

# Scaling Transition Finance in the Decisive Decade

PRI in Person

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9 October 2024; Toronto, Canada

## ***Introduction***

Thank you and a warm welcome to Toronto. As was acknowledged, we are meeting on the transitional territory of many nations including the Mississaugas of the Credit, the Anishnabeg, the Chippewa, the Haudenosaunee, and the Wendat peoples.

It's fantastic PRI has come to Toronto to mark your 20th anniversary.

Much has happened since PRI in Person was last here, including the creation of the fundamental building blocks of transition finance.

Much more must happen during this decisive decade if we are to bend the arc of emissions towards climate justice.

Today, I'll take stock of the progress made, the challenges that remain, and the priorities to realise the PRI's core objective of maximising sustainable long-term returns.

## ***Building a sustainable financial system***

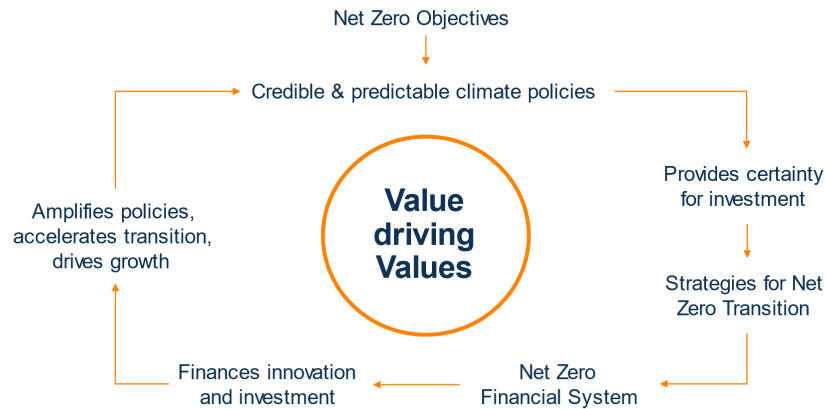
I would like to begin by stepping back to consider the role of markets in achieving society's greatest goals. Markets are the most powerful instrument we've ever created. Their energy and dynamism can be harnessed and directed to serve great purposes.

But markets are also indifferent to human suffering and can be blind to our greatest needs. The challenge is to close the gap between what the market values and what society values, including sustainability and solidarity.

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<sup>1</sup> I would like to thank my colleagues Ronan Hodge and Robyn Seetal for their remarkable assistance with this lecture.

## Credible Policy Drives a Virtuous Cycle for Large Scale Investment



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But when society sets a clear goal, such as net zero, it becomes profitable to be part of the solution and costly to remain part of the problem. Private value can be put in the service of public values.

A sustainable financial system is powerful because finance looks forward. 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 a catalyst. And catalysts need the underlying components, which for climate are the power of people demanding change, the policies of governments to incentivise action, and the energy and innovation of entrepreneurs, businesses, and civil society to deliver it.

As US Treasury Secretary Yellen and I have demonstrated, 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.<sup>2</sup>

### ***Progress Made***

There has been considerable progress putting this theory of change into action.

<sup>2</sup> [G30](#), Mainstreaming the Transition to a Net-Zero Economy (2020)

Since Glasgow, net zero has moved from concept to commitments for more than 90% of countries<sup>3</sup>, over 11,000 companies<sup>4</sup> and 700 major financial institutions<sup>5</sup>. This would not have been possible without PRI's leadership including across a series of Net Zero alliances from Asset Owners to Asset Managers.

## Net-Zero Transition Accelerating



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At COP26 in Glasgow, we set out to reform the information, tools and markets at the heart of the financial system so that every decision could take climate change into account.<sup>6</sup> That means fundamental climate reporting, comprehensive climate risk management, and maximising risk-adjusted returns.

