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# THE CHANGING CLIMATE POLICY LANDSCAPE: CONSIDERATIONS FOR POLICYMAKERS AND THE NEEDS OF INVESTORS



A REPORT FROM THE FOUNDING PARTNERS OF THE INVESTOR AGENDA



# ABOUT THE INVESTOR AGENDA

The Founding Partners of the Investor Agenda draw on expertise from across the investor landscape to set out joint expectations in four interlocking areas – corporate engagement, investment, policy advocacy and investor disclosure.

The Founding Partners of The Investor Agenda are seven major groups working with investors: [Asia Investor Group on Climate Change](#), [CDP](#), [Ceres](#), [Investor Group on Climate Change](#), [Institutional Investors Group on Climate Change](#), [Principles for Responsible Investment](#) and [UNEP Finance Initiative](#).

## The Report

This report has been produced as part of the policy advocacy work of The Investor Agenda's Founding Partners. It takes the opportunity provided by the UNFCCC Global Stocktake to summarize how global climate policy has developed and to describe the core features that should underpin climate policy going forward.

## Authors

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## The Four Key Investor Agenda Focus Areas

### Investment



Managing systemic climate risks in investor portfolios and enabling the transition by shifting capital to value-creating businesses set to succeed in a net-zero future.

### Corporate Engagement



Engaging companies to drive and demonstrate real progress in line with a 1.5°C. future.

### Policy Advocacy



Advocating for policies aligned with delivering a just transition to a net-zero economy by 2050 or sooner.

### Investor Disclosure



Enhancing investor disclosure to help stakeholders track investor action in line with a 1.5°C pathway.



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## Acronyms

<b>ACCTS</b>	Agreement on Climate Change, Trade and Sustainability (ACCTS)
<b>AIGCC</b>	Asia Investor Group on Climate Change (AIGCC)
<b>COP</b>	Conference of the Parties
<b>CPI</b>	Climate Policy Initiative
<b>EMDCs</b>	Emerging markets and developing countries
<b>ESG</b>	Environmental, Social, Governance (factors)
<b>EU</b>	European Union
<b>GHG</b>	Greenhouse gas emissions
<b>IEA</b>	International Energy Agency
<b>IGCC</b>	Investor Group on Climate Change
<b>IIGCC</b>	Institutional Investors Group on Climate Change
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>IRA</b>	Inflation Reduction Act (US)
<b>MTCO<sub>2e</sub></b>	Megatonnes of carbon dioxide equivalent
<b>NDC</b>	Nationally Determined Contribution
<b>NZE</b>	Net Zero Emissions by 2050 Scenario (IEA)
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PRI</b>	Principles for Responsible Investment
<b>TCFD</b>	Task Force on Climate-related Financial Disclosures
<b>UN</b>	United Nations
<b>UNEP</b>	United Nations Environment Programme
<b>UNEP FI</b>	UNEP Finance Initiative
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>US</b>	United States



# EXECUTIVE SUMMARY

## The landscape of climate policy has changed profoundly and positively – but more still needs to be done.

From an investment perspective, policy shapes the decisions made by investors and by companies on where they allocate and where they do not allocate capital. Public policy also shapes the terms on which capital is allocated, including factors such as the cost of capital, the risk premia that are applied, the security or collateral that is needed, the duration of the investment, and the target returns.

Private capital is recognized by governments as having a critical role to play if we are to successfully transition to a low carbon economy and respond effectively to unavoidable physical climate change. It has therefore been a focus of international, regional and domestic monetary and fiscal policy and this has catalysed significant growth in climate finance flows over the past decade.

Perhaps the most striking feature of the policy landscape has been that the level of ambition has grown dramatically in recent years. The US Inflation Reduction Act – with its ambition to integrate climate objectives into industrial policy

and to manage energy security in the United States – is perhaps the most high-profile example of this trend. President Biden has underscored the need for a [“whole-of-government” approach](#) integrating multiple policy levers, from budgeting to investments and procurement. Similar industrial policy programs with explicit climate and energy security objectives include the European Union’s [Fit for 55](#) and [RePowerEU](#) plans, Japan’s [Green Transformation \(GX\)](#) policy, and China’s [1+N policy](#) framework. There has been a clear move from seeing climate change as a stand-alone policy issue focused on actions in specific sectors, to one where policymakers are now thinking about how to make climate policy an integral part of long-term economic development.

Our analysis of how investors are responding to this new generation of policy interventions suggests that good climate policy frameworks, i.e. policy that enables and accelerates the investment needed to meet the goals of the Paris Agreement, is underpinned by eight key features as set out in Box 1.

## Box 1: The Eight Key Features of Good Climate Policy Frameworks

Principle	Commentary
<b>Clear Commitments to Action</b>	For investors to invest, clear, measurable commitments are a necessary first step. They provide clarity about the direction of travel, create a level of accountability for government, and send an important signal to other governments (internationally, regionally and locally) and to other actors (e.g. companies) about what is expected.
<b>Clear Short-, Medium- and Long-term Targets</b>	<p>High-level commitments must be underpinned by short-, medium- and long-term targets. These interim targets give investors and other stakeholders confidence on the specific actions or pathway a policy framework will align to.</p> <p>Targets need to be developed with comprehensive, enforceable legal mechanisms for delivery and with review processes to ensure they stay on track and remain fit for purpose.</p>
<b>Comprehensive and At Scale</b>	Climate change policy needs to cover all major areas of the economy, and all major carbon intensive sectors, and be at the scale needed. Delivering national commitments to net zero or to keeping global temperature rise below 1.5°C cannot be delivered through action in a limited number of economic sectors. This requires greater inter-ministerial coordination on climate policy.
<b>Sector-specific Policies</b>	<p>Governments need to clarify the roles that are expected from different actors and sectors to support the delivery of overarching commitments and interim targets. Sector-specific policies must be aligned with overarching national climate commitments and targets and, to be effective, should be aligned with and support other national objectives. For example, the energy sector needs to reconcile and manage decarbonization, energy security and energy affordability issues, and needs clear guidance on how the tensions between these are to be balanced over the short-, medium- and long-term.</p> <p>Policymaking at the sectoral level also needs to consider how ‘green’ investment can be made financially attractive, both relative to similar investments and to other available investment opportunities. For example, in the energy sector, renewable energy is competing with fossil fuels for capital investment.</p>
<b>Provide the Right Incentives</b>	<p>Fiscal policy and financial incentives need to be sufficient to encourage changes in the real economy and to encourage investors to provide the capital needed to enable these changes.</p> <p>Incentives need to be set at a level to ensure that transition-related investments are attractive relative to conventional investments and relative to the returns that may be achieved from other sectors. Governments may need to accept that they have to provide additional incentives to overcome investor concerns about policy uncertainty and policy longevity.</p>
<b>Just Transition</b>	A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind. Social justice is central to the low carbon transition, and there is no low carbon transition without a just transition.
<b>Transparency</b>	Transparency is necessary to allow policymakers, investors and companies to effectively manage climate risks and opportunities and the low carbon transition.
<b>Transition Planning</b>	Organizations – including companies, investors and public sector bodies – and policymakers with commitments to net zero and to the low carbon transition, should develop structured plans setting out what actions they intend to take, how much these actions will cost, when the actions will be taken, what the outcomes will be and who is responsible. They should also report regularly on these aspects.

