

Lecture à L'INSTITUT DE FRANCE, Académie des Sciences Morales et Politiques

Réflexions sur la bonne gouvernance environnementale mondiale

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I. Introduction

M. le Chancelier, M. le Président, M. le Secrétaire Perpétuel, les académiciens, mesdames et messieurs.

It is a tremendous honour to address *Académie des Sciences Morales et Politiques* on the subject of global governance of the environment.

Today I intend to examine the synergies and tensions between binding commitments and voluntary objectives, between a global architecture and national sovereignty, and between public policies and private action. I will assess the extent to which a coherent global governance framework is emerging to address the urgent, existential challenge of climate change.

In my review, I will stress five main points:

- 1) Our purpose must be non-negotiable. Net zero is not a slogan, it is an imperative of climate physics. We cannot stabilise the climate at any temperature unless net zero is achieved. Further, the Paris objective of 'well less than 2 degrees' is not an arbitrary figure. Science and increasingly our lived experience demonstrate the catastrophic impacts of further warming.
- 2) We cannot achieve net zero by fiat or through binding agreements. The net zero transition will involve wholesale transformations of our economies with immense consequences for our citizens. National sovereignty is essential to develop legitimate strategies to mitigate climate change and to manage the just transitions which must accompany it.
- 3) All strategies—those of governments, international financial institutions, companies, and financial institutions—should be measured regularly against their objectives to

¹ I would like to thank my colleagues—Alice Carr, Ronan Hodge, Maia Johnson, and Ben Weismann—for their remarkable assistance with this lecture.

ensure public accountability and to encourage consistent adaptation and improvement.

- 4) With the right governance, including sufficient transparency, a virtuous cycle can be created. In this regard, climate policy has much to learn from monetary policy. The more credible and predictable these policies are, the more the economy will adjust in anticipation and the smoother the transition will be.
- 5) A net-zero financial system is essential, but it is not a panacea. Finance looks forward, and with the right incentives, it will bring the future to the present, smoothing adjustment and driving growth. However, finance cannot do the job on its own. Finance is an enabler, a catalyst that can speed the transition. But catalysts still need the underlying components, which for climate are the power of people demanding change, the policies of governments, and the energy and innovation of entrepreneurs, businesses, municipalities and civil society.

Climate change is a global problem that requires many local solutions. This creates a fundamental tension analogous to the ‘impossible trinity of globalisation’ described by Dani Rodrik.² Rodrik argues that a deep mistrust in globalisation arises from the conflicts between economic integration, democracy and sovereignty. Common rules and standards are required for trade in goods, services and capital, but those rules cede, or at best pool, sovereignty. To maintain legitimacy, the process of agreeing those standards must be rooted in democratic accountability.

In this respect, climate governance can learn something from the field of financial reform. In an open system, financial instability spills readily across borders. In my experience, the Financial Stability Board has resolved Rodrik’s trilemma through an innovative process which combines a common objective, the shared development of solutions by heads of national (in the case of EU supranational) authorities, and peer pressure to support implementation. The FSB is not a treaty organisation—no member is bound by its decisions. However, the building of consensus instils ownership and leads to timely implementation. Regular assessments and feedback from financial markets further incentivise compliance.

² [Rodrik](#), The Trilemma, 2019

We need such a combination of shared objectives, formal authority, an informal iterative process, and transparency to create a virtuous circle of climate action. This dynamic must act at all levels of governance from the global to the financial.

The Imperative for Action

Our planet's average temperature is already almost 1.2° Celsius warmer than pre-industrial levels. The last eight years have been the warmest on record.³ The impacts on our planet's finely tuned ecosystems are escalating. Destructive climatic events—hurricanes, wildfires, droughts and flash flooding—are multiplying.⁴ These changes are not only eliminating individual species but also destroying entire habitats such that the population of mammals, birds and reptiles has fallen 70% since I was born.⁵ What had been biblical is now commonplace.

Scientists have concluded that the pace of global warming is roughly proportional to the amount of carbon dioxide in the atmosphere. That means there is a carbon budget, the remaining amount of carbon dioxide and other greenhouse gases that can be released before our climate becomes even more volatile and destructive. Based on the most recent IPCC findings, the global carbon budget of 380 Gigatonnes to limit temperature rise to 1.5C will be exhausted within a decade at our current rate of emissions. We have left things very late.^{6 7}

II. Climate Change is a Challenge of Human Nature and Global Governance

This tardiness—this irresponsibility—is the product of three tragedies born of the nature of humanity and the markets we have created.