Climate disclosure has moved quickly from being an aspiration at the Paris COP21 to the delivery of the voluntary TCFD guidelines at Hamburg G20, the launch of the ISSB at Glasgow, and the finalisation of mandatory ISSB standards last year. Standards that are expected to apply to as many as 130,000 companies across the world over the next few years.<sup>7</sup>

In parallel, the Network for Greening the Financial System has grown from its eight founding central banks and supervisors to over 140 members.<sup>8</sup> The result

<sup>3</sup> [Net Zero Tracker](#) (countries by GDP)

<sup>4</sup> [Race to Zero](#)

<sup>5</sup> [Glasgow Financial Alliance for Net Zero](#)

<sup>6</sup> [UNFCCC](#), COP26 Private Finance Agenda

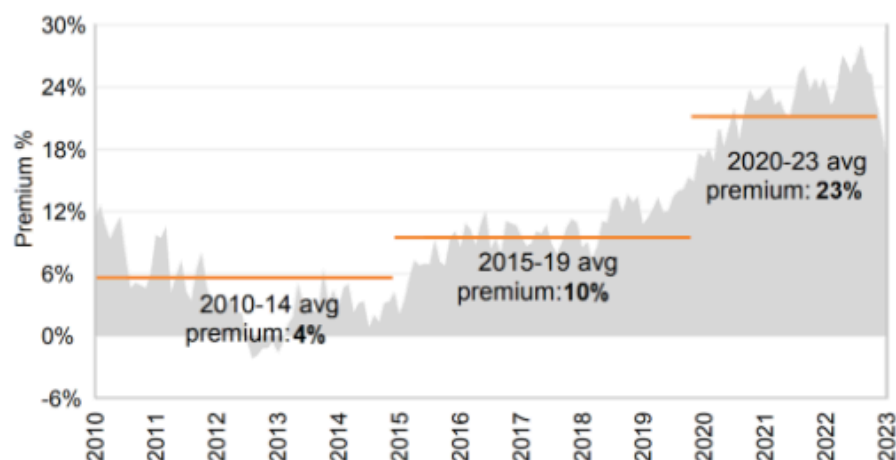
<sup>7</sup> [IOSCO](#), remarks from Jean-Paul Servais

<sup>8</sup> [NGFS](#)

is the mainstreaming of stress testing and supervisory expectations for the climate risk management of financial firms in economies responsible for more than 85%<sup>9</sup> of global emissions.

As de-carbonisation becomes fundamental to risk management and company competitiveness, the valuation premiums for outperformers across sectors are rising.<sup>10</sup>

### Low Emitting Companies Trading at Rising Premiums Across Sectors



Progress may have been considerable, but it is still insufficient.

The 1.5-degree carbon budget will be exhausted in six years at the current rate.<sup>11</sup> And while investment in clean energy is now running at twice the rate of conventional energy<sup>12</sup>, it must continue to rise sharply, it must be joined by serious investments in the decarbonisation of heavy industry and the adaptation of our economies and societies to the worsening climate.

This requires governments to do more.

The good news is that current government pledges, if achieved, could limit warming to 1.7 degrees C. But current policies are insufficient to achieve these

<sup>9</sup> [NFGS Progress report 2021](#)

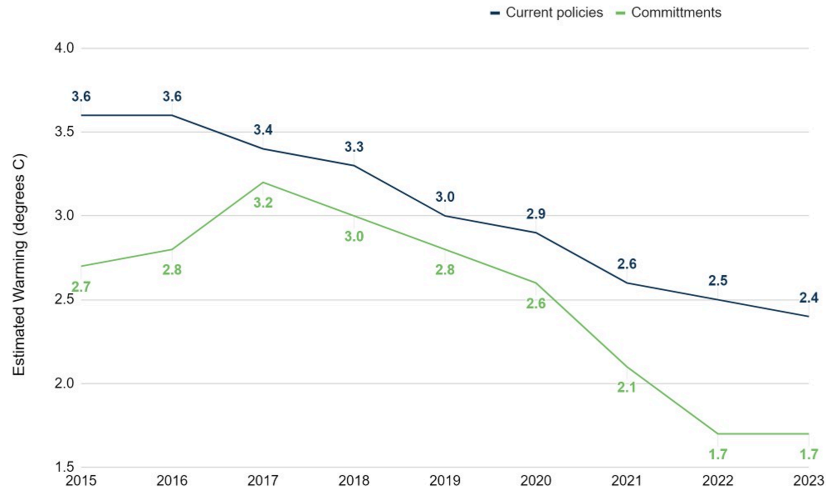
<sup>10</sup> [Goldman Sachs](#), Goldman Sachs - PMs guide to the ESG Revolution

