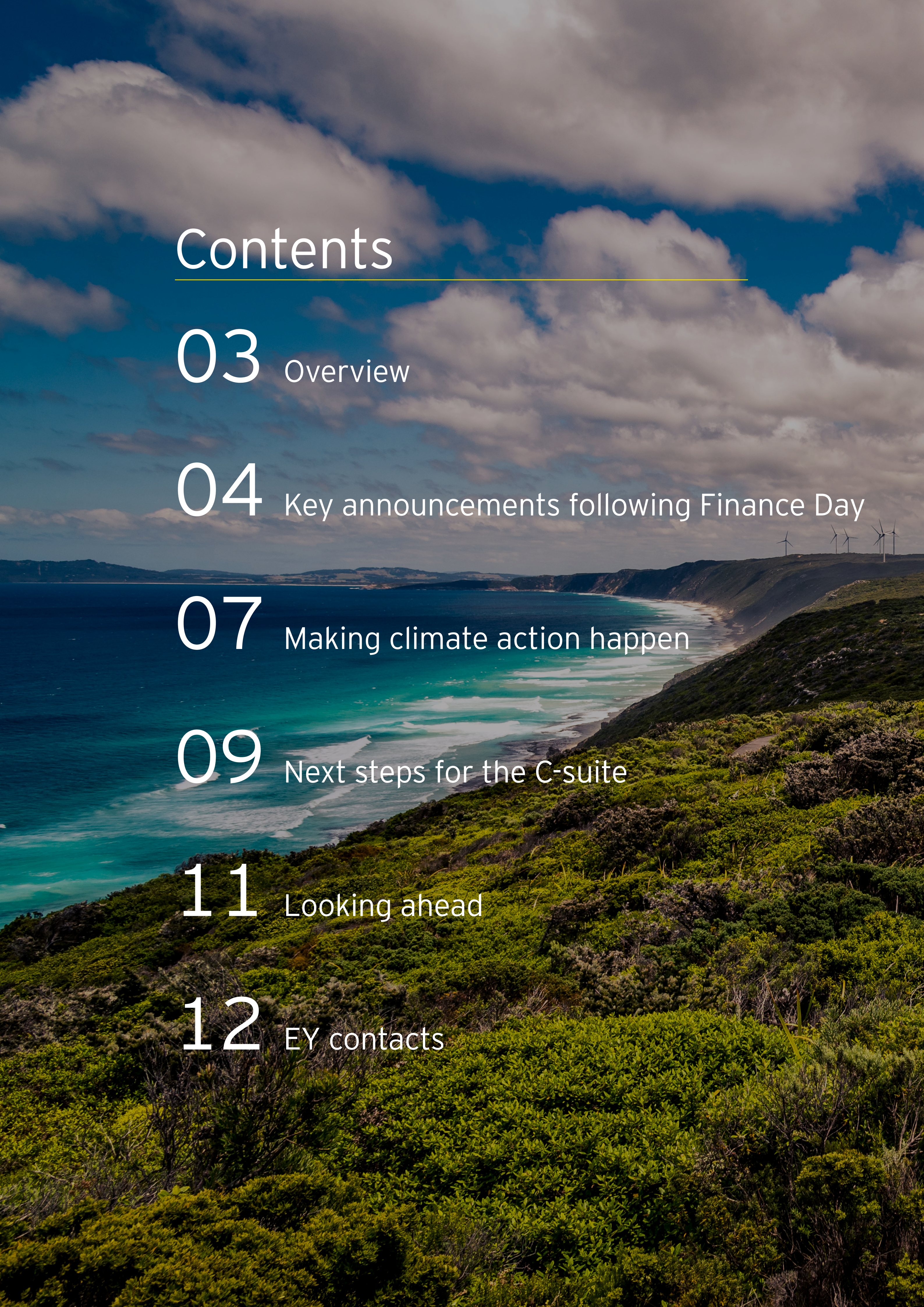
COP28: A summary for financial services following Finance Day

December 2023



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Overview

Even before Finance Day on 4 December, the issue of directing public and private finance toward climate action dominated the agenda at COP28. At last week's World Climate Action Summit, global leaders placed an unprecedented focus on finance and the role of the private sector, especially for support offered to emerging markets and developing economies (EMDEs).

Against this backdrop, a powerful coalition of private sector groups, including the Global Financial Alliance for Net Zero (GFANZ) and the Institutional Investors Group on Climate Change (IIGCC), called on governments and policymakers to facilitate the mobilization of private finance.

This collective energy has laid a path for financial institutions (FIs) to follow. Private sector firms now need to build on this momentum. The focus is clear: accelerate decarbonization efforts, empower clients on their net-zero journeys, innovate with solutions such as blended finance, and strengthen mechanisms such as voluntary carbon markets.

Key announcements following Finance Day

There has been a steady stream of finance-related announcements since the start of the conference, with reports that over US$57b of finance has been mobilized at COP28 already — a significant proportion of this toward climate finance for EMDEs.

These include announcements that underscore the current state and immense need of financing to tackle climate change:

- On Finance Day, the GFANZ released their 2023 Progress Report showing how the voluntary initiative continues to drive climate action, with affiliated alliances now comprising over 675 FIs. The report highlighted tangible momentum behind GFANZ's work on transition planning, capital mobilization in EMDEs, and climate transition-related data.
- In contrast, the Independent High-Level Expert Group in Climate Finance outlined the challenges ahead: The world will need a significant increase in concessional finance, multilateral development bank (MDB) finance, and private climate finance to developing economies by 2030.

