Driving Change through Ambition, Action and Accountability

The Inaugural Sir Roger Gifford Lecture
Mansion House, 24 October 2022
Mark Carney

My Lord Mayor, colleagues, friends.

It is an honour to join you this evening to commemorate Sir Roger Gifford, a luminary in climate finance who combined the best in thought leadership with the most determined action. When Sir Roger first took up the cause in earnest, climate change was on the periphery of finance. Few financial budgets considered the carbon budget. Net Zero was a niche. It is in no small part due to Sir Roger's inspiration and dedication that, in his words, "the actions taking place in finance today are almost unrecognisable from a few short years ago."[1]

In 2016, Sir Roger established and chaired the Green Finance Initiative to leverage the UK's financial leadership and forge innovative climate solutions. A few years later, under his guidance, the UK published its *Green Finance Strategy* which has served as the roadmap for some of the UK's most significant climate finance developments - from the promotion of mandatory climate disclosure to the establishment of the Clean Growth Fund and the Green Finance Institute.

In the short time since it was founded, the Institute, under Rhian-Mari's leadership, has made valuable progress. To drive change in the UK, it manages the Coalition for the Energy Efficiency of Buildings, bringing together hundreds of financial, property, and energy sector professionals to provide UK homeowners with affordable and accessible clean energy. To drive change globally, it has launched a Green Finance Guarantee Facility to support project preparation for climate mitigation and adaptation

[1] Sir Roger Gifford on Green Finance, Ethical Finance 2019.

infrastructure. These innovations are testaments to Sir Roger's lasting influence.

Sir Roger's foresight also laid the foundations for UK leadership during its COP presidency. Under UK leadership, the proportion of global emissions covered by country net-zero targets rose from less than one-third two years ago to 90%. Under the Glasgow Climate Pact, countries agreed to close the gap between climate ambition and action, and for the first time, nations agreed to stop deforestation and phase down unabated coal power and inefficient subsidies for fossil fuels.[2] COP26 was also the first time that the private financial sector's role in the net zero transition was fully recognised. 450 financial institutions from 45 countries made net zero commitments through sector-specific alliances as part of the Glasgow Financial Alliance for Net Zero (GFANZ), which spearheads progress across the financial sector.

I want to pause here and let that sink in; financial institutions controlling around 40% of global private financial assets are now committed to supporting the net zero transition. And many more around the world are working hard to address these issues, including a growing number in the emerging market and developing economies facing some of the biggest climate finance challenges.

Despite this enormous progress, Sir Roger would have been the first to counsel that we are far from finished.

We can best honour his legacy by continuing to drive change, particularly by building a financial sector that catalyses the net zero transition that our economy needs and future generations deserve. In this respect, we are trying to follow his approach of taking, "one small, simple idea and build[ing] it into something much more extensive."[3]

I would like to focus the balance of my remarks on how we can make that change happen to achieve real world decarbonization.

[2] https://unfccc.int/documents/310475.
[3] Sir Roger Gifford on Taking Green Finance to Next Level, Sustainable Finance: Opportunities for Brexit Britain.

How Public Policy Drives Change

Change depends on governments, business and finance charting ambitious emissions-reduction paths in parallel. They must all undertake transition planning, assess progress regularly to identify gaps, and act to close them. The financial sector can fund the necessary investments, and through its own planning, which is already underway, it can reveal in real time where the gaps are, and where public policy needs to do more.

For governments, this process begins with a clear commitment to achieve net zero emissions on pathways consistent with limiting temperature increases to 1.5 degrees. In pursuit of that overarching goal, governments should set interim targets, including to achieve a fair share of 50% decarbonisation by 2030, to incentivise and track progress.

Policymakers must, of course, develop effective policies. And they need to rely on independent oversight bodies and objective third parties to assess the adequacy of their measures. Where gaps exist (and they always do), countries should revise and resubmit policies to accelerate net zero alignment. All the while, the public and civil society will monitor progress, hold governments to account, and encourage better ways forward.