<sup>11</sup> [Global Carbon Budget](#)

<sup>12</sup> [IEA World Energy Outlook 2024](#)

pledges, putting the world on course for a far more dangerous 2.4 degrees C of warming.<sup>13</sup>

## Net Zero Ambition



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To close that gap, every country needs policies to drive action across sectors, make regular assessments of progress, identify shortfalls, and act quickly to correct them. That’s why GFANZ is supporting the efforts of governments to embed transition planning in their economic growth strategies ahead of the publication of ‘NDC 3.0’ next year.

More broadly, to finish the job, we must close three gaps: on data, action, and investment.

## Data

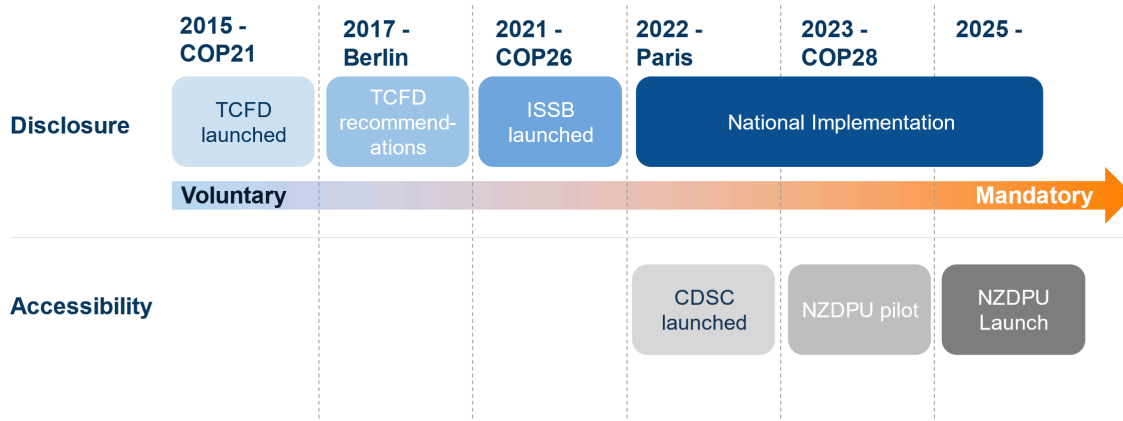
Closing the climate data gap requires consistent, comprehensive, decision-useful and widely available climate disclosure.

ISSB standards are now being implemented by jurisdictions accounting for over half of global GDP and emissions, more than 40% of global market capitalisation.<sup>14</sup>

<sup>13</sup> [IEA](#) World Energy Outlook 2024

<sup>14</sup> [ISSB](#)

## Closing the Data Gap



To maximise its impact, every stakeholder should have free access to the emissions data of companies, their targets for reducing emissions, and their performance against those targets.

To that end, the Net Zero Data Public Utility (NZDPU) will provide the first global, freely accessible, central source of emissions data that streamlines and consolidates data from different sources into a structured universal and consistent format, while limiting reporting burdens on companies.<sup>15</sup>

The first version of the platform will be up and running by the second half of next year including over 10,000 companies' core climate data.<sup>16</sup>

### Action

Second, while disclosure defines the problem, action is needed to fix it.

I learned long ago that in a crisis, plan beats no plan.

