

ENERGY, INFRASTRUCTURE AND  
NATURAL RESOURCES

## COP26 and Sustainable Finance

Wednesday 3 November 2021 was finance day at COP26. Mobilising funding for rapid, large-scale climate action is one of the COP26 goals and the crucial role of private investment in efforts to achieve net zero was in focus. This briefing summarises some of the key sustainable finance initiatives announced on finance day.

6 MIN READ



UN Climate Change Conference UK 2021 Goals

The four published goals of the UN Climate Change Conference UK 2021 - COP26 are to:

- 1. secure global net zero by 2050 and keep 1.5 degrees within reach
- 2. adapt to protect communities and natural habitats
- 3. mobilise finance
- 4. work together to deliver

In respect of the ‘mobilise finance’ goal, it is stated that:

- to deliver on the first two goals, developed countries must make good on their promise to mobilise at least \$100bn in climate finance per year by 2020 and
- international financial institutions must play their part and work towards ‘unleashing the trillions’ in private and public sector finance required to secure global net zero



Making good on their promise to mobilise at least \$100bn in climate finance per year by 2020 – the climate finance delivery plan

In 2009 under the Copenhagen Accord, developed countries agreed to mobilise \$100bn in climate finance each year by 2020, and in 2015 under the Paris Agreement, agreed to extend this goal through to 2025. An analysis of what has been achieved in the context of that existing commitment<sup>1</sup> shows the \$100bn goal is unlikely to have been met in 2020 and is likely to also fall short in 2021 and 2022. In 2019, the most recent year for which data is available, around \$79.6bn was raised in climate finance.

Accordingly at COP26 a new delivery plan was published, called ‘Climate Finance Delivery Plan: Meeting the US\$100bn goal’<sup>2</sup>. This Delivery Plan sets out an estimated trajectory of climate finance from 2021 through to 2025 - taking into account new climate finance pledges from individual developed countries and multilateral development banks (MDBs). The Delivery Plan focuses on some key elements

discussed with developed and developing countries and reinforces them with the following guiding principles for collective actions.

**Increasing the scale of climate finance:** developed countries will continue to steadily scale up climate finance by fulfilling their pledges. Those who have not yet made a pledge must follow suit and come forward with an ambitious climate finance commitment.

**Increasing finance for adaptation:** in line with Article 9.4 of the Paris Agreement developed countries will acknowledge the need for more adaptation finance and will therefore continue to scale this up through 2025 to achieve a greater balance between mitigation and adaptation finance.

**Prioritizing grant-based finance for the poorest and most vulnerable:** developed countries will prioritize grant-based resources, as part of a wide variety of financial instruments, to ensure there are adequate financial tools at the project level for those with the least ability to mobilise domestic and other resources.

<sup>1</sup> Independent Expert Group on Climate Finance. Delivering on the \$100 Billion Climate Finance Commitment and Transforming Climate Finance (Independent Expert Group on Climate Finance, 2020).

<sup>2</sup> Climate Finance Delivery Plan: Meeting the US\$100bn goal



**Addressing barriers in accessing climate finance:** it is essential that developing and developed countries continue to improve coherence, coordination and work closely together to find ways to improve access to climate finance through both bilateral and multilateral channels. Including by continuing to improve enabling environments.

**Strengthening the Financial Mechanism of UNFCCC and the Paris Agreement:** developed countries aim to scale up climate finance for the funds of the UNFCCC's and the Paris Agreement's Financial Mechanism while noting that financing will be subject to replenishment.

**Working with MDBs to increase and improve climate finance:** in order to enhance further multilateral public climate finance, developed countries will continue collaborating with MDBs, development finance institutions and developing countries on the respective boards, to deliver transformational climate change action.

**Improving the effectiveness of private finance mobilised:** developed countries aim to develop a coherent strategy to collectively improve the effectiveness of private finance mobilization.

**Reporting on our collective progress transparently:** developed countries, in partnership with the Organisation for Economic Co-operation and Development (OECD), will deliver a report in 2022 on aggregate levels of climate finance provided and mobilised by developed countries in 2020. They will also provide reports on a regular basis on the status of climate finance.

**Assessing and building on lessons learned:** developed countries will undertake a thorough analysis of climate finance in order to build on past experience and improve in the future.

**Taking into account the broader financial transition needed to implement Article 2.1(c) of the Paris Agreement:** developed countries intend to attach higher importance to support activities that focus on making finance flows consistent with a pathway





“GFANZ represents more than 450 banks, insurers and asset managers across 45 countries committed to hitting net zero emissions targets

toward low greenhouse gas emissions and climate-resilient development.

**‘Unleashing the trillions’ – GFANZ**

COP26 saw the launch of the ‘Glasgow Financial Alliance for Net Zero’ (GFANZ), a global coalition of leading financial institutions in the UN’s Race to Zero campaign. It is committed to accelerating and mainstreaming the decarbonisation of the world economy and reaching net zero emissions by 2050 at the latest.

