PRI Principles for Responsible Investment

SUSTAINABLE FINANCE POLICY: THE ROLE OF G7 AND G20

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

INTRODUCTION

The United Nations-supported Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3500 signatories (pension funds, insurers, investment managers and service providers) globally with approximately USD 100 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The PRI is seeking to support multilateral finance and investment organisations to align their policymaking with sustainable development commitments, such as the Paris Climate Agreement, the UN Sustainable Development Goals (SDGs) and the UN Guiding Principles on Business and Human Rights.

This briefing presents the PRI's recommendations to embed sustainability within international financial policy dialogue taking place at the G7 and G20 in 2021.

THE G7 AND G20 AND SUSTAINABLE FINANCE POLICY

Multilateral organisations and intergovernmental dialogue platforms such as the G7 and G20 represent a missing piece of the jigsaw in sustainable finance policy. While national policies promoting sustainable finance and investment have developed at an unprecedented rate, progress has been uneven among countries, calling for further international cooperation on best practice sustainable finance policies. At a multilateral level, this topic has either been overlooked, or led by environment or development departments. At G7 and G20, finance ministers do not address sustainable finance and investment topics as part of their core agenda. At previous summits, apart from the FSB/TCFD climate-related financial disclosures and the Hamburg declaration annex in 2017, sustainable and 'green' finance has been discussed at a separate working group without lasting mainstream financial policy impact.

The COVID-19 crisis has demonstrated the importance of resilient societies and economies, supported by a sustainable financial system. In the short-term, policy makers have rightly focused on the health crisis, immediate economic relief and the prevention of future outbreaks. Policy makers will also need to address existing environmental and climate challenges to ensure the recovery is sustainable. Globally, multilateral organisations need to step up their engagement to align traditional financial policy frameworks with sustainability and climate goals.

In 2021, the UK and Italy co-host COP and the G7 and G20 meetings. This represents a unique opportunity to align agendas at all three convenings, potentially creating a focus on action to link COVID recovery to sustainability goals, including on climate.

POLICY RECOMMENDATIONS

The PRI recommends that the G7 and the G20 Summits and ministerial meetings call for aligning mainstream financial and real economy policies with sustainability goals. This alignment should be systematic and explicit.

1. **The 2021 Summit outcomes' statements should affirm that financial policies at national and multilateral levels need to be aligned with sustainability goals.**

   All finance and investment policy frameworks, policies, strategies and standards developed at national and multilateral level need to support and lead to sustainable, resilient and inclusive economies. In parallel, industrial and trade policies should also embed sustainability goals and support a sustainable economic recovery and long-term growth model aligned with net zero carbon emissions.

2. **The finance ministers' meeting agenda should include key sustainability issues relevant for financial policies and discussion on policies that support a sustainable recovery, including through aligning markets with net zero economies.**

   Finance ministries should lead and support policy reforms in their countries that align financial markets with the global sustainability goals, including those of the Paris agreement. Key policy reforms to align financial markets with sustainability include mandatory corporate ESG disclosure, stewardship codes, investor duties and disclosures regulations, sustainable taxonomies, and broader sustainable finance strategies encompassing the banking and insurance sectors as well.[1]

3. **The G7 and the G20 Summits should commission detailed policy recommendations and implementation guidance on sustainable finance and real economy policies to multilateral organisations, such as the OECD and the IMF.**

   Through a whole-of-government approach, multilateral organisations involved in financial policy should provide detailed recommendations on policies and levers to align economies with net zero carbon emissions. This work should aim to break existing silos between financial and real economy policies and propose concrete actions for key sectoral policy reforms, and could include, for example, an action plan for Paris-aligned infrastructure investment.

These recommendations aim towards the goals of building a sustainable financial system and supporting a sustainable and inclusive recovery. Alignment with net zero and broader sustainability goals should be consistent across governmental economic and sectoral policies. Embedding sustainability at the core of multilateral policymaking will also increasingly tilt investor and corporate action towards the global goals.

[1] PRI, *Supporting policy makers and regulators to build a sustainable financial system* (December 2020), available at: https://www.unpri.org/pri-blogs/supporting-policy-makers-and-regulators-to-build-a-sustainable-financial-system/6930.article.

FINANCE AND INVESTMENT POLICIES FOR A SUSTAINABLE RECOVERY

Sustainable finance is receiving additional attention as governments and policy makers discuss how to rebuild their economies in the wake of the COVID-19 pandemic. The pandemic has put many aspects of our economy and lives on hold, highlighting the social and economic consequences of inequality. The pandemic has not, however, stopped the climate emergency and will not prevent the risks from extreme weather events and other climate-related shocks that threaten us now and in future.

There is a growing consensus that economic recovery strategies must be sustainable and inclusive and deliver concrete reforms that enable a more just and fair society. Specifically, policy makers need to seize the opportunities created by shifts in markets and behaviour to accelerate change, focusing on areas in which the COVID-19 recovery and decarbonisation priorities are best aligned and can support immediate needs such as job creation. In order to create a decisive sustainable and inclusive transition, targeted government stimulus spending must be backed up by accelerated measures to build markets that can deliver for people and the planet.[2]

An increasing number of national governments are committing to net zero by 2050-2060, including a majority of G7 and G20 member countries. To effectively reorient economies towards these goals, finance ministers need to reform existing finance and investment policy frameworks. Sustainable finance cannot be optional or separate from mainstream finance.