## Our Agenda

The Founding Partners of The Investor Agenda recognize that there is an important role to be played in supporting governments with the design of their policy frameworks, and in encouraging investors to respond to the signals and incentives provided by climate finance policy. This requires all countries to develop robust policy frameworks that meet all eight of these principles.

The Founding Partners of The Investor Agenda will support these efforts by:

1. Explicitly calling on governments to ensure that their climate policies incorporate all eight of these key features.
2. Actively welcoming the adoption and effective implementation of policy frameworks that include these eight features, and identifying areas where specific features have been omitted or inadequately addressed.
3. Sharing examples and case studies of effective climate finance policy, by advising on, for example:
  - The type of policy measures that are likely to be most effective in mobilizing capital.
  - The point at which investors or companies are likely to find the costs of compliance unacceptable (these are points where policymakers may need to think about how they execute the policy objective).
  - The likely evolution of technology.
  - The economics of specific technologies.
4. Ensuring alignment between policy, investor and company advocacy to meet the goals of the low carbon transition.
5. Encouraging companies and other actors to develop credible transition plans.



# 1

## INTRODUCTION

**The Founding Partners of The Investor Agenda have been at the forefront of domestic, regional and international climate finance policy advocacy work for almost two decades.**

### **The Founding Partners of The Investor Agenda**

- Asia Investor Group on Climate Change (AIGCC)
- CDP
- Ceres
- Investor Group on Climate Change (IGCC)
- Institutional Investors Group on Climate Change (IIGCC)
- Principles for Responsible Investment (PRI)
- UNEP Finance Initiative

Since 2008, these organizations have regularly issued Global Investor Statements calling for greater action from governments on climate change.

The landscape of climate finance has changed dramatically over that time. Private capital is recognized by governments as having a critical role to play if we are to successfully transition to the low carbon economy and respond effectively to unavoidable physical climate change. Encouraging and enabling private capital flows has become an increasingly central theme of international, regional, and domestic monetary and fiscal policy. This has helped to drive significant

growth in climate finance flows over the past decade.

These changes – specifically the moving of climate change from the margins to the mainstream of public policy – mean that it is time for us to look at and refine the Investor Agenda’s approach to policy advocacy. This report describes recent developments in climate policy, and sets out what features the Founding Partners of The Investor Agenda deem essential for effective climate change policy, and how these policy features can contribute to a successful low carbon transition and respond effectively to the impacts of physical climate change.





## THE CHANGING CLIMATE POLICY AND INVESTOR LANDSCAPE

**Public policy sets the framework within which all actors – public and private sector – operate.**

It arbitrates between competing interests and guides the actions taken by these actors. From an investment perspective, policy shapes the decisions made by investors and by companies on where they allocate and where they do not allocate capital. Public policy also shapes the terms on which capital is allocated, in terms of factors such as the cost of capital, the risk premia that are applied, the security or collateral that is needed, the duration of the investment, and the target returns.

Climate change and the transition to a low carbon economy aligned with the Paris agreement goal of limiting global warming to 1.5°C is a unique and complex policy challenge impacting all aspects of global society. The decisions made by policymakers will shape where capital is allocated – in terms of geographies, sectors, activities –

and whether this capital allocation (or investment) will enable or undermine the transition to a low carbon economy. It will also determine whether we can adapt effectively to the unavoidable impacts of physical climate change.

To be effective, climate-related public policy supporting the economic transition to a low carbon economy needs to consider a whole-of-government perspective. Transition must become a central goal of public policy, as a necessary prerequisite for ensuring effective coordination across government and to ensure consistency of policy goals, of implementation measures and of collaboration. Coordinated and integrated action is required for an effective transition: specifically in addressing economic externalities, incentivizing markets for solutions, and enabling finance to support the transition.

# Climate Policy

Climate policy has changed dramatically in scope, in ambition and in complexity. The 2015 Paris Agreement, which set globally agreed temperature goals on climate change, has accelerated policy action, domestically, regionally, and internationally. All are important: international policy because it provides the frameworks, networks and accountability processes to ensure that governments follow through on their

commitments; and regional and domestic policies because they are the critical determinants of investment decisions within the country in question. Despite the significant advances in climate change policy – many of which we document in this report – the imminent UNFCCC Global Stocktake is expected to highlight that the world is far from limiting global temperature rise to 1.5°C and that an urgent course correction is needed.

**Table 1: Selected Climate Policy Milestones**

Year	Milestone
1990	First report of the Intergovernmental Panel on Climate Change (IPCC).
1992	UN Framework Convention on Climate Change (UNFCCC) established.
1994	UNFCCC enters into force.
1997	Kyoto Protocol agreed.
2005	Kyoto Protocol enters into force. EU's Emissions Trading System is launched.
2007	IPCC Fourth Assessment Report released.
2011	COP17 agreement to a universal climate change agreement by 2015.
2014	IPCC Fifth Assessment Report released.
2015	Paris Agreement is adopted.
2017	TCFD Recommendations released. Launch of China's emissions trading scheme, scheduled for implementation from 2021.
2018	IPCC releases Special Report on Global Warming of 1.5°C.
2021	COP26 agreement by countries to the goal of climate neutrality, increased funding for vulnerable developing countries; and reduced funding for new fossil fuel projects. European Climate Law enters into force, and EU Fit for 55 package launched.
2022	COP27 countries agree to create a loss and damage fund to help vulnerable countries hit by climate disasters. The U.S. Inflation Reduction Act – the largest investment in addressing climate change in U.S history – signed into law.
2023	International Sustainability Standards Board (ISSB) releases its Climate Disclosure Standard – SFRS S2.

