transition are widely and fairly shared within the process of decarbonisation is key. There has been a proliferation of guidance to further encourage financial institutions' integration of Just Transition considerations in their strategies and operations. For example, the International Labour Organization and the LSE Grantham Research Institute have developed the Just Transition Financing Tool for banking and investing activities.[14] The UK Transition Plans Taskforce

---

[11] For more, please see the Inevitable Policy Response *Q3-Q4 20222 assessment of Just Transition elements in the Inevitable Policy Response:* https://www.unpri.org/download?ac=17811

[12] For more, please see the Coalition of Finance Ministers for Climate Change commitment

[13] For more, please see the PRI co-signed letter calling G7 governments to action for a just, affordable, and urgent transition: https://dwtyzx6upklss.cloudfront.net/Uploads/z/x/u/friendsofg7_g20calltoaction_v2_530950.pdf

[14] For more, please see *Just Transition Financing Tool for banking and investing activities*: https://www.lse.ac.uk/granthaminstitute/publication/just-transition-finance-tool-for-banking-and-investing-activities/

CROSS-CUTTING GUIDING QUESTIONS

Question 19: How is climate action respecting, promoting, and considering the Parties' respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people with vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity?

Investors are increasingly acknowledging that the environmental, social, and governance (ESG) performance of the companies in which they invest has a measurable impact on the risk-adjusted returns they can expect. They are further motivated by growing expectations from regulators and international organisations to align to consistent and robust global standards on human rights and climate action within their portfolios. These international standards and examples of best practice include:

- OECD updating its Guidelines for Multinational Enterprises to expand them to cover environmental and climate issues, including requiring environmental and climate due diligence from corporates and investors. The Policy trends in environmental due diligence highlights the growth of this issue.
- The high-level segment of the sixth session of the Meeting of the Parties (MOP6) to the Protocol on Water and Health focused on the central role of water, sanitation and hygiene (WASH) in addressing 2 converging crises – the COVID-19 pandemic and climate change.
- The Business and Human Rights Centre launched a report Human rights defenders & business in 2021.
- The EU Parliament reached a Deal on new law to ensure products causing deforestation are not sold in the EU. Human rights and the rights of indigenous peoples are added as additional requirements. Note that the regulation only requires Free, Prior and Informed Consent (FPIC) compliance with laws of the country of production, thereby not going as far as requiring due diligence for international human rights laws.

Question 22: In order to achieve the purpose and long-term goals of the Paris Agreement:

a. **What integrated and holistic approaches are available?**
b. **How can science and innovation be accelerated, encouraged and enabled?**
c. **How can international cooperation for climate action be enhanced?**

Until recently, the world has not faced overarching goals of a similar level of challenge as net zero and limit warming to 1.5c. The escalating impacts of the climate and nature crisis government ministries and regulatory agencies to adapt their work to the new goal-oriented market context and implement new and revised rules and regulatory frameworks conducive for an orderly and equitable transition. The challenges, opportunities, and commitment required of governments to reach net zero and limit warming to 1.5c are like nothing we have seen in recent economic history. Government ministries all have a key role to contribute to and serve such a commitment.

G7 countries, as shareholders of the world's multilateral development banks (MDBs) and development finance institutions (DFIs), can also optimally incentivise and utilise blended finance

approaches at scale. Urgent collaborative action is needed by all stakeholders to (1) scale the necessary investments in the short- and medium-term and (2) address the systemic and regulatory barriers. Members of the UN-convened Net Zero Asset Owner Alliance have called on policymakers, particularly Finance Ministers to undertake key actions that allow for collaboration with actors across the financial value chain to mobilise capital flows into climate solutions at the scale and pace, especially into emerging markets and developing economies (EMDEs) to fund the net-zero transition.

Monitoring the successful establishment of the Just Energy Transition Partnerships, Parties could further explore the replication of similar global collaborative mechanisms for other hard-to-abate sectors, such as steel, cement, and agriculture. The private sector can play a critical role in the delivery of needed finance within these partnerships. Over 550 financial institutions, including many of PRI's signatories, have committed to align capital with the achievement of net zero by 2050 under various net zero alliances. Net zero-committed investors want to work with policymakers and government departments more broadly to support sustainable economic growth and development. Indeed, many of the net zero commitments are made in the expectation that government will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of UNFCCC further to the technical review of the Global Stock Take.

Please send any questions or comments to policy@unpri.org.

More information on www.unpri.org