GFANZ is helping to mainstream the imperative of transition plans for the financial sector. Over 700 financial institutions across more than 50 jurisdictions, responsible for balance sheets that total over 40% of the financial system and

<sup>15</sup> The NZDPU is designed to be integrated with the UN Framework Convention on Climate Change's Global Climate Action Portal

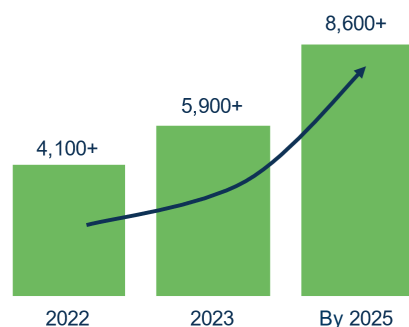
<sup>16</sup> [NZDPU](#)

\$150 trillion have committed to net zero through sector-specific net zero alliances that are members of GFANZ.<sup>17</sup>

By the end of this year, two-thirds (or ~450) of these firms will have set out plans for transition based on the GFANZ framework.<sup>18</sup>

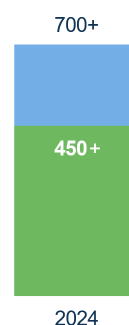
## Transition Planning Goes Mainstream

*Growing number of companies setting out net zero transition plans...*



Source: CDP

*... 700+ financial institutions committed to net zero; 450+ setting out transition plans*



Source: GFANZ

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By the end of next year, nearly over 8,000 real economy companies will have set out 1.5C aligned transition plans.

It is promising that ISSB intends to integrate transition plans into its framework by adopting the GFANZ framework.<sup>19</sup>

But given the lateness of the planetary hour, we cannot wait a decade for transition plans to become mandatory as we did for climate disclosure.

<sup>17</sup> GFANZ calculations based on size of financial system from the [Financial Stability Board](#)

<sup>18</sup> BloombergNEF (forthcoming)

<sup>19</sup> The IFRS Foundation will assume responsibility for the disclosure-specific materials developed by the UK Transition Plan Taskforce, whose disclosure framework and related guidance also draws on the components identified by GFANZ.

Governments should act now by adopting consistent and comparable taxonomies and mandating transition plans for large companies and financial institutions, consistent with the GFANZ approach.

This approach includes a common definition of transition finance, centring on four strategies.

### Four Financing Strategies to Enable the Net-zero Transition



**Climate  
Solutions**



**Aligned**



**Aligning**



**Managed  
Phaseout**

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The first two are obvious: financing those climate solutions and companies already aligned with science-based net-zero pathways. The strategies go further to ‘where the emissions are’ and back companies with credible plans to get them down, and if that is not possible, to fund the managed phaseout of stranded assets, particularly in emerging market and developing economies (EMDEs).

Last month GFANZ released a number of case studies<sup>20</sup> that illustrate how financial institutions are adopting and implementing transition finance strategies including by disclosing expected emissions reductions.

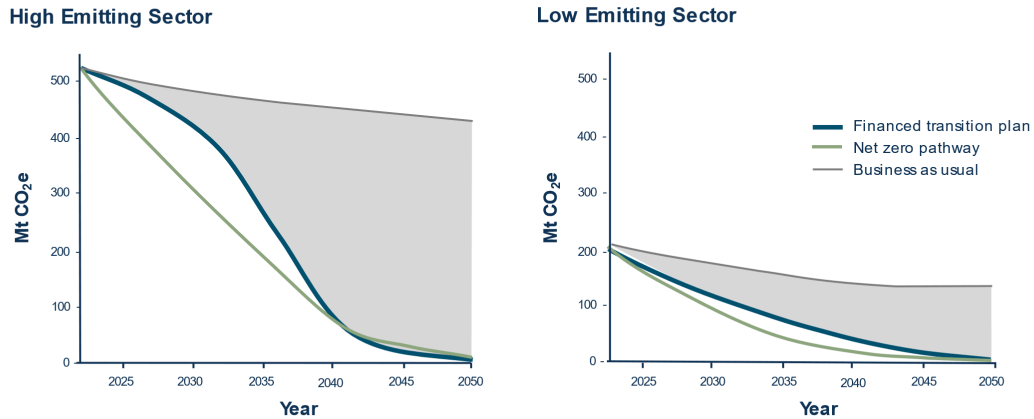
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<https://assets.bbhub.io/company/sites/63/2024/09/Case-Studies-on-Transition-Finance-and-Decarbonization-Contribution-Methodologies-Sep-2024.pdf>