Perhaps the most striking feature of the policy landscape has been that the level of ambition has grown dramatically in recent years, moving towards the scale that will be needed to effectively tackle the major risks and opportunities presented by climate change. International, regional and domestic institutional frameworks for climate change are now well established. There has been a clear move from seeing climate change as a stand-alone policy issue focused on particular actions in specific sectors, to policymakers now thinking about how to integrate climate policy into long-term economic development.

The [US Inflation Reduction Act](#) – with its ambition to integrate climate objectives into industrial policy and to manage energy security in the United States – is perhaps the most high-profile example of this trend. Similar industrial policy programs with explicit climate and energy security objectives include the European Union’s [Fit for 55](#) and [RePowerEU plans](#), Japan’s [Green Transformation \(GX\)](#) policy, and China’s [1+N](#) policy framework.

Policymakers have also paid greater attention to the finance sector, by implementing policies to build capacity and improve transparency through, for example, mandatory TCFD reporting in national financial system regulation (for example in [Hong Kong, New Zealand, and the UK](#)). Policies have also been designed to encourage capital flows into specific activities and sectors of the economy, using tools such as taxonomies (for

example in [Colombia, the EU, and South Africa](#)) and targeted financial instruments, such as green bonds and green loans. These policy developments have occurred against a backdrop of global change. The war in Ukraine has raised the importance of national energy security and independence, the increasingly frequent and tangible physical impacts of climate change are creating a sense of urgency for governments, and recent policy packages such as those related to the recovery from the COVID-19 pandemic have reminded governments of their own potential to drive economic policy.

Despite this progress, much more is needed. Investors acknowledge the ambition being shown by governments and see the measures taken as important steps towards fully comprehensive and integrated climate policy frameworks. However, they also see that policy is not yet fully integrated, that governments continue to see climate change as separate to and less important than other aspects of economic and fiscal policy, and that the level of financial incentives is not yet sufficient to catalyze or accelerate the finance needed, in particular for adaptation. Climate policy must also address the difficulties faced by emerging markets and developing countries (EMDCs), acknowledging that many face challenging economic conditions (e.g. limited growth, high levels of public sector debt), practical challenges in attracting investment capital (e.g. thin domestic capital markets, investor perceptions of risk) and growing vulnerability to the physical impacts of climate change.

## The Integration of Nature into Climate Policy

It is now widely accepted that tackling climate change will not be possible without addressing broader nature-related issues. A poorly managed transition to a low carbon future could increase nature loss and the destruction of the terrestrial, freshwater and marine ecosystems that we are reliant on for planetary survival. Conversely, a well-managed transition that accounts for nature and biodiversity at the heart of decision-making could result in healthier ecosystems that are climate resilient and present interlinked climate transition opportunities.

Policymakers should be seeking to drive a climate resilient economy that also delivers nature positive outcomes. This was recognized at COP15, the 2022 UN Biodiversity Conference, which saw the adoption of the [Kunming-Montreal Global Biodiversity Framework](#). This Framework sets out an ambitious pathway to reach the global vision of a world living in harmony with nature where “[by 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people.](#)”

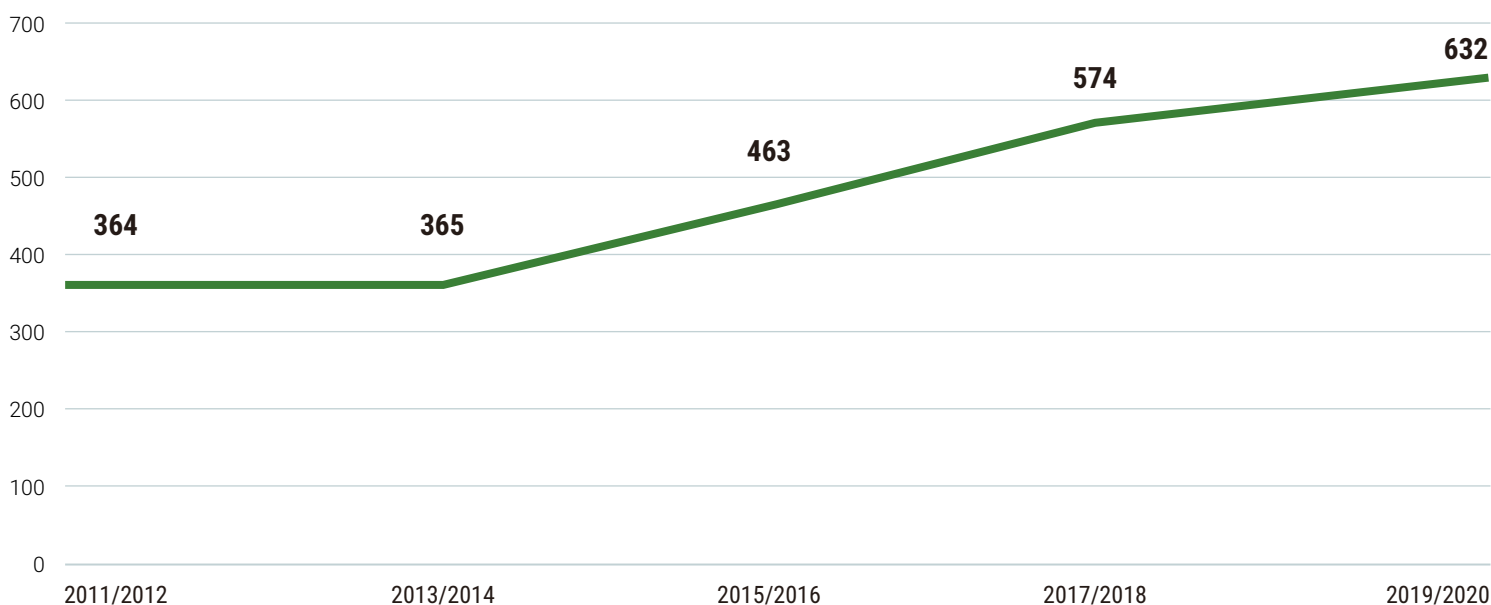
# Sustainable Finance

As the climate policy landscape has evolved, we have also seen substantial developments in investor engagement and the integration of sustainable finance and specifically climate finance. Over the past 15 years, there have been striking shifts in how the financial sector analyzes and addresses climate change and other sustainability-related issues. Sustainable finance or ESG investing has moved from being a niche issue to being central to the investment practices and processes of many global investors. For example, over 4,500 asset owners and asset managers are now signatories to the [Principles for Responsible Investment](#), while over 300 banks, representing almost half of the global banking industry, are signatories to the [Principles for Responsible Banking](#). [Climate Action 100+](#)

with the ambition to ensure the world's largest corporate greenhouse gas emitters are taking the necessary action on climate change has over 700 investor signatories representing USD 68 trillion in assets.