The UK offers a strong example. In 2019, it became the first major economy to enshrine a decarbonisation goal in law, and last year the UK raised its ambition to reduce emissions 78% by 2035 (from 1990 levels) on a path to net zero emissions by 2050. **This is step one.**[4]

Step two involves effective public policies to drive climate action. The UK has already reduced emissions by almost 50%. Thus far, the most effective public policies include:

- Carbon pricing and emissions trading schemes (ETS) to incentivise lower emission technologies. The UK was one of the pioneers with

[4] UK's sixth Carbon Budget

the 2005 introduction of the EU ETS, which played a key role encouraging the phaseout of coal power;

- Offtake agreements when solar and wind power were in their infancy to give confidence to developers to help scale these technologies, bringing costs down such that they now provide the cheapest utility-scale power in the world. Again, the UK was a pioneer, particularly through its Contract for Differences (CfD) Scheme, catalysing offshore wind power.[5]

- The UK's 2030 moratorium on internal combustion engines (and 2035 moratorium for hybrids) is spurring the development of electric vehicle production facilities and charging infrastructure; and

- A variety of grants, tax breaks, and funds for innovation are supporting the development and deployment of climate solutions ranging from hydrogen to direct air carbon capture.

The UK is also a leader in building the necessary financial architecture, including being explicit in the remit letters for the financial regulators to have regard to climate and net zero transition,[6,7,8] committing to make TCFD-aligned disclosures mandatory across the economy, and establishing the Transition Plan Taskforce.[9,10] Increasingly, the financial policy landscape is aligning with the UK's climate goals.

As step three, the UK Climate Change Committee (CCC), established in 2008, regularly evaluates the effectiveness of climate policies and identifies gaps, providing the independent oversight and rigour crucial to meeting net zero. Last year, although the CCC applauded the Government for setting ambitious targets and launching a new Net Zero Strategy, it made over 300 recommendations to close policy gaps, noting credible plans only exist for

[5] The scheme has meant the government is benefitting from the high current wholesale power prices. The fourth round of the CfD Scheme this year secured a record 11GW of clean energy, enough to power 12 million homes with continued downward pressure on prices - price of offshore wind this year was almost 70% less than that secured in the first allocation round, in 2015.
[6] HM Treasury, Recommendations for the Financial Policy Committee, April 2022.
[7] HM Treasury, Recommendations for the Prudential Regulation Committee, April 2022.
[8] HM Treasury, Recommendations for the Financial Conduct Authority, April 2022.
[9] HMG - Net Zero Strategy: Build Back Greener (2021)
[10] HMG - Greening Finance: A Roadmap to Sustainable Investing (2021)

around 40% of the required emissions reduction.[11] UK parliamentary committees also regularly assess progress and make new recommendations.[12] In parallel, a vigorous civil society, the competitive media, and an engaged public regularly hold authorities to account.

At the country level, change is driven by this dynamic: a clear objective, ambitious interim targets, effective policies to achieve them, and robust, real-time accountability to improve policies.

How Finance Catalyses, Enables and Drives Change

Now, let me turn to how finance can help drive the change the world needs.

To begin, let me be clear that finance will not drive the net-zero transition on its own. Finance is an enabler, a catalyst that can speed what governments and companies initiate. And the scale of the net-zero commitments in the financial sector is now so large that, if the governments truly want a sustainable, resilient, and fair economy, the necessary finance will be there.

With the impacts of climate change increasingly evident, finance is assessing and responding to climate-related risks. But finance is about much more than risk management; it is fundamentally about enabling solutions to the challenges we face. Indeed, the City is now aggressively pursuing the enormous opportunities associated with an orderly net zero transition.

The **first step** for financial institutions mirrors that for governments: making a high ambition science-based net zero commitment. By their own initiative, GFANZ members have committed to achieving net zero (financed) emissions (of their borrowers and investment assets) by 2050 to support the global transition to limit warming to 1.5 degrees Celsius (with low or no overshoot). To that end, GFANZ members are setting interim science-based targets (for 2025 or 2030) reflecting maximum effort toward a fair share of the 50% global reduction in GHG emissions needed by 2030.

[11] Climate Change Committee – 2022 Progress Report to Parliament (2022)
[12] Lords Economic Affairs Committee - Investing in Energy: price, security and net zero transition (2022).

Depending on the alliance, there are additional target setting requirements. For example, banks will set targets for all, or a substantial majority, of nine carbon-intensive sectors.[13] In general, the first targets are due within 12-18 months of joining the alliance meaning that COP27 marks the first weigh station for climate progress by GFANZ members.[14]

The **second step** is for financial institutions to develop comprehensive net zero transition plans.

To build a common foundation, GFANZ has spent this year developing pan-sectoral guidance on net-zero transition planning.[15] This huge exercise involved hundreds of finance professionals from across the alliances and included direct engagement with 200 entities and 1,000 comments, with around half coming from financial institutions. The final version of GFANZ's guidance will be released for COP27.