First, market failures lead to the tragedy of the commons, which arises when individuals acting in their own self-interest, undermine the common good by depleting a shared resource. These externalities led to the deprivation of common grazing lands in England and

³ [WMO](#), Provisional State of the Climate 2022. Global mean temperature in 2022 is currently estimated to be 1.15 ± 0.13 °C above the 1850-1900 average. The eight years 2015 to 2022 are likely to be the eight warmest years on record.

⁴ IPCC, Summary for Policymakers. In: *Climate Change 2021: The Physical Science Basis*. The average sea level has risen faster since 1900 than over any preceding century in at least 3000 years

⁵ [World Wildlife Fund](#), 2022

⁶ [IPCC](#) (2021) Sixth Assessment Report on the physical science basis of climate change (Table SPM.2)

⁷ [Global Carbon Project](#) (2022). The remaining carbon budget for a 50% likelihood to limit global warming to 1.5°C, 1.7°C and 2°C has respectively reduced to 380 GtCO₂ (9 years at 2022 emissions levels), 730 GtCO₂ (18 years) and 1230 GtCO₂ (30 years).

Ireland in the 19th century and the decimation of the Grand Banks Fishery off Canada in the 1990s. They are currently destroying the Earth's rainforests and imperilling its biodiversity.

The common solution to such negative externalities is to put a price on the activity or to assign property rights (which, under the Coase theorem, accomplishes the same end).

Second, human frailties create a tragedy of the horizon.⁸ We are irrationally impatient, and the catastrophic impacts of climate change will fall largely on future generations. The current generation with its horizons fixated on the current news, business and political cycles, has few direct incentives to solve the issue, even though the sooner we act, the less costly it will be. For an issue that can only be solved in the present, we must value the future.

Solutions to the tragedy of the horizon bring the future forward, including through scenario analysis, stress testing and transition planning. They all require a new governance.

Third, in a drift from the moral sentiments (of Adam Smith) to the market sentiments (of Milton Friedman), decisions are made according to utilitarian calculations. Too often, market values are taken to represent total value, and if a good or activity, such as the environment, is not in the market, it is not valued. After all, markets rate Amazon as one of the world's most valuable companies, but the value of the Amazon region appears on no ledger until it is stripped of its foliage and converted into farmland. This flattening of values encourages trade-offs of growth today and crisis tomorrow, of economics and health, and of planet and profit.

The Nobel economist, Elinor Ostrom, documented how communities can cooperate to manage a scarce resource through cooperation and prudent regulation.⁹ This is what UN climate change summits, the COPs, seek to accomplish. By bringing companies, communities and countries together to manage our global ecosystem by developing a consensus for sustainability, the dynamism of the private sector can be unleashed to put value in service of values. When society sets a clear goal, it becomes profitable to be part of the solution, and costly to remain part of the problem.

III. **The Response from Rio to Copenhagen**

⁸ Carney, Breaking the tragedy of the horizon - climate change and financial stability, [Bank of England](#) (2015)

⁹ Ostrom, Governing the Commons - The Evolution of Institutions for Collective Action (1990)

Beginning with the Rio Earth Summit in 1992, the strategy to address climate change was to pursue a collective, binding agreement that would commit countries to act and impose penalties on those that did not.

This culminated in the Kyoto Protocol, signed in 1997, which bound 37 industrialised countries to specific emission reductions. Failure to meet these targets would bring penalties of further reduction requirements and suspension from trading carbon emissions. Kyoto was a textbook solution but an utter failure.

It soon fell apart. The U.S. failed to ratify the treaty, and Canada, unable to meet its commitments, dropped out in 2011. Despite some success with compliance markets, cross border markets in carbon credits never took off. Countries proved reluctant to use large sums of taxpayers' money to pay for (more efficient) reductions in foreign countries. Attempts to revive Kyoto at the COP15 summit in Copenhagen in 2009 failed.

