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Will COP26 incentivize the scale of investment needed and deliver an equitable transition?

This week, leaders from nearly every nation are gathering in Glasgow in an attempt to align on how to combat global climate change. Scientists warn humanity has until 2030 to prevent irreversible damage and keep the planet habitable for future generations. Already, the global pandemic has set back many of the cooperative efforts the world needs.

If the world is to rise to the challenge during this decade, these efforts must begin now. As COP26 President Alok Sharma said, when it comes to climate action, this year's conference may be "the last best chance of getting it right." So this week, governments have gathered to do exactly that.

Climate change is an urgent complex global problem that requires immediate global action: global governmental coordination and commitments on a scale never previously witnessed; commitments to reduce demand of high carbon intensive energy and products; commitments to boost supply of renewable energy and natural carbon capture; and commitments to work across energy, food, transport and manufacturing systems using the twin levers of finance and technology. Progress will need to be made in each of these areas. What will be particularly interesting to watch, however, is "how" progress will be furthered—especially around incentivizing sustainable investment and promoting a just transition.

1. Incentivizing sustainable investment

Two of the four stated goals for COP26 are to mobilize finance and work together to deliver on them. Governments cannot solve the climate crisis on their own. Government, business, and society need to work together. The necessary investment is simply too vast: research suggests cutting emissions to achieve net zero will cost from US$50 trillion and potentially up to hundreds of trillions. This investment will span every facet of our lives: the way we move around, feed ourselves, make things, generate energy, and more. Tackling the climate crisis will require spurring businesses across all industries to act by recognizing that investment flows can change behavior to value things we don't value today.

To do so, governments will have to address a fundamental issue: while humans value keeping the planet habitable, markets do not always reflect that value.

The first step: more transparent and meaningful reporting

The first step is to establish a clear, consistent, comparable method of measuring sustainability performance. Last year, the world's five leading Environmental, Social and Governance (ESG) standard setters began working with the International Financial Reporting Standards Foundation (IFRSF) to establish global standards for ESG reporting. Progress toward these universal standards would allow more businesses to integrate ESG into their core business, while enabling access to new investment opportunities and improving investment efficiency. Reliable, consistent and comparable sustainability information will drive the confidence needed to direct capital to sustainable enterprises addressing climate change. This should be one particularly promising development at COP26.

Mobilizing capital to a low carbon future

But global standards will simply tell us the score. What is needed are game-changing plays: using systems of incentives and disincentives to encourage climate investment in the immediate future as well as for the long term, both globally and nationally.

And the mobilization of capital for a low carbon future is less certain. Already, developed nations have failed to meet the goal of mobilizing $100 billion in annual investment in climate action in developing nations. Public climate finance will not be enough, particularly as COVID-19 has slowed public financial flows.

The call from business and investors highlights the opportunities to leverage the vast resources of private investors—by de-risking new investments, harnessing the tax system to incentivize investment, dis-incentivizing high-carbon investments and convening financers across countries and sectors.

Policymakers acknowledge the urgency of the financial task. "Finance Day" on November 3rd and early statements are promising signals that government leaders recognize that incentivizing investment is essential to achieve a low carbon future. The coming days will be an opportunity for that understanding to lead to significant action.

2. Enabling a just transition

The environmental crisis the world faces also feeds a *social* crisis: widening social inequity.

Vulnerable communities are the least equipped to adapt to a changing climate. As UN Special Rapporteur on extreme poverty and human rights Philip Alston has warned: "We risk a 'climate apartheid' scenario where the wealthy pay to escape overheating, hunger, and conflict while the rest of the world is left to suffer." And the people who stand to suffer the most are exactly those who have done the least to cause the problem: from 1990-2015, over half of the world's greenhouse gas emissions came from just the richest ten percent of people (those with incomes over $38,000 a year).

If left unchecked, these widening inequities could threaten the legitimacy of governments and call into question businesses' social license to operate—potentially undermining the very institutions that can lead change at scale and at pace.

Not just profit—purpose

To address widening inequities, businesses need to identify and clearly communicate their purpose—the positive impact they make on the world that goes beyond financial success. And they should consistently and genuinely report progress toward those goals. Focusing solely on the "E" category of Environmental, Social, and Governance performance will not be enough—strong performance in the "S" category is vital.

Applying an equity lens

Adapting to the changing climate will require healthy, just, and well-functioning societies. Climate action needs to be viewed through the lenses of social, economic, and racial equity. Being aligned on equity can stimulate further investment.

Looking at the four goals and the COP26 presidency schedule, "Adaptation and Loss and Damage Day" covers "resilient communities and vulnerable people and regions." Other "Green Zone" programs offer opportunities to discuss gender, global south and indigenous peoples: opportunities for equity to become a real and substantial priority rather than just a factor in these conversations.

Looking ahead

Ultimately, the climate crisis cannot be solved without unprecedented global coordination: the world's major institutions across business, government, and civil society taking action together. Check back in the coming days and weeks for analysis of the progress made on incentivizing sustainable investment and enabling a just transition—and the potential next steps for business leaders.

Find out more:

- Deloitte COP26 Climate Exchange
- Leading in a Low Carbon Future
- Will COP26 incentivize the scale of investment needed and deliver an equitable transition?
- Did COP26 discussions deliver on incentivizing sustainable investment?
- Did COP26 lay the groundwork for a just transition to net zero?
- COP26 has wrapped. What's next for finance and climate equity?

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