This awareness and commitment to action by the finance sector – underpinned by climate change policy – is being seen in capital flows. The most recent data from the [Climate Policy Initiative](#) (CPI) suggests that climate finance grew from USD 364 billion in 2011/12 to USD 632 billion in 2019/20, with almost half of the 2019/20 flows (USD 310 billion) coming from private sources<sup>x</sup>.

**Graph 1: Trends in Global Climate Finance from 2011 to 2020 (Source: CPI).**



While the rate of growth is impressive, this level of climate finance is still well below what is needed to limit global warming to 1.5°C, which CPI estimates will need USD 4.35 trillion annually by 2030. Reinforcing this message, the [2022 report](#) by the [Independent High-Level Expert Group on Climate Finance](#) argued that: *“The world needs a breakthrough and a new roadmap on climate finance that can mobilize the USD 1 trillion per year in external finance that will be needed by 2030 for emerging markets and developing countries (EMDCs) other than China.”*

Adaptation is particularly underfunded. In 2019/2020, climate finance for adaptation constituted only USD 46 billion of the total USD 632 billion despite an increase of 53% over the previous two years and was almost entirely funded by public actors. [UNEP’s 2022 Adaptation Gap Report](#) states that international adaptation finance flows to developing countries are 5-10 times below estimated needs and the gap is widening.

<sup>x</sup> Global climate finance refers to “global primary investment by public and private actors in activities that reduce emissions and improve adaptation and resilience to climate change”. This data is taken from ‘Global Landscape of Climate Finance: A Decade of Data’ (CPI, 2022). Other sources of data are available such as the IEA’s [‘World Energy Investment’](#) reports.



# 3

## KEY FEATURES OF EFFECTIVE CLIMATE POLICY

**This report summarizes how the Founding Partners of The Investor Agenda have reviewed the effectiveness of policy implementation, and how different approaches to policy design and implementation shape the responses or actions of capital markets.**

This report summarizes how the Founding Partners of The Investor Agenda have reviewed the effectiveness of policy implementation, and how different approaches to policy design and implementation shape the responses or actions of capital markets. Investors have responded to the new generation of policy interventions designed to encourage at-scale investment. The Investor Agenda Founding Partners have held many discussions with investors about what they see as the characteristics of good climate change policy, and about the characteristics of policy that are ineffective or inefficient.

This has allowed the Founding Partners of the Investor Agenda to identify the eight key features of good climate policy frameworks, i.e. policy that enables and accelerates the investment needed to meet the goals of the Paris Agreement. All eight of these features are important. Policy frameworks that lack one or more of these features are much less likely to deliver the transition to a low carbon economy, or effective adaptation to the unavoidable impacts of physical climate change.

## Clear Commitments to Action

For public and private sector organizations – and for political leaders – clear, measurable commitments are a necessary first step. Without such commitments, it is unlikely that the desired outcomes will be achieved. While such commitments do not necessarily guarantee action, their absence means that effective action is much less likely. High level commitments (for example, to deliver net zero by 2050) help to ensure that other government policies align with these commitments, and send an important signal to other governments, internationally, regionally and locally.

The 2015 Paris Agreement commitment to limit global warming to well below 2°C and to pursue efforts to limit it to 1.5°C remains the overarching, clear, and quantifiable internationally agreed commitment. [The Nationally Determined Contributions \(NDCs\)](#) mechanism ensures governments' own national commitments are linked to the Paris Agreement goal and also to national contexts and economic priorities. While the NDC mechanism has provided a clear framework for governments to take action, the commitments made to date remain, in aggregate, insufficient. [Current NDC commitments](#) are expected to put the world on track for [2.5°C of warming by 2100](#).

### Colombia

Colombia's NDC sets an aspiration to be carbon neutral by 2050 which has been enshrined in law through Law 2169/2021.

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### Norway

Norway's NDC sets a 2030 target to reduce GHG emissions by 55% below 1990 levels. While not a long-term commitment to net zero by 2050 the commitment is of sufficient ambition to be 1.5°C aligned.

Policy risk or certainty is a key influence on whether investors will decide to invest. Investors need long-term certainty and predictability on policy. Typically, what is seen is that, if policy commitments have a time horizon shorter than the timeframe over which the investment is expected to repay the capital invested – as is the case with many

infrastructure and energy investments – investors will tend to wait and see rather than deploy capital. Investors will also pay attention to the government's track record on climate policy as an indicator of whether the government is likely to change policies or incentives in a way that affects existing investments.

## Clear Short-, Medium- and Long-term Targets

High-level commitments must be underpinned by short-, medium- and long-term targets. These interim targets give investors and other stakeholders confidence on the specific actions or pathway a policy framework will align to.

The Paris Agreement sets the long-term ambition for climate change. This ambition is translated into a global long-term greenhouse gas emissions target of net zero emissions by 2050. Governments should declare net zero targets in line with

1.5°C warming by 2050 at the latest with interim targets for at least 2030, aligned with a 1.5°C pathway. This equates to a reduction in global greenhouse gas emissions of 45% by 2030 against a 2010 baseline.

Targets need to be developed with comprehensive, enforceable legal mechanisms for delivery and with review processes to ensure they stay on track and remain fit for purpose.

### Costa Rica

Costa Rica's [National Decarbonization Plan, published in 2019](#), aims to achieve net zero by 2050, in line the trajectory of keeping global temperature rise to 1.5°C. The plan sets an emissions target for 2030 and sets other interim sector-based goals and targets, including:

- By 2035, 70% of all buses and taxis are expected to be electric, with the goal of full electrification by 2050.
- Electricity generation to be from 100% renewable sources by 2030.
- The carbon footprint of the national agriculture sector should be reduced.
- National forest area should increase from 52% in 2019 to 60% by 2030.

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### South Africa

[South Africa's 2021 updated NDC](#) sets short and medium term GHG emission targets to meet the Paris Agreement goals. It frames its mitigation targets as:

*"South Africa considers these updated mitigation goals as our highest possible ambition in the light of our national circumstances, and as South Africa's fair contribution to the long-term mitigation goal."* It commits to a fixed target for greenhouse gas emissions levels of 398-510 MtCO<sub>2</sub>e by 2025, and 350-420 MtCO<sub>2</sub>e by 2030.