## Focus on Expected Emissions Reduction to Maximize Impact



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This will encourage net zero committed financial institutions to support major real-world decarbonisation rather than crowding into low-emitting tech companies or divesting and handing the problem to someone else. After all, our climate's fate depends on what happens on the planet, not on paper.

### *Nature in Transition Planning*

And the planet's fate depends of course on nature. Indeed, there will be no net zero without nature.

Agriculture, forestry, and land use currently account for a fifth of GHG emissions. Conversely, they represent the sole sink for almost 60% of human-generated carbon emissions and could be the most cost-effective form of emissions reductions – potentially accounting for one third of the gap between now and 2030.<sup>21</sup>

Company net zero transition plans should include clear policies on reversing deforestation, avoiding nature loss, protecting nature, and restoring biodiversity.

<sup>21</sup> AFOLU contributes 22% of anthropogenic global emissions from IPCC. [AR6 Synthesis Report: Climate Change 2023](#), March 2023., p.5 and emission sinks in natural ecosystems can sequester potentially 37% of the emissions decrease needed to meet 2030 net-zero goals from Griscom et al. [Natural climate solutions](#), 2017.

At COP16 in Cali later this month, GFANZ will launch a consultation on incorporating nature into transition planning.

To align financial flows with nature goals, the ISSB should develop a sustainability disclosure framework that integrates the relevant work of the TNFD. National authorities should commit to mandatory adoption of these disclosure recommendations.

### *Index Investing*

The final element of closing the action gap begins with the passive—indices. Global investors use indices for various purposes: fund construction, investment decisions, and benchmarking performance. This is creating strong demand for indices that can enable investment in support of transition to net zero.

GFANZ is publishing today a consultation paper on practical guidance for the development and adoption of “transition to net zero” indices that can support an accelerated transition to net zero by 2050 by directing capital toward transition-aligned activities and strategies.

We hope many in this room will engage in the consultation as well as develop and design products that use indices to enable the transition.

### **Investment**

Ultimately, progress depends on closing the investment gap—a gap that totals trillions of dollars annually.

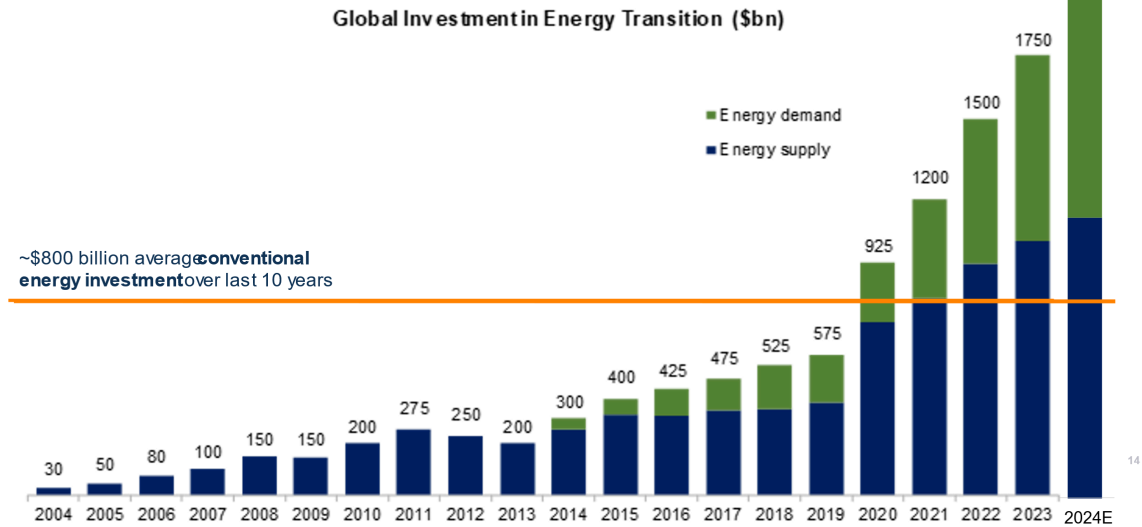
There are three main priorities.