More fundamentally, the remaining parties to the agreement only accounted for one quarter of global emissions. So, while their unambitious emissions reduction target of 4% in the two decades from 1990 was easily surpassed, aggregate global emissions skyrocketed nearly 60% between 1990 and 2013.¹⁰ On the eve of the Paris COP, it was estimated that the world was on track for warming of over 3.5 degrees by the end of the century.¹¹

Global governance needed a radical new approach.

IV. The Genius of Paris

In Paris in 2015, governments finally summoned the will to begin seriously addressing climate change pledging to:

Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.¹²

The climate agreement had a clear purpose, whose prominence has only increased over time.

¹⁰ Shishlov, R. Morel, Valentin Bellassen. *Compliance of the Parties to the Kyoto Protocol in the first commitment period*. [Climate Policy](#), 2016

¹¹ [Climate Action Tracker \(2021\)](#)

¹² [UNFCCC](#), Paris Agreement (2015)

The genius of the Paris Agreement is how it balances this clear global goal with national sovereignty over the policies to achieve it and includes mechanisms to raise ambition over time.

To simplify, under the Paris Agreement, countries develop voluntary emissions reduction strategies known as ‘nationally determined contributions (NDCs).’ An assessment of the sum of these plans captures the extent to which the world is converging on its goal. All countries are encouraged to update their efforts regularly through a combination of shared responsibility, peer pressure, and stakeholder activism.

The Paris Agreement encourages governments to be much more ambitious than they had been when facing penalties for failure. And crucially, by retaining sovereignty, it reinforces the legitimacy of the domestic policies necessary to cut emissions and transform economies.

Transparency over country pledges and NDCs permit regular assessments of the world’s ability to ‘keep 1.5 alive.’ This creates a healthy tension to upgrade ambitious pledges. To that end, Article 14 of the Paris Accord established a Global Stocktake. The first stocktake was launched at COP26 in Glasgow and will be completed at COP28 in the UAE later this year.

Paris also brought in non-state actors, including state and local governments, and critically, the private sector. It was agreed that mobilizing stronger and more ambitious climate action by all Parties and non-Party stakeholders was urgently required to achieve the Paris goals.¹³

¹⁴

Crucially, the Paris Agreement called for “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” (Article 2.1c). This acknowledges that the world needs to transform global finance, so that all public and private money is aligned with the Paris goals.

At the Paris COP, under the auspices of the FSB, the Task Force on Climate-related Financial Disclosures (TCFD) was launched. Two years later, the Banque de France, along with seven other central banks and supervisors including the Bank of England, established the Network for Greening the Financial System (NGFS) to promote collaboration among financial authorities on climate change and related environmental challenges.

¹³ Since adoption of the Paris Agreement, global climate action has been encouraged and facilitated under the banner of the Marrakech Partnership for Global Climate Action, which was agreed in Morocco at COP 22 and acknowledged at subsequent Conferences of the Parties.

¹⁴ UNFCCC, [History of Non-Party Stakeholder Engagement](#)

To simplify, at the global level, the governance of climate is:

- A clear objective (limit warming to well less than 2 degrees);
- National sovereignty in setting climate pathways and policies to achieve them;
- Regular assessment of the collective adequacy of those policies; and
- An iterative process which encourages greater efforts to narrow and ultimately close the gap between ambition and action.

As we shall see, this governance structure is being repeated at the national level and within the financial sector. All can be mutually reinforcing.

But first, I will review recent developments to demonstrate the power of this governance model in action.

V. **Standing on the Shoulders of Giants: The Glasgow Climate Pact**

All the innovations of Paris have been built upon since 2015.

First, the core objective—limiting temperature increases to less than 2 degrees, with a goal of 1.5 degrees—has been reinforced through greater emphasis on the latter.

Second, the remorseless logic of climate physics—the need to achieve net zero emissions within a finite carbon budget—has entered the mainstream. COP26 achieved near-universal country commitments to net zero. These country commitments provide a ‘North Star’ for companies, the financial sector and other non-state actors spurring a wave of commitment setting.¹⁵ The amorphous objective of sustainability has been turned into a target that can be measured and managed.