## Comprehensive and At Scale

Climate change policy needs to be comprehensive (i.e., covering all major areas of the economy, and all major carbon intensive sectors) and at scale. Delivering national commitments to net zero or to keep global temperature rise below 1.5°C cannot be delivered through action in a limited number of economic sectors. That is, climate policy needs to comprehensively cover all major sources of greenhouse gas

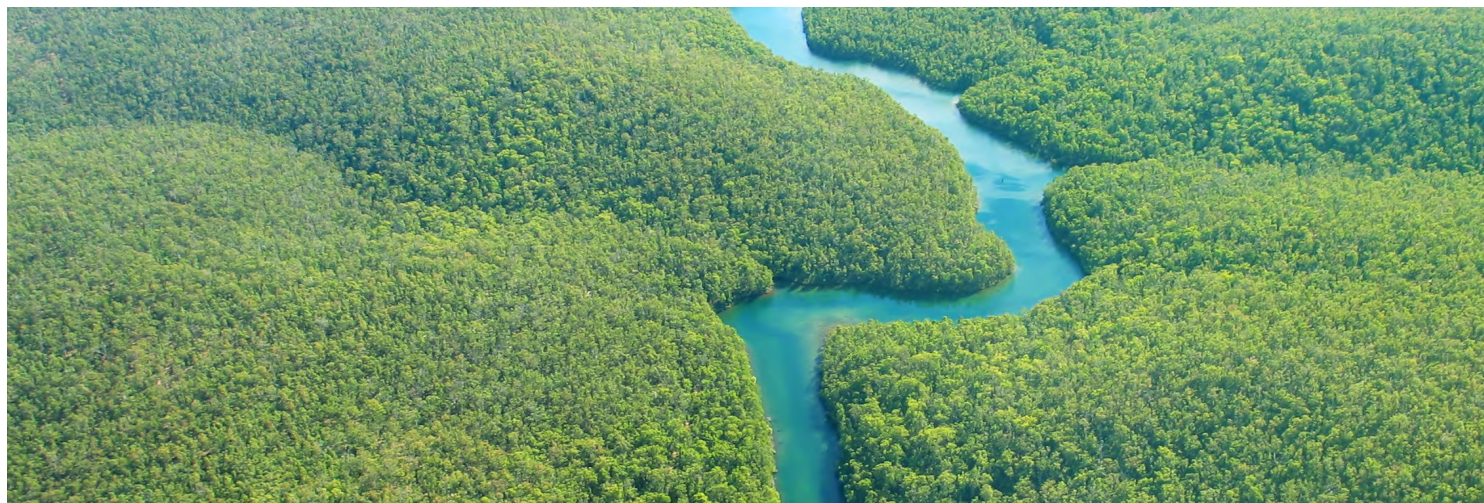
emissions, without exception. Comprehensive policies must also be complementary in two regards. First, sustainable finance policies should be integrated with the real economy and not treated as a stand-alone exercise. Second, policies should support and reinforce each other, and not conflict with each other; a common example of the latter are fossil fuel subsidies (which weaken the case for low carbon investments).

### Singapore

Inter-ministerial coordination is crucial for climate policy to be comprehensive and can support a whole-of-government approach. Singapore's [Inter-Ministerial Committee on Climate Change \(IMCCC\)](#), established in 2007, coordinates various government ministries participation in climate-related working groups to enhance whole-of-government coordination on climate change policies to ensure that Singapore is prepared for the impacts of climate change.

The challenges of climate change are not limited by economic or national boundaries, and a similar point applies to policy. Policymakers therefore need to consider how international efforts can complement and reinforce regional and domestic policy. Policymakers also need to coordinate their efforts in relation to supranational sectors such as shipping and aviation,

and in relation to non-financed emissions<sup>1</sup>. Both of these are likely to require international policy measures that complement and support domestic efforts. The same points apply to physical climate change: policymakers should coordinate on cross-border climate impacts and collaborate on adaptation planning to address inter-regional climate risks.



<sup>1</sup> Non-financed emissions refer to GHG emissions not directly influenced by or financed by financial institutions, corporations, or specific investment projects. For example, these might be emissions that occur as a result of natural processes.



## Sector-specific Policies

Governments need to clarify the roles of different actors and sectors required to support the delivery of overarching commitments and interim targets. Governments should issue credible and predictable sector-specific policies, with sector-specific targets, to ensure concrete and effective actions.

Sector-specific policies must be aligned with overarching national climate commitments and targets and, to be

effective, they should be aligned with and support other national objectives. For example, the energy sector needs to reconcile and manage decarbonization, energy security and energy affordability issues, and needs clear guidance on how the tensions between these are to be balanced over the short-, medium- and long-term.

The Inflation Reduction Act (IRA) in the US and the EU's 'Fit for 55' policy both explicitly combine climate and energy security objectives.

### United States

The [IRA](#) passed by Congress in 2022 is the most significant climate legislation in US history and is projected to result in a 40% reduction in greenhouse gas emissions by 2030. It will support a wide range of new low-carbon investments through the provision of tax incentives, grants, and new loan authority.

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### European Union

The [EU Fit for 55](#) package is a set of proposals to revise and update EU legislation, and to put in place new initiatives with the aim of ensuring that EU policies are in line with the climate goals agreed by the Council and the European Parliament (reducing net GHG emissions by at least 55% by 2030).

Policymaking at the sectoral level also needs to consider how 'green' investment can be made financially attractive, both relative to similar investments and to other available investment opportunities. For example, in the energy sector, renewable energy is competing with fossil fuels for capital investment.

When developing sector-specific policies, governments need to develop an understanding of relevant sector transition pathways. [GFANZ defines sector transition pathways](#) as models *"that detail potential roadmaps for a given sector to reduce emissions to a defined level in a specified timeframe. They include assumptions about changes in technologies, business models, economics, and other considerations that can be used to build narratives and benchmarks for how*

*a sector transitions to net zero, rather than as forecasts."*

Sector transition pathways can provide clarity on the rate at which emissions reductions must occur. For example, the International Energy Agency's (IEA) [Net Zero Emissions by 2050 Scenario \(NZE\)](#) requires electricity generation to be net zero globally by 2040 and by 2035 in advanced economies, with electricity generation supplying almost half of total energy consumption in this scenario. Further, the NZE envisages that the [phase-out of unabated coal and oil power plants](#) by the energy sector will occur by 2030 in OECD and EU nations, and by 2040 globally. Sector transition pathways also provide a level of clarity for investors and sector entities on the actions, and therefore the capital flows, needed to achieve defined policy objectives.

