COP26 has wrapped. What's next for finance and climate equity?

As COP26 closed, the International Energy Agency released its assessment of what the conference's progress on climate action could mean for the planet. It estimated that the pledges made leading up to and during COP26 could hold temperature rise to 1.8°C—just 0.3°C above the Paris Agreement target of 1.5°C—assuming, of course, that the commitments are met. Many raised concerns that paper commitments will not be fully realized. Overall, conversations yielded thoughtful provocations about the path forward and a long to-do list for leaders in the years and decades ahead.

At the start of COP26, Deloitte identified two areas that business leaders should watch closely: mobilizing finance to fund climate action and ensuring climate equity. Over the twelve days that followed, there were advancements on both fronts:

- UN Special Envoy for Climate Action and Finance Mark Carney announced accomplishments and renewed commitments of the Glasgow Financial Alliance for Net Zero (GFANZ), a coalition of more than 450 banks, insurers, and asset managers representing over US$130 trillion of private capital that committed to building net-zero economies.
- At least 26 countries joined a fossil fuel pledge to end the public financing of overseas oil, gas, and coal projects by the end of 2022.
- The Global Energy Alliance for People and the Planet was launched to tackle access to renewable energy across Africa, Asia, and Latin America.
- 15 countries and the European Union signed a Just Transition Declaration, pledging to "ensure that no one is left behind in the transition to a net-zero and climate resilient future".
- The WeMeanBusiness Coalition announced that more than 200 companies have now committed to a "just and climate resilient net-zero economy" by 2040.

Notwithstanding progress, discussions centered on the challenge of how to mobilize climate finance in such a way that it advances climate equity. Achieving this will require an increase in both the supply of financing—the amount of capital available to invest in a just transition—and the demand for financing—the number of investable opportunities to advance a just transition in communities around the world.

Prioritizing Equity in the Supply of Climate Finance

Throughout COP26, a major point of discussion was the inability of developed nations to uphold their US$100 billion annual climate finance pledge to developing nations coupled with calls to double this amount by 2025. Countries that committed have a responsibility to deliver beyond this pledge to make up for the significant shortfall that has accumulated since they made the original pledge 12 years ago.

At COP26, leaders laid the groundwork for mobilizing more investment, from the climate finance delivery plan to international carbon trading rules to key alliances and coalitions for public and private finance. As more capital begins to flow, leaders should recognize that it is not only the quantity of investment dollars that matters, but also the quality. Centering on equity capital rather than debt in the push to mobilize finance should underpin international agreement and co-operation on climate action. This will require innovative investment mechanisms to lower the debt burden on developing economies and ramp up financing to help vulnerable communities adapt to the changing climate

1. Innovating in Climate Finance

OECD estimates show that in 2019, loans accounted for 71% of public climate finance, with grants accounting for just 27%. Reports show that this conventional funding model does not support equitable climate action. It pushes emerging and developing economies that have done the least to cause the climate crisis into more debt.

But innovative investment mechanisms—like concessional financing, equity, guarantees, and results-based grants—hold the potential to unlock necessary climate action while reducing indebtedness. As ESG reporting gains traction and ESG investing becomes the new normal, institutional investors will play a vital role in directing capital and creating the conditions necessary for companies to invest in sustainable development.

2. Ramping up Adaptation Finance

According to the UN, countries are failing to adequately adapt to the changing climate. Those in high climate risk zones with low socioeconomic resilience will suffer most. Annual climate adaptation costs in developing countries alone are currently estimated at US$70 billion and are expected to reach US$140-300 billion in 2030 and US$280-500 billion in 2050. Yet emerging economies with scarce resources often have fundamental development needs, further exacerbated by the COVID-19 pandemic, that are prioritized above investments in climate adaptation. It will take a sustained effort to raise the necessary funding for adaptation in developing countries.

One outcome of COP26 that could help global adaptation funding is agreement on the rules to operationalize international carbon markets. These rules provide a framework to support the trading of emission reduction units globally in a more transparent and consistent way. This mechanism provides opportunities to finance more equitable approaches to mitigating GHG emissions and building climate resilience such as adaptation schemes, nature-based climate solutions, and innovative negative emissions technologies through the purchase of carbon credits. Further details will need to be developed to facilitate this globally coordinated carbon trading market, but it is a start to contribute to the much-needed flow of capital.

Creating Demand with Investible Opportunities to Advance a Just Transition

The second part of the equation depends on creating investible opportunities to advance a just transition. The path to net-zero presents possibilities for profit-yielding projects to bridge the gap to more sustainable systems, industries, and economies. Discussions at and around COP26 pointed to three activities to help ensure a successful and investible project within countries or geographies.

1. Engage communities on the ground

Business and government should proactively engage communities disproportionately impacted by climate change to understand what services and investments can be applied to help them adapt and meet their development needs. Opportunities may differ from community to community, so targeted interventions will be necessary to ensure adaptation and mitigation efforts truly benefit local communities, generate results, and attract investors.

2. Embrace data and metrics that offer consistent and comparable measures of sustainability

Data is a critical resource that government, business, and institutional investors should leverage to inform their climate actions. Data can help inform strategic decision making and identify key challenges to address at the local level. The Social Progress Imperative (SPI), for example, provides access to rich datasets that can illustrate the impacts of climate change. These datasets can be localized to focus business and government action where it is most urgently needed.

Likewise, data and metrics are essential for companies to track and report on how they are embedding considerations of people and planet in their strategies and business models, including through net-zero commitments. Consistent and comparable information on how sustainability matters affect enterprise value—including the resilience of companies' business models and supply chains—is essential to guide capital to long-term, successful business in the low-carbon economy. The announcement by the IFRS Foundation of its International Sustainability Standards Board (ISSB) to develop sustainability reporting standards that can lead to a global baseline of consistent and comparable sustainability information was a highly significant outcome of COP26. This development is a leap forward that could redefine corporate reporting.

3. Leverage technology and innovation.

Businesses and start-ups operating in developing economies have the opportunity to leverage the latest technology and innovations to green their operations and build in sustainable practices that could drive long-term economic growth. Many small-to-medium size enterprises are already "leapfrogging" or "stage skipping" traditional stages of development by investing in practices that drive efficiency and sustainability. By investing in low-carbon emissions processes from the start and positioning their businesses as high ESG-performers, companies can use technology and innovation to attract investors and capital finance.

Seizing our "last best chance"

Mobilizing climate finance to advance a just transition will require significant shifts across industries and systems as well as the policy and regulatory landscape. Governments should help to enable equitable industry-wide transformations, and business should determine how to modify non-sustainable operations while building resilience in vulnerable communities. The degree of transformation required is unprecedented. To move forward, leaders should acknowledge and address the uncertainties, practical challenges, and questions associated with this significant change.

Ultimately, the outcome of COP26 and our "last best chance" will be measured not in pledges made, but in financing raised, green jobs created, and adaption infrastructures built—concrete, real-world impacts that advance resilience and equity to address the climate crisis.

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Find out more:

- Deloitte COP26 Climate Exchange
- 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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