High Level Ministerial Dialogue on the New Collective Quantified Goal on Climate Finance

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The PRI would like to thank the UNFCCC and the COP27 Presidency for giving us an opportunity to participate in the important discussion that is the dialogue on the New Collective Quantified Goal on Climate Finance. The PRI is a global investor organisation committed to responsible investment, with more than 5,000 signatories around the world which represent over USD 120 trillion in Assets Under Management (AUM).

Over the past few months, we have been consulting with our signatories around the world to fully understand the role they expect the PRI to play in supporting their work. Climate change has consistently been identified as their number one issue, expressing a strong desire to better manage risks and enhance returns by playing their part in addressing this pressing crisis. The importance of policy engagement has also been recognised as essential to help create the necessary enabling conditions for investors to support a fair, fast, and stable transition to low carbon, climate resilient economies across the globe. It is with this insight from investors that the PRI is presenting this statement to the High-Level Ministerial Dialogue on the New Collective Quantified Goal on Climate Finance.

It is clear that we are not seeing the necessary shift in the trillions of private finance that we need to deliver the goals of the Paris Agreement. But we are confident that this can happen.

We have seen hundreds of investors representing trillions of dollars of AUM signing up to net zero initiatives. These are a vital mechanism to facilitate increased ambition and, crucially, meaningful action on net zero from within the investment community. And progress is being made. In the case of the Net Zero Asset Owners Alliance, two thirds of the members have now set short-term decarbonisation targets (44 members accounting for USD 7.1 trillion AUM), with the remaining third developing their interim targets over the coming months in line with the Alliance commitments.

And despite the provision of USD 693 billion[1] of support to coal and fossil fuels last year by G20 countries (and this financial support from the 20 leading economies has remained persistently high since 2015), clean energy investment still surpassed USD 750 billion in 2021[2], more than double the amount at the time of the Paris Agreement.

But the war in Ukraine and ensuing energy crisis have shown how fragile this progress can be, with pressure for increased investment in higher carbon footprint energy sources as the world looks for diversification of source and greater energy security. It is also hard to change behaviours which have delivered successful returns in the past, and any hurdle along the way slows the transition process down and lowers our hopes of keeping a 1.5C future alive.

To ensure that private sector finance is catalysed, not in the billions but in the trillions, we need to look at how governments can operationalise the objective of making financial flows consistent with low-greenhouse gas emission and climate resilient development. In addition to the progress being made to scale investment in climate programmes and projects, we need to see strong policy frameworks that will back national decarbonisation objectives in the short, medium and long term. This includes by embedding climate goals in financial regulation, requiring disclosure on progress

[1] BNEF Climate Policy Factbook 2022
[2] BNEF Energy Transition Investment Trends 2022

towards climate goals in investment activities, and through transition policies for polluting sectors of the economy – including an expectation on all investors and all companies operating in those sectors to have transition plans in place. This will help to set the stage for increased ambition and facilitate investor action on a much broader scale. Investors need support from the public policy sphere to drive action further and faster.

Today, there are still regulatory barriers to investors engaging in sustainable practices, even when they wish to do so. Institutional investors, which are required to secure long-term financial returns, continue to hesitate to look at factors that can be perceived as “non-financial”, in large part due to concerns around fulfilling their legal obligations. The COP process could play an important part in ensuring that there is no meaningful difference between investing for pure financial return or investing for sustainable outcomes – as one outcome automatically engenders the other.

PRI’s work to date has helped us identify several areas which would benefit from further discussion with investors and policymakers, including on fiduciary duty, concerted action or anti-trust regulation. Specifically, and among other measures, one of our aims will be to engage further with the UNFCCC and all its associated actors to contribute meaningfully to the important work on setting a New Collective Quantified Goal, in a manner that will facilitate the systemic change needed to channel private finance in the trillions towards positive climate outcomes.

We look forward to continuing to serve as a critical bridge between the investor world and policymakers and remain resolute in our efforts to mobilise the financial services industry to deliver the outcomes we all so desperately need.