## Provide the Right Incentives

Fiscal policy and financial incentives need to be sufficient to encourage changes in the real economy and to encourage investors to provide the capital needed to enable these changes. The incentives that governments might consider include strong and sustained price signals on carbon, well designed carbon markets and appropriate incentives to enable private investment in clean energy and other transition activities. Central to these efforts are the removal of fossil fuel subsidies and other perverse incentives, and the full pricing of the externalities of carbon emissions.

Incentives need to be set at a level to ensure that transition-related investments are attractive relative to conventional

investments and relative to the returns that may be achieved from other sectors. Governments may need to accept that they have to provide additional incentives to overcome investor concerns about policy uncertainty and policy longevity.

If policymakers want to stimulate immediate investment and/or bring investments forward, they need to ensure that projects not only have positive net present values but also provide returns on investment that are sufficient to exceed the value of waiting for policy certainty. This could mean that the prices (e.g. electricity or carbon prices) or other financial support required to stimulate investment in low-carbon technology may be higher than expected based on normal discounted cash-flow analysis.

Often domestic incentives can be undermined by international trade. The [Agreement on Climate Change, Trade and Sustainability \(ACCTS\)](#), between New Zealand, Costa Rica, Fiji, Iceland, Norway and Switzerland seeks to develop agreement on trade-related issues for climate and other environmental issues covering key competitiveness topics such as tariffs, fossil fuel subsidies, and labelling.



## Just Transition

A [just transition](#) means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities, and leaving no one behind.

Social justice is central to the low carbon transition, and there is no low carbon transition without a just transition. If the transition is not seen as socially just – i.e., if it does not have sufficient decent work, if it undermines community resilience, if it is seen to disadvantage the poor or the vulnerable – then public and political support will be undermined. As a process, the just transition should (a) assess, address and minimize social risks, (b) identify and maximize social opportunities, and (c) engage with relevant affected stakeholder groups. National and regional climate policy frameworks should integrate just transition considerations to ensure societal

support for transition plans and net zero commitments. The importance of just transition was recognized at COP26, where the [Glasgow Climate Pact](#) referred to just transition in the context of transition to clean fuels. In relation to 'Implementation' the Pact *"recognizes the need to ensure just transitions that promote sustainable development and eradication of poverty, and the creation of decent work and quality jobs, including through making financial flows consistent with a pathway towards low greenhouse gas emission and climate-resilient development, including through deployment and transfer of technology, and provision of support to developing country Parties."* In addition, at COP26, sixteen industrialized country governments along with the EU issued a declaration on [Supporting the Conditions for a Just Transition Internationally](#).

In 2021, France, Germany, UK, US and the EU launched the [International Just Energy Transition Partnership](#) for South Africa. The partnership is an example of how just transition can be integrated into sector policy objectives. The Political Declaration, which focuses on the energy sector and seeks to accelerate the decarbonization of South Africa's economy over the next 3-5 years, committing \$8.5 billion, makes multiple explicit references to a just transition as a core objective. South Africa incorporated just transition principles into its own 2015 [NDC](#).

Australia's [National Net Zero Authority](#) has been set up to ensure that workers, industries and communities can seize the opportunities of Australia's net zero transformation. "The new legislated Net Zero Authority will:

- Support workers in emissions-intensive sectors to access new employment, skills and support as the net zero transformation continues.
- Coordinate programs and policies across government to support regions and communities to attract and take advantage of new clean energy industries and set those industries up for success.
- Help investors and companies to engage with net zero transformation opportunities.

# Transparency

Transparency by companies and investors is necessary because decision-useful climate-related disclosure in both the financial sector and real economy sectors remains critical to effectively manage climate risks and opportunities and the transition.

At a minimum, governments should have clear plans for investors and companies to report on how they manage climate risks and opportunities, performance on climate management, and transition actions for climate. This likely

means aligning mandatory reporting requirements with international standards and that governments should, at a minimum, ensure that companies and investors report against:

- a) [TCFD Recommendations](#).
- b) ISSB Recommended Disclosures, specifically [IFRS S2 Climate-related Disclosures Standards](#).
- c) Transition plans aligned to 1.5°C pathways and [nature-positive outcomes](#)<sup>2</sup>.

## CDP's Principles for High Quality Mandatory Disclosure

In 2021, CDP published [five recommendations for high-quality mandatory climate disclosure](#). Given the evolving landscape of disclosure regulation into more than climate, encompassing biodiversity and nature, CDP has updated these recommendations – now referred to as CDP's Principles for High Quality Mandatory Disclosure – by drawing from an assessment of G20 environmental disclosure policies and regulations. These Principles will be launched at the G20 in September 2023 and aim to support policymakers to design comprehensive, high-quality, and coherent mandatory environmental disclosure policies.

The Principles state:

1. Ensure environmental disclosure integrity, addressing risk, opportunities, dependencies and impacts on people and planet, with a holistic environmental approach.
2. Ensure comparability and interoperability of disclosure regimes across jurisdictions, relying on global baseline disclosure standards.
3. Ensure policy coherence of all disclosure requirements in each jurisdiction.
4. Be rooted in science.
5. Bring in scope business and financial institutions.
6. Paving the way for economic transformation: include expectations on disclosure of climate, water, and nature transition plans.
7. Ensure quality and reliability and set expectations on external assurance.
8. Provide an enforcement mechanism.
9. Strengthen the role of corporate governance bodies.
10. Cultivate an environment for innovation and advancing disclosure maturity.

<sup>2</sup> "Nature positive" means that we need to halt and reverse nature loss measured from a baseline of 2020, through increasing the health, abundance, diversity and resilience of species, populations and ecosystems so that by 2030 nature is visibly and measurably on the path of recovery. Source: <https://www.naturepositive.org/>

Elements of mandatory TCFD reporting already exist in Brazil, Canada the EU, Hong Kong, Japan, New Zealand, Singapore, Switzerland, and the UK, among others.

### United Kingdom

The UK’s FCA has introduced rules for listed companies and large regulated asset owners and asset managers to disclose transition plans as part of their Task Force on Climate-Related Financial Disclosures (TCFD)-aligned disclosures, initially on a comply or explain basis.

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### Singapore

Singapore’s Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) [announced](#) their intention to require listed issuers to report against ISSB standards from 2025.



## Transition Planning

As discussed in the section on short-, medium- and long-term targets, policymakers need to ensure there are mechanisms for the delivery of these targets. That is to say: governments, when they make commitments and set targets, should explain how these are to be delivered, how they are to be funded and who is responsible.

The same principle applies to companies, investors and other organizations with commitments to net zero and to the low carbon transition. They should explain what actions they intend to take, how much the actions will cost (CapEx and OpEx), when the actions will be taken, what the outcomes will be and who is responsible. They should also report regularly on these aspects.