FOUNDATIONAL SUSTAINABLE INVESTMENT POLICIES

Government and policy maker interest in sustainable finance and investment has grown dramatically since the start of the century. The PRI has identified over 650 policy tools and guidance and more than 300 policy revisions which support, encourage or require investors to consider all long-term value drivers, including environmental, social and governance (ESG) factors. Of these policies, 95% have been developed since the year 2000. The pace continues to increase – the PRI has identified 124 new or revised policy instruments in 2020, the highest number so far and 32 more than the previous year. This continues the trend identified when the PRI first published its database of global sustainable finance policy in 2016.[3]

There are several reasons for this. Sustainable finance policies and regulations can:

- **support national policy goals** on climate change and the SDGs;
- **enhance the resilience and stability** of the financial system and the economy;
- **improve market efficiency** by clarifying and aligning investor and company expectations;
- **increase the attractiveness** of countries as investment destinations.

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[2] PRI, *Sustainable and inclusive: COVID-19 recovery and reform* (July 2020), available at:https://www.unpri.org/covid-19-resources/sustainable-and-inclusive-covid-19-recovery-and-reform/6016.article.
[3] PRI, Regulation Database, available at: https://www.unpri.org/policy/regulation-database.

As sustainable finance and investment policies develop, driving investments towards sustainable, inclusive and zero carbon economies will require aligning regulatory frameworks globally.

The PRI and the World Bank have published a Finance and Investment Policy Toolkit which will support government policy makers and regulators starting to implement reforms to build a sustainable financial system.[4] This toolkit provides concrete solutions and examples on how to design and implement effective policy frameworks that align capital markets with the goals of the Paris Agreement on Climate Change and the Sustainable Development Goals.

Our experience is that sustainable investment policy needs to cover the following five areas:

- **Corporate ESG disclosures**, including alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).[5]
- **Stewardship**, or the use of influence by institutional investors to maximise the overall long-term value on which returns, and clients' and beneficiaries' interests, depend.
- **Investors' duties to incorporate ESG**-related considerations in their investment decision making, to provide sustainability-related disclosures and to report on their ESG incorporation policies and sustainability performance targets.
- **Taxonomies of sustainable economic activities**, defining common and clear criteria to classify projects or investments as green or sustainable.
- **National/regional sustainable finance strategies**, that encourage and enable the low-carbon transition and the delivery of the SDGs for the whole economy.

These policies should be hardwired in the existing finance and investment regulatory frameworks. They also need to be designed in alignment with international standards such as the TCFD framework and build on international platforms such as the International Platform on Sustainable Finance (IPSF).[6]

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[4] PRI, *Supporting policy makers and regulators to build a sustainable financial system* (December 2020), available at: https://www.unpri.org/pri-blogs/supporting-policy-makers-and-regulators-to-build-a-sustainable-financial-system/6930.article.

[5] PRI, Driving Meaningful Data, available at: https://www.unpri.org/sustainability-issues/driving-meaningful-data.

[6] European Commission, International platform on sustainable finance (IPSF) available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/international-platform-sustainable-finance_en.

ALIGNING REAL ECONOMY POLICIES WITH THE NET ZERO GOAL

As economies emerge from the shock brought by the COVID-19 pandemic, it remains clear that addressing climate change is the central sustainability challenge. While growing range of robust scenario analysis of climate change impacts and decarbonisation pathways provides foundation for investment policies and decisions, the role of governments in setting the policy framework to drive the net zero transition is critical. Investors will need to step up to advocate for accelerated policy change and to collaborate with policy makers to design effective policies and deliver solutions that unlock sustainable and inclusive investments. This will involve extending this engagement from capital market policies to the policies needed to transform the real economy sectors that are key to decarbonisation.

As analysis from the PRI's Inevitable Policy Response project (IPR) shows, a delayed, disruptive and disorderly policy response to climate change risks undermining the value of financial assets as well as increasing the difficulty of reducing emissions at the required rate. On the other hand, timely and ambitious action creates certainty for markets to seize the opportunities for growth and job creation that are provided by the sustainable and low-carbon industries of the future. Therefore, investors are increasingly supportive of policy action to reach net zero, and ready to contribute capital and collaborate with policy makers to design and implement policies that facilitate investment flows at scale.

The PRI is working alongside investors to engaging with policy makers to promote policy change. The PRI has built on the forecasts and analysis from the IPR project to develop roadmaps identifying policy actions that are necessary to accelerate the shift towards net zero carbon emissions across five key markets: UK, US, EU, China and Japan. For each market, the PRI is publishing a climate policy briefing providing policy recommendations for overall climate ambition and a set of key priority sectors of the economy (e.g. power, road transport, buildings, industry, and land use), which represent essential near-term steps to establish a path to net zero in line with Paris Agreement goals and in a way that is economically, technically, and politically achievable.

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to support the work of the host governments of the G7 and G20 summits in 2021. Any questions or comments can be sent to policy@unpri.org.