However, we have also seen huge commitments of government-backed finance, most notably:

- The United Arab Emirates' (UAE) announced a groundbreaking US$30b ALTÉRRA investment fund alongside three leading asset managers. The fund aims to mobilize US$250b globally by 2030 and sets a precedent with a blended finance model, stimulating access to funding in the Global South.

In addition, there have been many announcements aimed at equipping FIs with the knowledge and understanding to rapidly scale up private finance, including:

- Abu Dhabi will host a new Global Climate Finance Centre in partnership with nine founding members, including some of the largest global FIs. The independent think tank and research hub would focus on identifying barriers to investment in low-carbon projects and developing robust financial frameworks to overcome these challenges.

- Close to 400 organizations, including associations gathering over 10,000 member companies and investors, are supporting the adoption and use of the International Sustainability Standard Board's (ISSB) climate-related reporting.

Several initiatives have also been introduced to give FIs innovative tools for scaling private finance:

- Multilateral development banks (MDBs) and development FIs have been very active in aiming to increase the scale of private finance. For example, the World Bank pledged to allocate 45% of its financing to climate-related projects by 2025, with an emphasis on securitization to scale climate finance. Collaborating with 15 leading bank executives, it has launched a new initiative to reduce investment risks and attract private capital to lower emissions.

- A joint end-to-end framework to ensure integrity of voluntary carbon markets that included initiatives from the demand side, such as Science-Based Targets Initiative (SBTi) and Voluntary Carbon Markets Integrity Initiative (VCMI), as well as the supply side, such as the Integrity Council for the Voluntary Carbon Market (ICVCM). In addition, the World Bank and GFANZ have committed to build and support the scaling of high-integrity carbon markets.

Making climate action happen

As FIs build on the momentum generated by declarations at the World Climate Action Summit, they can focus on three key areas of activity:

Understanding:

Measuring and monitoring emissions have historically been a challenge for FIs in making informed decisions on climate-related lending, insurance, and investments. However, access to reliable, consistent data is improving, helping firms to align portfolios with their own net-zero goals. FIs should capitalize on noteworthy initiatives introduced at COP28, including the proof of concept for the Net-Zero Data Public Utility (NZDPU) – the world's first global, centralized, freely accessible repository of data related to the private sector's climate transition.

Collaboration:

Trust and collaboration among governments, policymakers, FIs and corporates are vital for scaling up private finance, supporting hard-to-abate sectors and mobilizing the trillions required to achieve net zero. FIs can engage with stakeholders across society to create ecosystems dedicated to decarbonization.

Helpful initiatives launched at COP28 include:

- The Industrial Transition Accelerator (ITA) to speed up delivery of Paris-aligned ambitions across heavy industries
- The Global Decarbonization Accelerator (GDA) to facilitate greater access to key enablers such as policymaking, financing, infrastructure and technology
- The Taskforce on Net Zero Policy to ensure credibility and accountability of 1.5°C-aligned net-zero commitments by non-state actors, underpinned by coherent policies and regulatory certainty

Scaling up:

Capital for climate action needs to move beyond the billions provided by governments toward the trillions that can come from the private sector. Several developments at COP28 can help financial firms do exactly this through tools such as blended finance and, where appropriate, carbon markets. FIs should use the full range of tools at their disposal. The New Collective Quantified Goal on Climate Finance, currently under negotiation by participating parties, is expected to highlight the mobilization of private finance, underscoring the increasingly important role of the private sector.

Next steps for the C-suite

As corporate leaders reflect on the announcements thus far, we are seeing them take the following actions to mobilize greater flows of finance toward tackling climate change:

CEOs:

This cohort of planetary and corporate custodians recognizes the scale of transition, and that clear measurable plans outlining actions are needed to make this happen. This means scaling up finance, taking an iterative approach, being transparent with ambition, and recognizing the transformative commercial opportunity.

CROs:

As environmental data and science evolve, CROs will be equipped with better input and knowledge, which will allow for improved quantification of the environmental impacts in financial risk, through more sophisticated modeling. They recognize that this will need to evolve over time and be very dependent on scenarios and policy. Embedding climate and broader environmental financial risks into the business strategy, and across all business activities, is becoming a growing areaof focus for financial services firms, in particular in decision-making and product design.

CFOs:

Although the ISSB has played a vital role in consolidating standards to create a global baseline, there are still hundreds of other standards and regulations globally on sustainability reporting. This is a highly complex landscape for businesses to understand and interpret. FIs are looking at the standards and regulations on a global basis, determining the impact of these on their business, and developing a strategic approach to disclosures and reporting. Not only does this mean determining what and how they will report, but also the process, controls and business model that needs to be established to deliver in an effective and accurate way. Leading organizations will be working through the plans to deliver this work, but importantly, also using it as a strategic tool to drive a longer-term view on the business.

CSOs:

CSOs are recognizing the proliferation of sustainability throughout the entire business and need to determine the best approach to deliver business-wide transformations. They are also acknowledging the need to absorb other complex sustainability issues (such as biodiversity loss) into their activities — leveraging the progress made on climate frameworks and approaches. To do this, FIs will need to acquire significant technical expertise across sustainability topics and provide unparalleled upskilling across the business.

Looking ahead

If the momentum continues, we can expect more finance announcements and developments over the next week and a half. These could include private sector activities alongside technical negotiations. We will share further reflections at the end of week one and at the close of COP28.

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