Third, country ambition has steadily increased, building credibility of climate action. The UN estimates that if all current net-zero targets were achieved global warming would be limited to 1.8°C.¹⁶

Fourth, the COP process began incorporating additional collective actions in specific areas:¹⁷

¹⁵ In the two years prior to COP26, more than 1,000 companies in over 50 sectors in 60 countries committed to 1.5°C-aligned Science-based Targets (SBTi) targets through the [Business Ambition for 1.5°C campaign](#).

¹⁶ UN Environmental Programme, [Emissions Gap Report](#) (2022)

¹⁷ [COP26 Presidency Outcomes](#)

- 65 countries committed to phase out coal, including 48 countries in the Powering Past Coal Alliance (PPCA).
- 145 countries committed to halt and reverse forest loss and land degradation by 2030 in the Glasgow Leaders' Declaration on Forests and Land Use;¹⁸ and
- Over 150 countries signed The Global Methane Pledge to reduce methane emissions 30% by 2030.

These 'side deals'—while imperfect and not comprehensive—provide a foundation on which to build.

The collective impact has been impressive—if still far from sufficient. Before Paris, climate policies were consistent with a trajectory for 3.6C of warming.¹⁹ New NDCs since Paris have reduced expected 2030 emissions by around 6 Gt, equivalent to 15% of current annual emissions or the annual emissions of the United States.²⁰ By Glasgow, NDCs were consistent with 2.4 degrees. While there is still a gap with the Paris goals and time is running out, the dynamics driven by global governance is moving the world in the right direction.

Given the scale of investment to transition the global economy to net zero, private finance must play a significant role. As one example, the IEA estimates that \$3tn of the \$4.2tn annual global clean energy-related investment needed by 2030 must come from the private sector, “mobilised by public policies that create incentives, set appropriate regulatory frameworks and send market signals.”^{21,22}

VI. Mainstreaming Climate Finance

For finance to help unlock climate action it must develop an unrelenting focus on all aspects of the net zero transition. This ranges from the foundations of climate disclosure, risk management, and transition planning to the development of high integrity carbon markets and country energy transition platforms.

¹⁸ 28 countries launched a roadmap to protect forests through a global shift to sustainable development and trade of agricultural commodities. 12 developed countries pledged to provide \$12 billion of public climate finance from 2021-2025 to the new Global Forest Finance Pledge.

¹⁹ [Climate Action Tracker \(2021\)](#)

²⁰ [COP26 Presidency Outcomes](#)

²¹ Assessing progress in provision and mobilization of support is also part of the global stock take under the Agreement.

²² IEA, [World Energy Outlook 2022](#)

The Industrial Revolution was made possible by a financial revolution that transformed the nature of private banking, the focus of central banking, and scope of the international monetary system. The Net Zero Revolution will require changes at least as bold.

As with the industrial revolution the sustainable financial revolution gathered steam in Glasgow, with a series of breakthroughs that have begun to turn the spirit of 2.1c of the Paris Agreement into reality.

A goal for COP26 was to build a financial system in which every decision takes climate change into account through reforms to transform the information, tools, and markets at the heart of finance.²³

The foundation is clear, comparable, and decision-useful climate disclosure so that financial institutions can manage risks and seize opportunities associated with the climate transition.

To this end, the TCFD was launched as a concept in Paris, and developed as a set of voluntary standards by the Hamburg G20 in 2017.

However, despite being adopted by thousands of organisations, there are still gaps in coverage and implementation of the recommendations. The voluntary approach has gone about as far as it can go.

Therefore, a crucial development in Glasgow was the launch of the IFRS Foundation's International Sustainability Standards Board (ISSB) to deliver a global baseline of sustainability-related disclosure standards built on the TCFD. The ISSB's new draft climate disclosure rules will ensure global investors in up to 120 countries will have access to the reliable, comparable and comprehensive data they need. The ISSB's work is already backed by the G7, the G20, IOSCO, and the FSB.²⁴

Building on this foundation and led by the NGFS, central banks, supervisors and regulators have been increasingly focused on ensuring that financial institutions manage their climate-related financial risks.

Today, over 120 central banks and supervisors are members of the NGFS. They are embedding climate risk assessment and management into central banking and supervisory activities, including through the application of scenario analysis to explore both micro-prudential and system-wide risks.

