# Climate Finance: Moving Forward After COP26

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By **William Hepworth** and **Arya Rudra**

**Funding Climate Action: The Need for Private Sector Leadership**

From rising sea levels to the acidification of ocean water, from deforestation to the introduction of invasive species in ecosystems, the global effects of climate change are expanding in scope and scale. Financing, both from private and governmental sources, is required to drive tech development and expand decarbonization efforts to all geographies, industries, and stakeholders. But financing in itself forms a significant part of the challenge. An estimated $100 billion per year in investment is required for financing climate related issues, a target that developed countries were aiming to **achieve by 2020**. However, this target has largely been aspirational since global investments in the past 4 years have **averaged around $75 billion** – a gap that highlights the need for active participation by the private sector.

**Bridging the Funding Gap at COP26: Governmental Pledges**

At COP26, an intergovernmental **Green Climate Fund** was created to investigate the policies and criteria that would determine funding. Japan pledged $10 billion and Italy $7 billion over the next 5 years. The EU further pledged €1 billion, along the lines of the EU Green Deal, dedicated to protecting the world's forests. The climate finance gap magnifies a dual burden on low income countries, which are more at risk of climate disaster and lack the required infrastructure to face the consequences of global warming. Twelve other countries **pledged an additional $413 million** in funding to the Least Developed Countries Fund (LDCF) within the Green Climate Fund.

### Bridging the Funding Gap at COP26: Private Sector Initiatives

One of the main goals of COP26 was for governments to leverage private financing in support of the **Race to Zero**. To this end, 36 countries pledged to provide reliable, consistent information about climate risk to facilitate the flow of capital towards greener investments. Furthermore, the development of the new **International Sustainability Standards Board (ISSB)** will ensure common terminology and compatibility for investors who are comparing the sustainability strategies of companies on a global scale. Harmonization of reporting standards has been a key development for achieving global sustainability in business. Indeed, the five largest reporting organizations (CDP, CDSB, GRI, IIRC and SASB) **announced in 2020** that they had established a working group to develop a more comprehensive corporate reporting system. As the results of this collaboration come to fruition, pressure on the private sector to provide reliable and transparent ESG data will only continue to increase.

Private financial institutions from across the globe used the opportunity of COP26 to form a new coalition called the **Glasgow Financial Alliance for Net Zero (GFANZ)**. Four hundred and fifty financial firms from across the globe, representing over $130 trillion in assets, have pledged to accelerate the transition to a net-zero economy. Members have prioritized areas of transformation within the financial sector, including sector specific pathways for global industries and portfolio alignment with targets. With capital increasingly flowing towards strong sustainability performance in all sectors, the creation of GFANZ demonstrates that leading Financial Market Participants (FMPs) are prepared to push an even higher percentage of capital towards companies accelerating and enabling climate-action.

### Sustainability, the New Norm for Investors: Sector Trends

GFANZ is an example of how financial actors can work together towards accelerating the transition to a green economy. Such initiatives solidify regulatory efforts in Europe to promote those companies with the strongest sustainability strategies. The **EU Taxonomy**, the **Corporate Social Responsibility Directive (CSRD)** and the **Sustainable Finance Disclosure Regulation (SFDR)**, are shaping institutional investor strategy towards sustainability. By classifying the sustainability of various economic activities, increasing the percentage of European companies required to divulge Environmental, Social & Governance (ESG) data, and pushing for transparency at investor portfolio level, these regulations have set the triple bottom line as the new norm in European business, and the announcement of the new ISBB is taking this standardization of sustainability reporting global.

Under the new SFDR regulation, European asset managers will, by March 2022, not only have to divulge the percentage of their investments which are Taxonomy aligned, but also the percentage of investments which have adverse sustainability impacts. Strong sustainability performance will define how capital is allocated over the coming decades, and external ratings of sustainability management systems can function as a means for companies to display their commitments, attain recognition for concrete actions and demonstrate sustainability leadership in order to attract investors.

Indeed, whatever a company's size or activity, trends in the financial sector display that the need for comparable, accurate and transparent ESG information will only continue to grow, and with it, the flow of capital towards the best performers in each sector. Sustainability ratings, such as **the EcoVadis rating**, allow companies to gauge their networks' sustainability performance and benchmark their sustainable impact against that of industry peers.

The **EcoVadis methodology** also helps define clear areas of improvement for rated companies, providing them with a framework to demonstrate to investors and buyers that the climate transition is at the core of their business objectives, irrespective of the relative maturity of their sustainability management system. This engagement mechanism is particularly valuable to support smaller business partners in tracking and reporting on climate action, given SMEs accounting for upwards of 70% of global supply chains and related carbon emissions.

**Best Practices by Global Climate Leaders, and How Your Company Can Take Action**

To bridge the funding gap, climate-action financing needs to come from financial markets and governments. However, it must also derive from corporate climate leaders and, in this regard, supply chain finance holds the potential to cascade positive impact at scale by drawing additional stakeholders on board of the global decarbonization journey.

Climate finance and decarbonization tech has **already attracted billions** in private funding. L'Oreal, for instance, has established a €100 million **impact investment fund** dedicated to enhancing climate resilience. Amazon has created two impact investment funds, namely the **Climate Pledge Fund** ($2 billion investment by 2040) and the **Right**

**Now Climate Fund** ($100 million investment) to develop nature based solutions. With significant uncertainty over the cost and technical feasibility of carbon reduction levers, driving technology development and access is key to ensuring that decarbonization progress involves all tiers of global supply chains, including upstream players and SMEs.

Whether your company is looking to direct or attract finance, comparable information on sustainability management systems is imperative. EcoVadis sustainability ratings are the most trusted in evaluating the management system of an organization with regard to environment, labor practices, business ethics and sustainable procurement, and dive deeper into greenhouse gas management practices through the new **Carbon Scorecard**.

With over 75,000 companies rated across the world, EcoVadis' rigorous approach provides a backbone of trust for investments made by green and ESG funds directly and can also boost individual firms' ability to attract investments from other impact funds. To put COP26's climate finance commitments into practice, private sector leadership will be essential, and allow for an acceleration of technology access, climate action, and quality reporting towards decarbonization – for all parts of global supply chains.

**About the Authors:**

*William Hepworth is a Sustainability Analyst at EcoVadis, with a Masters in International Sustainability Management from ESCP and a Bachelors in History and Politics from Sussex University. Prior to joining EcoVadis, he worked as a CSR Project Manager in a CAC40 company, and wrote his Masters' thesis on the barriers to a greater flow of capital into the Green Economy within the Asset Management industry.*

*Arya Rudra is a Sustainability Analyst based in Paris. Prior to joining EcoVadis, Arya worked in Sustainable Finance consulting in a consulting firm in Paris, and in sustainability strategy at the L'Oreal luxury division. Arya holds a Masters degree in Sustainability from Sciences Po and another Masters degree in financial economics from Kent State University.*

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