GFANZ is made up of firms across the entire financial spectrum, including banks, insurers, pension funds, asset managers, export credit agencies, stock exchanges, credit rating agencies, index providers and audit firms<sup>3</sup>.

GFANZ represents more than 450 banks, insurers and asset managers across 45 countries committed to hitting net zero emissions targets based on ‘high-ambition, science based targets’. GFANZ members must align with the Race to Zero criteria, which are:

- use science-based guidelines to reach net-zero emissions across all emissions scopes by 2050
- set 2030 interim targets that represent a fair share of the 50% decarbonisation required by the end of the decade
- set and publish a net-zero transition strategy
- commit to transparent reporting and accounting on progress against those targets
- adhere to strict restrictions on use of offsets<sup>4</sup>.

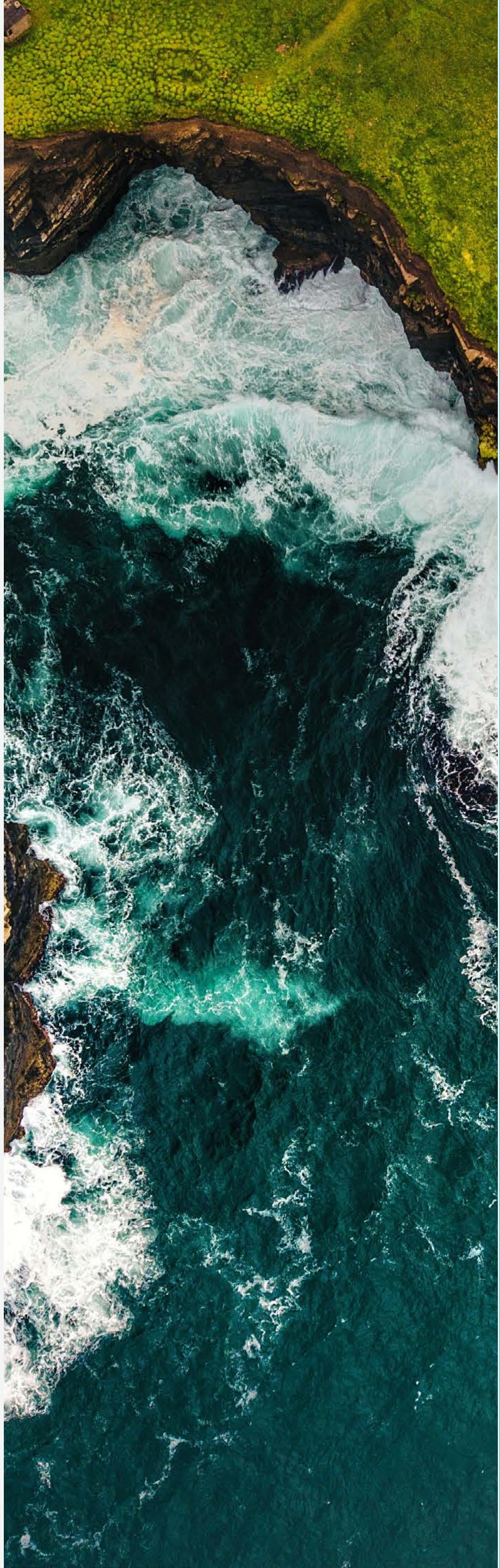
<sup>3</sup> GFANZ is essentially an amalgam of the following alliances: the Net Zero Asset Managers Initiative (NZAM), the Net-Zero Asset Owner Alliance (NZAOA), the Net- Zero Banking Alliance (NZBA), the Net-Zero Insurance Alliance (NZIA), the Net Zero Investment Consultants Initiative (NZICI), the Net Zero Financial Service Providers Alliance (NZFSPA) and the Paris Aligned Investment Initiative (PAII).

<sup>4</sup> Further details can be found on [racetozero.unfccc.int](https://www.racetozero.unfccc.int)

Mark Carney, Co-chair of GFANZ, announced at COP26 that GFANZ had committed over \$130tn of private capital to transforming the economy for net-zero. In order to mobilise this capital and to deliver on its pledge of net zero<sup>5</sup> emissions a number of key announcements were made at the COP26 summit:

- a permanent secretariat with a presence in Europe, the Americas, Africa and Asia, which will report periodically to the G20’s Financial Stability Board will be established
- a task force made up of industry representatives, academics, regulators and civil society groups will be introduced to develop a “gold standard”
- a new initiative by which the banks and other financial institutions who sign up GFANZ will publish net zero transition plans and report annually on their carbon emission linked to the projects they lend to
- the introduction of a mandate for all large businesses and public enterprises to develop net-zero transition plans by the end of 2024

<sup>5</sup> [GFANZ Progress Report](#)





GFANZ introduced a number of actions, including 24 major finance initiatives as part of the private finance priorities for COP26 which they intend will help transform the financial architecture by mainstreaming and scaling climate-related reporting; climate risk-management; climate-related investment returns and the mobilization of private finance to emerging and developing economies<sup>6</sup>.