²³ COP26 Private Finance Hub, [Building a Private Finance System for Net Zero](#), 2020

²⁴ [IFRS](#)

This work has spurred the major financial standard setters –BCBS, IAIS, IOSCO and the FSB—to integrate climate change into their core activities. And this systemic approach is being reinforced by the IMF’s regular assessment of climate risks in its Article IV and FSAP country reviews.

This essential financial plumbing also helps investors identify and measure the opportunities in the transition to net zero. Because, given that climate change is an existential risk, it follows that those companies that are part of the solution will create enormous value.

Indeed, there is a growing realisation that addressing climate change is one of the greatest commercial opportunities of our time. As a consequence, finance on the scale required is now in prospect. As part of the Glasgow Financial Alliance for Net Zero, or GFANZ, over 550 major financial institutions from 50 countries are committing to manage the financed emissions on their balance sheets, totalling over \$150 trillion of assets, in line with a 1.5-degree net zero transition. That’s over 40% of private financial assets globally. GFANZ members use science-based guidelines across all emissions scopes and set interim targets that represent a fair share of the 50% decarbonization required by 2030.

The hard work of implementation is well under way. For example, at the start of 2021, not a single bank had set a science-based sectoral 2030 target that included their financed emissions. By COP 27, 61 banks had done so, and across GFANZ, members had set over 310 science-based interim targets, almost twice the number due.²⁵

To be clear, the net-zero transition will not mean flipping a green switch or investing only in companies that are already green. The world cannot divest its way to net zero. Transition means transition. Financial institutions must go to where the emissions are and back companies—including in heavy-emitting sectors like steel, cement, and transportation—that have credible plans to transform their businesses for a net zero world.

Just as the TCFD did for climate-related financial disclosure, GFANZ is doing for the building blocks of transition finance. At COP27 in Egypt, GFANZ released the guidance and frameworks that are essential for a net-zero financial system, including common expectations for the transition plans of both financial institution and real economy companies, guidance on the use of forward-looking portfolio alignment, and a framework for phasing out stranded assets.

²⁵ GFANZ, [Progress Report](#) (2022)

Just as governments need oversight bodies to assess the adequacy of their policies, financial institutions need an accountability mechanism to monitor how well their portfolios align with their targets.

To address this global data challenge, President Macron and UN Special Envoy for Climate Ambition and Solutions, and my GFANZ co-chair Michael Bloomberg created the Climate Data Steering Committee (CDSC).²⁶

The Committee includes all the relevant international organizations—the UN, OECD, IEA, FSB and IMF—as well as government representatives from developed and developing countries, the leading financial data service providers and non-profit climate data organizations.

The Committee has proposed a Net-Zero Data Public Utility (NZDPU), an open, free, and centralized data repository that will allow all stakeholders to access easily key climate transition-related data, commitments, as well as the progress of businesses and financial institutions. The first pilot will be operational later this year.

VIII. Transforming the International Financial System

The world cannot solve climate change anywhere without solving it everywhere, especially given that EMDEs now account for two-thirds of annual emissions.²⁷

Yet the finance available for EMDEs to address climate has been woefully inadequate. By the end of this decade, the world must mobilise an additional \$1 trillion in annual financing of clean energy transitions in emerging and developing countries other than China.²⁸

Adaptation and resilience needs will be at least as large.²⁹ In comparison, current cross border public finance for climate is less than \$100bn/year, with about half coming from MDBs.³⁰

²⁶ See [Net-Zero Data Public Utility](#)

²⁷ [IEA](#), Financing Clean Energy Transitions in EMDEs, 2021. Includes China which accounts for a third of total emissions.

²⁸ Reflects clean energy investment need only. In reality, the investment need required will be much bigger and include other types of climate finance. Source: [Financing clean energy transitions in emerging and developing economies](#), IEA, 2021. Reflects clean energy investment need that will be required by the end of the decade within EMDEs if the world is to meet net zero by 2050. Estimates exclude China.

²⁹ Independent High-Level Expert Group on Climate Finance (IHLEG), [Finance for Climate Action: scaling up investment for climate and development](#), Nov 2022.

³⁰ For comparison, MDBs provided \$50.7 billion of climate finance to EMDCs in 2021, of which \$33.1 billion was for mitigation finance. Joint MDB Working Group, 2021 Joint Report on Multilateral Development Banks' Climate Finance, October 2022.