First, the IEA estimates that the annual pace of clean energy-related investment has nearly doubled in the past few years (to \$2 trillion this year)<sup>22</sup>. This needs to increase by another \$2.5 trillion—almost two percentage points of global GDP—by the early 2030s.

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<sup>22</sup> [IEA](#), 2015-2020 clean energy investment was stable around \$1.2tn annually rising to \$2.0tn forecast in 2024.

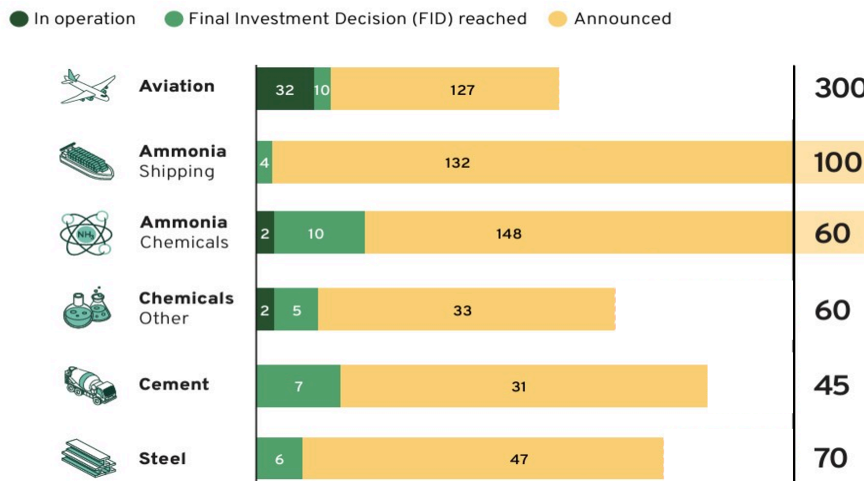
## Energy Transition Investment at an Inflection Point



Source: [BloombergNEF](#) Energy Transition Investment Trends 2024, [IEA](#) for 2024E

Second, the **decarbonisation of heavy-emitting industries**, which generate one third of global emissions, will require hundreds of billions of dollars of additional investment every year for decades.

## ITA Identifying the Projects and Gaps to Decarbonise Heavy Industry



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There are many challenges. The technologies are uneconomic at small scale. Regulatory barriers skew incentives. And given the interconnections, slow progress in one sector is delaying action in another.

The Industrial Transition Accelerator (ITA), launched at COP28 in Dubai, aims to spring these traps by bringing together industry leaders, policymakers, and financial institutions, including the most senior officials from the world's largest emitters, and companies representing almost 20% of global emissions.

The ITA has identified over 700 projects that would cover 80% of the task for industrial decarbonisation to get on track for 1.5 by 2030. However, just 36 of these projects are operational and only a further 42 have reached final investment decision.<sup>23</sup>

To close this gap, the ITA will publish a demand-side policy playbook setting out the critical policy levers from mandates to procurement.