[13] Net Zero Banking Alliance (NZBA). Within 36 months, they will set targets for all, or a substantial majority of nine carbon-intensive sectors: agriculture; aluminium; cement; coal; commercial and residential real estate; iron and steel; oil and gas; power generation; and transport.

[14] NZBA members will also set intermediate 2030 targets within 18 months of joining the alliance. These targets will prioritise those sectors that represent the banks' largest GHG emissions and GHG intensities;
Members of the Net Zero Asset Owners Alliance (NZAOA) will set portfolio-level intermediate targets within 12 months of joining and report on progress toward those targets annually. By December 2023, NZAOA will carry out and disclose portfolio baseline assessment, develop climate strategies and action plans, and disclose their first quantitative report.
Members of the Net Zero Asset Managers initiative (NZAM) will set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner. Members will review their interim targets at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.
Members of the Net Zero Insurance Alliance (NZIA) will make their first individual intermediate targets public within six (6) months of the publication of the NZIA target-setting protocol, or within six (6) months of joining the NZIA if such protocol already exists when they join the NZIA. Members will publicly report progress against intermediate targets on an annual basis;
Members of the Net Zero Financial Service Providers Alliance will set interim 2025 targets within 12 months of joining the alliance. Members will review and update targets every five years and report on progress against their targets annually;
Members of the Net Zero Investment Consultants Initiative will - with respect to their investment advisory services - integrate advice on net zero alignment into all of their investment consulting services within two years of committing to join the initiative. With respect to their fully discretionary services, members will align with the Net Zero Asset Managers Initiative within two years of committing to the initiative;
Members of the Paris Aligned Asset Owners group will disclose interim 2030 targets and an "Investor Climate Action Plan" within 12 months of joining the alliance. Members will review and update interim targets every five years.

[15] GFANZ, Recommendations and Guidance on Financial Institution Net-Zero Transition Plans, 2022

Net zero transition plans are strategic plans, which address every aspect of a company's operations. GFANZ's guidance identifies the five themes of credible financial institution transition plans:

- governance (and compensation)
- objectives and priority setting,
- implementation strategy,
- engagement strategy (with households, companies and policymakers), and
- metrics and targets.

These themes (and the underlying ten components) create a common framework for financial institutions to set their strategies, take actions, identify the metrics to track progress as well as providing the accountability mechanisms needed to turn net-zero commitments into reality.

To that end, GFANZ identifies the four key strategies for transition finance.

The first is to support **climate solutions** - the technologies and products that will enable the economy to decarbonize. This strategy encourages the expansion of low-emitting technologies and services, including nature-based solutions, to replace high-emitting activities, remove greenhouse gases from the atmosphere, and otherwise accelerate the net-zero transition.

The second strategy is to **finance business models already aligned** with a science-based pathway to achieve net zero.

Some would stop at these first two approaches, but crucially, the GFANZ framework makes clear that transition finance is about driving decarbonisation in the real economy, not retreating to the false comfort of financial portfolio decarbonisation. The world cannot divest our way to net zero. We must invest and grow.

That requires the third strategy of going where the emissions are and **backing those companies with credible transition plans** to converge

with a science-based decarbonisation pathway consistent with GFANZ's financial institution net-zero transition plan report. This strategy supports firms that have robust net-zero transition plans, set targets aligned to sectoral pathways, and are beginning to implement changes in their business to deliver on their net-zero targets.

And finally, climate transition means backing **the managed phaseout of those high-emitting assets that will be stranded** in the transition to net zero. Managed phaseout facilitates emissions reduction while managing critical issues of service continuity and local economic impacts.

To help financial institutions determine which companies to back and which to avoid, GFANZ has developed common expectations for the transition plans of real economy companies.[16] Financial institutions can use this guidance to engage portfolio companies and clients by raising critical questions on transition strategies, interim targets, board oversight, and incentives. Earlier this year, GFANZ issued high-level guidance on how financial institutions can use sectoral pathways to assess company ambition.[17] And in the new year, GFANZ will release additional guidance on third-party pathways in the highest emitting sectors of oil and gas, aviation, and steel.

The <u>third step</u> in how finance can drive change is growing transition assets across these four strategies.

This requires the **fourth step: transparency.** Just as governments need oversight bodies to assess the adequacy of their policies, the financial system needs an accountability mechanism to monitor how well the portfolios of financial institutions align with their targets.