To achieve the necessary scale, scarce public finance must mobilise significant private finance. This will require updates of mandates, governance, and financing approaches of the International Financial Institutions (IFIs)—what the COP27 Implementation Plan calls “a transformation of the financial system.”³¹

This transformation starts with recognising that addressing climate change is inextricably linked to the core missions of MDBs to reduce poverty and promote development.

Aligning MDB lending with the transition, although essential, will not be sufficient. MDBs must also concentrate on bearing the risks the private sector will not, including long-standing barriers such as currency risk, political risk, and data deficiencies. These risks often exceed the regulatory and fiduciary limits of private financial institutions and can drive up the cost of capital to unsustainable levels even for straightforward projects.

The world is caught in a *Paradox of Prudence* in which individual financial institutions, including IFIs, are being micro-prudentially sound but macro-prudentially foolish by minimising project specific risks while fostering an existential risk. It bears remembering that climate change is the ultimate systemic risk from which no institutions, including IFIs, can diversify. There will be no AAA ratings if there is no planet.

The only way to solve this Tragedy of the Horizon is to bring forward action using guarantees, risk insurance, blended finance structures. Greater use of these tools would mean greater risk-taking for MDBs, but the whole point of publicly funded development banks is to take risks that the private sector will not.

If existing governance arrangements do not permit MDBs to bear these risks, either they must be changed, or a new public loss-absorbing vehicle must be created to backstop risks and leverage scarce public with immense private capital.

Whether scaling existing facilities or creating new ones, a handy rule of thumb is to concentrate on those initiatives that have the prospect of catalysing at least \$100 bn per year in investment to EMDEs.³² We will not save our planet with pilots, and we will not get to net zero in a niche.

A sense of the possible is provided by new Country Platforms that connect private and public finance with NDCs that scale up renewable power and the phase out coal generation. These coordinated approaches bring together more effective country climate policies,

³¹ See UNFCCC Parties, [COP27 Implementation Plan](#), Nov 2022.

³² Gates, *How To Avoid A Climate Disaster* (2021)

improved enabling environments, and faster project development. The most ambitious are the Indonesian and Vietnamese Just Energy Transition Partnerships (JETPs) that GFANZ is supporting and funding with donor governments and multilateral development banks. These JETPs are targeting emissions reductions of 20-30% relative to baseline by 2030.

Voluntary carbon markets can provide a major sources of cross border capital flows, as most companies making net-zero commitments are in advanced economies and the vast majority of emission reduction projects will be in emerging and developing economies. Voluntary carbon markets also have the potential to create significant co-benefits for biodiversity and indigenous peoples. And they could play an important role in helping to retire stranded assets and preventing new coal generation.

Achieving scale requires the highest levels of both supply integrity and demand integrity. There has been immense progress in developing these frameworks through the Integrity Council for the Voluntary Carbon Market (IC-VCM) and Voluntary Carbon Markets Integrity Initiative (VCMI). These approaches now need to be mapped into pragmatic implementation and integrated with science-based targets that recognise the time value of carbon. The UAE-hosted COP28 is an opportunity to grasp the nettle, finalise these efforts, so that voluntary carbon markets can support the managed phaseout of high-emitting assets, the deployment of clean energy, the growth of nature, and the preservation of biodiversity.

Huge momentum for IFI reform is being fed by the UAE Presidency, the new G20 Expert review, the upcoming leadership change at the World Bank, and the Bridgetown Initiative, spearheaded by Barbadian Prime Minister Mia Mottley. The June Summit for a New Global Financial Pact announced by President Macron represents a crucial opportunity for progress.

IX. How Global Governance Drives Climate Action

Before concluding let me outline how this emerging global governance drives climate action across governments, business and finance.

For governments, climate action begins with clear commitments to achieve net zero emissions on pathways consistent with limiting temperature increases to 1.5 degrees. Interim targets are crucial to track progress and incentivise action.

Policymakers must, of course, develop effective policies such as compliance markets for emissions, contracts for differences to support renewable power, moratoriums on internal combustion vehicles, and support for breakthrough technologies.