A number of countries have formalized, or are in the process of formalizing, these principles in requirements for organizations to prepare and implement transition plans.

A transition plan is a time-bound action plan that outlines how the preparer (of the transition plan) will adapt as the world transitions to a low carbon economy. As such it is an important management tool for the entity, and it is also an important accountability tool for other stakeholders (e.g. investors, civil society, regulators). For companies and investors, a transition plan should cover:

- the entity's ambition, i.e. commitment to net zero and quantifiable and time bound objectives;
- the actions it will take integrated in the overall business strategy, i.e. business planning, financial planning, and engagement strategy ensuring the plan covers the whole organization;
- and accountability mechanisms, i.e. what metrics and targets it has set and what governance processes are in place, to be reviewed and updated regularly.

In the UK, the [Transition Plan Taskforce](#) was launched in 2021 to develop a gold standard for private sector entity level transition plans.

The Transition Plan Taskforce workplan includes [publishing guidance](#) on:

- **The TPT Disclosure Framework** – A sector-neutral framework which recommends disclosures for high quality transition plans and builds on ISSB, TCFD and GFANZ.
- **The TPT Implementation Guide** – Guidance to support entities in implementing the TPT Disclosure Framework. It includes key process steps for preparing a transition plan and interpretative guidance for each sub-element of the Disclosure Framework.
- **TPT Sector Guidance** – Developed to supplement the TPT Disclosure Framework and Implementation Guidance with recommendations for sector-specific transition plan disclosures.

The UN, in 2022, has established a [High-Level Expert Group](#) on the Net-Zero Emissions Commitments of Non-State Entities to develop stronger and clearer standards for net-zero emissions pledges by non-State entities – including businesses, investors, cities, and regions – and speed up their implementation. One of its initial calls is for credible and transparent transition plans.

# 4

## THE INVESTOR AGENDA – NEXT STEPS

### The landscape of climate policy has changed profoundly and positively.

Policymakers increasingly recognize that each country needs a comprehensive climate policy framework in order to deliver a net zero and climate-resilient economy. Governments have started to implement these policy frameworks and, increasingly, at the scale and level of ambition that is needed.

But there is still a long way to go. First, we need to ensure that all countries have implemented these policy frameworks. Second, we need to ensure that policy

frameworks meet all eight of the key features described in this report. To date, even the most ambitious programs do not integrate all of these features.

The Founding Partners of The Investor Agenda recognize that there is an important role to be played in supporting governments with the design of their policy frameworks, and in encouraging investor members and signatories to respond to the signals and incentives provided by climate policy.

**“Public policy is critical for investors; it is a key ingredient in defining the rules by which capital markets operate. It signals and incentivizes the flow of capital across the global economy, particularly where the benefits of investment accrue not to one market actor but across the global economy and society.”**

The Investor Agenda (2023)

The Founding Partners of The Investor Agenda will support these efforts by:

1. Explicitly calling on governments to ensure that their climate policies incorporate all eight of the design features presented in this report.
2. Actively welcoming the adoption and effective implementation of policy frameworks that include all eight of the design features and identifying areas where specific design features have been omitted or inadequately incorporated.
3. Sharing examples and case studies of effective climate finance policy. For example, we can advise on:
  - The type of policy measures that are likely to be most effective in mobilizing capital.
  - The point at which investors or companies are likely to find the costs of compliance unacceptable (these are

points where policymakers may need to think about how they execute the policy objective).

- The likely evolution of technology.
  - The economics of specific technologies.
4. Ensuring alignment between policy, investor and company advocacy to meet the goals of low carbon transition.
  5. Encouraging companies and other actors to develop credible transition plans. Transition plans are the point where companies and other actors translate their commitments to transition into concrete action by setting targets, specifying the actions they will take and allocating capital and operating budgets. Transition plans are important because they identify dependencies, in particular those areas where action is dependent on policymaker action. Furthermore, they are crucial for transparency and accountability purposes.





# APPENDIX 1: COUNTRY CASE STUDIES

The Founding Partners of The Investor Agenda have worked with investors in Australia, the European Union, Japan and the United States to drive country- and region-specific policy goals. These Country Policy Groups (CPGs) advocated for policies in line with the calls to action in the Global Investor Statements. This section of the report presents climate-related policy developments to illustrate the changing landscape in each CPG's region of work. The Investor Agenda [Global and Regional Policy Advocacy](#) website provides a summary of specific policy advocacy actions by each CPG and how they have contributed to the evolving policy landscape.

## Australia

### Policy context over the past 5 years

The Australian policy context has changed rapidly since 2022, which saw a new government elected and an historic number of climate-ambitious Independents and Greens elected to Parliament. Tackling the climate crisis and unlocking prosperity from the net zero transition is becoming a core economic narrative and policy priority. Australia's 2030 emissions reduction target has advanced from 26-28% to 43% on 2005 levels by 2030, and net zero by 2050. Policy settings and budget allocations are shifting towards that goal. However, more work needs to be done to raise ambition and implement policy that will put Australia on a 1.5°C-aligned trajectory. Both major parties are still unwilling to openly discuss the phase out of fossil fuels.



## Specific examples of policy action

Australia now has:

- The Safeguard Mechanism which puts a price on carbon emissions for Australia's 215 largest industrial facilities, covering roughly a third of the Australian economy.
- The Net Zero Authority to coordinate affected communities, businesses, and investors through the transition.
- The Capacity Investment Scheme to incentivize investment in energy storage.
- The AUD 2 billion Hydrogen Headstart program to establish a local hydrogen industry.
- An agreement from the government to establish sector pathways to net zero emissions, based on recommendations from the Climate Change Authority.
- The AUS-US Climate, Critical Minerals and Clean Energy Transformation Compact, which is expected to allow Australian companies to access US Inflation Reduction Act subsidies for activities undertaken in Australia.

The government is also:

- Consulting on mandatory climate disclosures, which are likely to be phased in over 3 years, commencing in July 2024.
- Undertaking a National Climate Risk Assessment to develop National Adaptation Plan.
- Developing a Sustainable Finance Taxonomy.

## Direction of travel

Investors – coordinated by IGCC – are calling on the Federal government to raise Australia's climate ambition and to enhance Australia's attractiveness for climate-focused investors. Australia's desire to host COP31 with the Pacific is an opportunity to put upward pressure on raising the ambition of our 2035 target. The government has asked the Climate Change Authority to deliver advice on sector-specific pathways, and investors are actively contributing to this process. Advocacy to depoliticize climate and energy policy by creating unity across the aisle will be an ongoing priority for investors through groups such as the Parliamentary Friends of Clean Investment.