That is why all of GFANZ's work - from our global and net zero transition planning framework to our regional tools and guidance - will be underpinned by a new **Net-Zero Data Public Utility**. Once operational next year, the data utility will provide consistent, accurate, openly available

[16] GFANZ, Expectations for Real-Economy Transition Plans, 2022.
[17] GFANZ, Guidance on Use of Sectoral Pathways for Financial Institutions, 2022.

climate transition-related information to allow financial institutions, regulators, civil society, and the general public to track climate progress.

To move from concept to reality, GFANZ is supporting the work of the Climate Data Steering Committee (CDSC) in making recommendations for the utility's design and development. The CDSC intend that the NZDPU will address the data gaps, inconsistencies, and barriers to access that slow climate action. It will provide accurate, trusted, and verifiable climate transition-related data, including financed emissions, targets and performance against targets. This data will be openly available in a single place for the first time.

A pilot will be up and running by next fall, with support from the largest financial data providers (including Bloomberg, LSEG, Moody's, Morningstar, MSCI and S&P), governments (including the European Commission, France, Singapore, Switzerland, and the UK), and international organizations (including the UN, OECD, FSB, IEA, IOSCO, ISSB, and NGFS). The CDSC's intention is that the NZDPU will ultimately be housed in the United Nations Framework Convention on Climate Change (UNFCCC).

Identifying, Understanding and Closing the Gap

The Net Zero Public Data Utility will help drive change by providing a powerful feedback mechanism for financial institutions, companies, and governments.

Stakeholders will be able to track corporates' and financial institutions' climate progress, including gaps between their metrics and targets (using SBTi, IEA, and other third-party pathways as guides). By comparing a financial institution with its peers, stakeholders can assess the extent to which that gap is idiosyncratic—due to the institution itself—or general—the product of broader factors beyond the institution's control, such as inadequate country climate policies or enabling environments. Climate laggards can be called out, and strong performers rewarded. In this regard, the scale and coverage of GFANZ is an enormous advantage.

With 40% of private financial assets and substantially higher proportions in many sectors and geographies, robust peer comparison will be possible.

In short, we must both mind the gap and understand why it exists. To the extent it is due to inadequate country climate policies (and we know the gap between the stated policies of countries and the 1.5-degree objective is equivalent to a full degree Celsius of additional warming), the GFANZ framework will provide a powerful, real-time feedback mechanism to governments and civil society on what more needs to be done.

Progress Thus Far

It is early days but how are we doing?

GFANZ has added 100 members over the past year such that 550 major financial institutions from 50 countries are now committed to supporting the transition consistent with limiting temperature increases to 1.5 degrees.[18] We have also established regional networks in Asia Pacific and in Africa to help ensure that our transition to a net-zero financial system takes into account different needs and brings benefits globally.

GFANZ members are making significant progress.

At present nearly 40% of the $42tn of assets managed by those NZAM firms whose commitments are due are now committed to be managed in line with achieving net zero by 2050.[19] Expect that proportion to grow, while performance against these commitments can be tracked.

All 160 founding GFANZ members were required to set interim targets by COP27. Already, over 250 science-based interim targets have been produced, with over 90 additional targets under review and on track to be confirmed by COP27. All of these targets are consistent with the commitments and timelines of when members joined GFANZ and their respective alliances.

[18] https://www.gfanzero.com/.
[19] Total assets of NZAM members have grown to $68 trillion, the balance of initial target setting will occur within 12 months of the firm joining NZAM.

It is easy to forget that at the start of last year, not a single bank had set a science-based 2030 target including their financed emissions. In April 2021, 43 founding members of NZBA had committed to do so by COP27.[20] Today 53 banks have already done so, using science based 1.5 degrees scenarios with no or low overshoot, and we expect several more by COP27.

This substantial progress is a clear sign that the hard work of implementing commitments is well underway.

What does that tell us?

The process does not end here. Finance is no longer a mirror that reflects a world that's not doing enough. It's becoming a window through which ambitious climate action can deliver the sustainable future that people all over the world are demanding.

First, governments must work harder to create the right policy environments.

GFANZ's 2021 Call to Action outlined a series of policy recommendations for G20 governments to help build a net-zero economy and meet the goals of the Paris Agreement. Action by financial institutions, while critical, is no substitute for action by government and certain responsibilities cannot be shifted to finance. We are advocating wider reforms to align the financial system to net zero while ensuring an orderly and just transition. Next week, GFANZ will release its *Call to Action: One Year On* to outline the progress authorities have made against the key policy levers and offers specific recommendations to embed net-zero transition planning in global regulation.