As US Treasury Secretary Yellen and I have emphasised, the more credible and predictable government climate policies are, the more investors will finance in anticipation, creating a virtuous circle of large-scale investment, faster decarbonisation, more jobs, and faster growth.³³ That credibility is built through a track record of increasingly specific and ambitious policy actions, and rigorous, timely assessments of progress.³⁴

A similar dynamic helps finance catalyse climate action.

The first step for financial institutions mirrors that of governments: making high-ambition, science-based net-zero commitments, as all the GFANZ members have done.

Next, financial institutions must develop comprehensive net-zero transition plans consistent with the GFANZ framework.³⁵ They then must grow transition assets across the four strategies from climate solutions to managed phase out.

Finally, just as governments need oversight bodies to assess the adequacy of their policies, financial institutions need an accountability mechanism to assess how well their portfolios align with their targets.

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

For example, by comparing a financial institution with its peers, stakeholders can assess the extent to which any gaps are 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 poor enabling environments.

In this way finance becomes another mirror back to governments on the policy they need to meet the collective ambitions of the net-zero transition.

X. Conclusion

³³ G30 Report: [Mainstreaming the transition to a net zero economy](#) (2020).

³⁴ For example, the UK Climate Change Committee (CCC), established in 2008, regularly evaluates the effectiveness of climate policies, providing the independent oversight and rigour crucial to meeting net zero. In 2022, the CCC made over [300 recommendations](#) to close policy gaps, noting credible plans only exist for around 40% of the required emissions reduction. UK parliamentary committees also regularly assess progress and make new recommendations. In parallel, a vigorous civil society, the competitive media, and an engaged public regularly hold authorities to account.

³⁵ GFANZ, [Recommendations and Guidance on Financial Institution Net-Zero Transition Plans](#), 2022

Today that mirror reflects a world whose climate efforts have improved dramatically since Paris but still have far to go in little time. Our remaining carbon budget is being exhausted rapidly. The twin crises of nature and biodiversity are compounding at alarming rates. As the incoming COP President Dr. Sultan Al Jaber recently said, “We don’t need to wait for the stocktake to find out what it will say. We already know that we are way off track.”³⁶

GFANZ is seized with this urgency. In less than two years, GFANZ has created the governance for private sector leadership, made the climate commitments on the scale the world needs, developed the tools needed to operationalise those commitments, and began building an open data utility to support accountability and accelerate change.

Our priorities for this year reflect our focus on real-world solutions. The emphasis is on financing major reductions in emissions, not the false comfort of portfolio divestment. This means going to where the emissions are and supporting solutions to drive them down. That’s why GFANZ is financing major Just Energy Transition Partnerships in emerging markets that shut down coal plants and build renewables, and it is why we are working with the COP28 Presidency to finance accelerated energy transitions in high-emission sectors such as steel, aluminium, cement and shipping.

In parallel, we are pushing to embed formally the essential governance frameworks in the financial sector. That means mainstreaming net-zero transition planning to ensure this strategic imperative is consistently implemented by financial institutions, their clients, governments, regulators and policymakers.

As I have highlighted, the global governance of the environment is a combination of a global architecture and national sovereignty, of public policies and private actions, of binding commitments and voluntary objectives. Voluntary actions—such as the TCFD and GFANZ transition frameworks—have the advantages of speed, efficiency and adaptability. But voluntary action can only progress so far. Even when successful, early adopters cover a fraction of the economy. There are just too many laggards. And private initiatives may underweight other public policy priorities, such as achieving a just transition.

Just as with TCFD, the GFANZ transition planning framework must be incorporated into statutory requirements, regulation and legislation. Time is of the essence.

Yes, the financial system is being transformed, but not rapidly enough. Consider that from the launch of TCFD at COP21 in Paris, ten years will have passed before the first financial

³⁶ [Guardian](#), UAE ‘running towards’ renewable future, says oil boss Cop28 president, 14 February 2023.

reports are published under a new ISSB framework. We cannot wait another decade to mainstream transition plans.

After all, two lessons that I learned from Jean-Claude Trichet and Tim Geithner during the global financial crisis are that, in a crisis: *plan beats no plan*, and then, once armed with the plan, *one needs to act with great speed and with overwhelming force*.

Thanks to the genius of Paris, the world has a plan. We now need the speed and the overwhelming force.

Thank you.