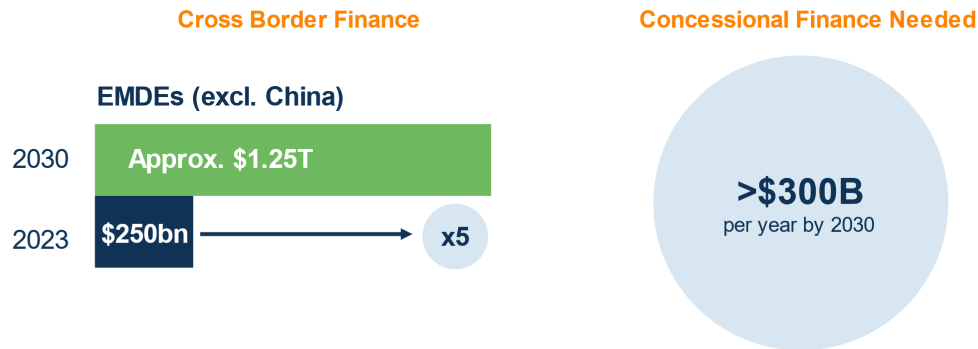
Finally, closing the 1 trillion per year investment gap for non-China EMDEs will require radical reform of the **international financial system**.

These reforms must ensure that scarce public finance mobilises more private capital at large scale and unlocks new sources, including voluntary carbon markets.

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<sup>23</sup> [ITA](#)

## Huge Shortfall in Energy Transition Finance for Emerging Markets



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Multilateral development banks should use all their capacities – operational, financial, and technical – to maximise total financing to address climate change. This includes greater and more effective use of guarantees, risk insurance, first-loss capital for, and use originate-to-distribute models.

Such reforms are now underway through the new World Bank Private Sector Investment Lab. The Lab's first downpayment is a new Bank-wide guarantee platform that will streamline guarantee products, speed access to them, broaden their coverage, and triple their scale by 2030.

Now is the time for policymakers to grasp the nettle to create high integrity global **Voluntary Carbon Markets** (VCMs). Carbon markets can provide hundreds of billions of dollars to retire high-emitting assets, prevent new coal generation, and provide finance for biodiversity and Indigenous peoples.

For VCMs to fulfil these roles, authorities must establish standards for end-to-end integrity in carbon credits, in supply, demand and market infrastructure.

## VCMs Require End-to-end Integrity



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To these ends, authorities can build on the valuable work being done by the Integrity Council for Voluntary Carbon Markets (ICVCM) for supply integrity, the Voluntary Carbon Markets Initiative (VCMI) on demand integrity, and the IOSCO for market infrastructure. The World Bank, AIIB and the IDB can help monitor social integrity.

I am encouraged by recent progress, such as the US Principles for VCMs, and the heightened engagement of the COP and G20 presidencies.

For the first time, there is a real prospect of locally anchored, globally connected, high-integrity carbon markets that will accelerate the transition while helping to restore our planet.

### Conclusion

You are all familiar with the common disclaimer that past performance is no guarantee of future returns.

This truism is doubly accurate with respect to the transition.

With climate change, past is not prologue. I know from my experience overseeing one of the world's largest property and casualty and reinsurance markets that unless we accelerate and broaden climate action, the tail risks of today will be the catastrophic norms of the future.

And I know from our work together that a sustainable financial system when combined with ambitious climate policies and the dynamism of the private sector can turn climate laggards into leaders.

The PRI has been at the forefront in ensuring climate change is incorporated into investment analysis, decision making, ownership policies and promoting this work across the financial and corporate worlds with its emphasis on global cooperation.

Despite your different mandates and strategies, you all have also committed to integrate sustainability into your investment process and to exercise your governance rights to hold boards to account to act in the long-term interest of your companies.

Given those commitments, and given that we are almost halfway through this decisive decade, consider whether you are fully identifying and mitigating the climate risks into your portfolios or exercising your governance rights to encourage boards to pursue strategies aligned with the policies implied by nationally determined contributions, the climate commitments of their corporate customers, and increasing physical risks posed by any emissions overshoot.

If, on reflection, you can do more, *now* is the moment to lean in.

You may be the first generation of investors who understand the risks associated with climate change, but you are also the last generation of investors who will be able to do anything to mitigate them.

To that end, I look forward to our continued collaboration in this decisive decade.

Thank you.