Based on real-world experience financing the transition, GFANZ is calling on all G20 governments to:

[20] NZBA has grown from 43 founding members to 119 members.

- Carry out their own transition planning against net-zero targets underpinned by an economy-wide transition plan and sector-specific pathways.
- Align the international financial architecture with net-zero delivery. For example, ensuring that regulatory approaches, including micro- and macro-prudential regulation, allow for the financial system to play a role in supporting orderly real-economy transition.
- Commit to price the externalities of carbon emissions – directly or indirectly – and to take steps now to ensure that carbon markets can play a meaningful role in financing the net zero transition this decade.
- Create incentives, but also help address through public-private collaboration, the barriers that exist to transition households, businesses, and communities to a net-zero future, while protecting natural capital.
- Mobilise capital flows to emerging markets and developing economies. For example, ensuring that MDBs set their own net-zero targets and develop approaches that will allow them to contribute more risk capital, more flexibly, to crowd in private finance at scale.

Second, the energy transition needs to focus on growing clean supply rapidly. Today, the energy that keeps our lights on, heats our homes, transports our goods, and fuels their production accounts for around three quarters of global carbon emissions. These emissions must fall rapidly to have any chance of keeping global average temperatures below 1.5 degrees.

This will be hugely challenging. Fossil fuels power over 60% of the world's electricity and 80% of the world's energy use.[21] We can't simply decree the most complex energy transition in history by fiat. Transition means

[21] Our World in Data, https://ourworldindata.org/electricity-mix

transition, and this requires not just a decline in fossil fuels but also a massive acceleration in clean energy investment to replace them.

According to the IEA, the pace of annual clean energy investment needs to rise more than three-fold this decade in order to get the world on track for 1.5 degrees.[22]

This means that by the end of this decade, we need to scale clean energy investment such that for every dollar maintaining necessary fossil fuel energy capacity, at least four are invested in the clean energy infrastructure.[23] Today that ratio is around one to one.

This underscores that the biggest threat to achieving 1.5 degrees will be the speed with which we can increase clean energy investment. Absent this ramp up, the world won't be able to transition away from fossil fuels.

GFANZ is unpacking the energy investment implications of a 1.5-aligned transition to ensure that private finance flows to high-impact opportunities.

Third, we must focus on directing capital to emerging markets and developing economies, where - by the end of the decade - an extra $1 trillion in annual clean energy investment will be required to achieve net zero.[24]

In partnership with governments, multilateral development banks, GFANZ is working to leverage Country Platforms and Just Energy Transition Partnerships (JETPs) to channel capital to major emerging economies, including Indonesia, Vietnam and Egypt.

To unlock private capital at scale, GFANZ is calling on donor governments to pool, blend, and deploy risk capital at greater scale, and more flexibly.

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[22] IEA, 2021 World Energy Outlook

[23] BloombergNEF, Investment Requirements of a Low-Carbon World: Energy Supply Investment Ratios, https://about.bnef.com/blog/investment-requirements-of-a-low-carbon-world-energy-supply-investmentratios/.

[24] International Energy Agency, Financing clean energy transitions in emerging markets and developing economies,https://www.iea.org/reports/financing-clean-energy-transitions-in-emerging-and-developingeconomies. The IEA's analysis on emerging markets and developing economies excludes China.

G20 governments should build new frameworks for transition finance that recognize the importance of the managed phaseout of fossil fuels and associated carbon credits, which can provide financial incentives to retire high-emitting assets ahead of schedule. Strengthening infrastructure for voluntary carbon markets can help catalyse managed phaseout in emerging markets, a critical component of the global energy transition.

Conclusion

To draw on the capacity of private finance, GFANZ has made the climate commitments on the scale the world needs, we are developing the tools needed to operationalise those commitments, have created the governance to foster private sector leadership, and are developing an open data utility to support accountability and accelerate change.

This is how finance helps solve climate change. Not by just saying no. Not by walking away. Not by acting unilaterally. Rather, by working in concert with business, government and civil society to catalyse, in Sir Roger's words, "the largest social and economic transformation the world has ever seen."[25]

Thank you.

[25] Sir Roger Gifford on Taking Green Finance to the Next Level, Sustainable Finance: Opportunities for Brexit Britain.