Examples of recently announced key initiatives of GFANZ are outlined below.

The international accounting standard body, the IFRS, announced the establishment of a new International Sustainability Standards Board to develop globally consistent climate and broader sustainability disclosure standards for the financial markets.

The Network for Greening the Financial System (see further below) is assisting transforming climate risk management. 38 central banks, in countries comprising 67% of the world's emissions, have committed to climate-related stress tests to review the resilience of the world's largest financial firms in the face of several climate-related

risks. 33 central banks, representing 70% of the world's emissions, have committed to issuing guidance to firms on managing climate-related financial risks.

The Taskforce on Climate-related Financial Disclosures (TCFD) has published guidance on metrics, targets and transition plans<sup>7</sup>.

Publishing a new plan on how to scale private capital flows to emerging and developing economies. This includes the development of country platforms to connect the enormous private capital committed to net zero with country projects, scaling blended finance through MDBs and developing high integrity, credible global carbon markets.

Identification of 5 catalytic initiatives to accelerate the transition in the countries, based on their scalability and potential impact, namely the Climate Finance Leadership Initiative Country Pilots, FAST-Infra, The Global Energy Alliance for People and Planet, Innovative Finance for the Amazon Cerrado and Chaco, and MOBILIST.

<sup>6</sup> *COP26 Private Finance Strategy November 2020*

<sup>7</sup> *Guidance on metrics, targets and transition plans*



**‘Unleashing the trillions’ – role of financial regulators**

COP26 also saw the publication of the Glasgow Declaration by the ‘Network for Greening the Financial System’ (NGFS) . NGFS is a global network of 100 central banks and supervisors who seek, on a voluntary basis, to contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition towards a sustainable economy .

The Glasgow Declaration reaffirms the willingness of NGFS members, including the Central Bank of Ireland, to contribute to the global response required to meet the objectives of the Paris Agreement. It sets out a number of key areas where collective efforts will be expanded and strengthened to improve the resilience of the financial system to climate-related and environmental risk, and encourage the financial investment necessary to enable the transition to a sustainable economy.

<sup>8</sup> *The NGFS Glasgow Declaration: Committed to Action 2021.*

<sup>9</sup> *Further details can be found here: [www.ngfs.net/en](http://www.ngfs.net/en)*



In the Glasgow Declaration, NGFS commits that it will:

- enhance its climate scenarios, providing on a regular basis an important public good for a range of stakeholders, public and private
- deepen its analysis on integrating climate change considerations into monetary policy strategies and frameworks, in the context of the mandate of its members
- intensify work to bridge the data gaps that currently hinder the identification, management and mitigation of climate-related risks
- supplement NGFS practical guides with guidelines on TCFD-aligned reporting for central banks
- facilitate uplift in supervisory capabilities and the global consistency of supervisory practices
- improve efforts on capacity building, with a particular focus on members from emerging and developing economies, to support members' in addressing climate-related and environmental risks
- keep exploring emerging topics such as the impact of the loss of biodiversity, and work towards addressing them, in the context of the mandates of its members

- continue to cooperate with standard-setters, other policy makers, the financial sector, academia and other stakeholders to keep distilling best practices, identifying challenges and to avoid duplication of work

Financial regulators and supervisors have a key role to play in helping to deliver the 'mobilise finance' goal, particularly for private finance. The Glasgow Declaration shows the commitment of regulators and supervisors at a global level to contribute to that goal. In an Irish and European context, the Central Bank of Ireland and the European Central Bank issued pledges on climate change action during COP26.

### Conclusion

While not without criticism from the anti-greenwashing lobby, these initiatives certainly present like a significant further mobilisation and commitment from private finance, and also financial regulators and supervisors, to the climate imperative. As always the challenge will be translating these initiatives from collective public commitments to individual institutional actions, however the sectoral pathways and more detailed action plans will hopefully address this challenge and help turn these important initiatives from ambition to reality.





Key contacts



**Ross Moore**  
*Partner, Energy, Infrastructure  
and Natural Resources*  
+353 1 649 2117  
rmoore@algoodbody.com



**Michelle Daly**  
*Associate, Finance*  
+353 1 649 2297  
mcdaly@algoodbody.com

Resources



Climate Finance Delivery Plan: Meeting  
the US\$100bn goal

READ MORE



Central Bank of Ireland pledge

READ MORE



European Central Bank pledge

READ MORE



GFANZ Progress Report

READ MORE



COP26 Private Finance Strategy  
November 2020

READ MORE



The NGFS Glasgow Declaration:  
Committed to Action 2021

READ MORE



Guidance on metrics, targets and  
transition plans

READ MORE