# European Union

## Policy context over the past 5 years

The EU policy context has been heavily shaped by the COVID-19 pandemic and by the energy security crisis brought about by the Russian invasion of Ukraine. Despite these events, tackling climate change and achieving the objectives of the EU Green Deal have remained core priorities: economic recovery funds and emergency measures for energy markets have been designed with sustainability at their core. Progress has been made on climate change and sustainable finance policy instruments in order to fully implement the EU's 55% GHG emissions reduction target for 2030 and to enable the EU to reach climate neutrality by 2050.



## Specific examples of policy action

The EU adopted the European Climate Law in 2021, committing to climate neutrality by 2050, and emission reductions of 55% by 2030. Building on this, it finalized most of the “Fit for 55” Package which sets legislation to reach its 2030 target. These measures include extended carbon pricing, higher energy efficiency targets and energy performance of buildings, and almost doubling the share of renewable energy. In parallel, the Commission proposed the Net Zero Industry Act and the Critical Raw Materials Act as a quasi-response to the US Inflation Reduction Act, seeking to bolster industrial competitiveness and strengthen key technologies and supply chains for the net zero transition. These reforms are linked to the existing frameworks set by Member State National Energy and Climate Plans, Long-Term Strategies, and the EU recovery funds (see The Investor Agenda report [Powering a Green Recovery](#) for a full analysis of the EU’s recovery funds).

The EU has also taken a leadership role in sustainable finance, implementing a green taxonomy to establish science-based definitions of sustainable activities, and introducing a range of corporate and financial sustainability reporting standards. Sustainable finance remains a dynamic area of EU policy, although challenges remain in ensuring sustainable finance tools and policy levers support financing activities to decarbonize high-emitting industrial sectors and the economy as a whole – not just activities that are already “sustainable”. In addition, the alignment and useability of different sustainability reporting requirements remains a challenge, while ensuring a high level of transparency.

## Direction of travel

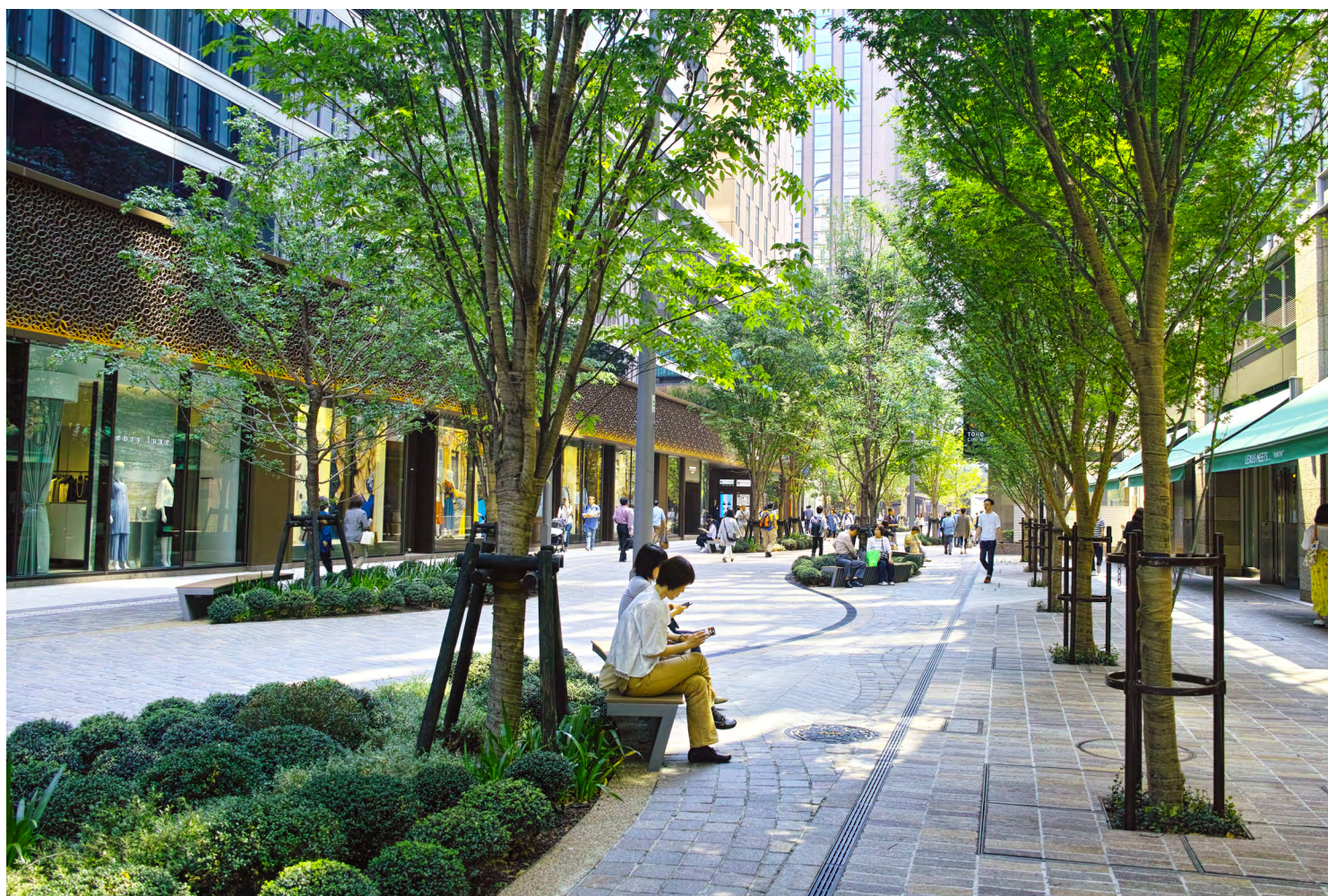
With EU elections looming in 2024, many stakeholders – including investors – are calling for an ambitious proposal for the EU’s 2040 greenhouse gas emissions, in order to ensure a strong basis on which to begin the work of the incoming administration. The independent European Scientific Advisory Board on Climate Change, established under the European Climate Law, has [recommended a target of 90-95%](#). This target considers both a “fair share” of the remaining global carbon budget for a 1.5°C pathway and has also assessed the feasibility of this transition.

The EU must present a proposal for the 2040 target by mid-2024, which will then be further negotiated. The target – once agreed – will shape the review of a range of implementing measures across the real economy and finance sector. Despite current and future crises and challenges that need to be addressed and managed, the EU has legally bound itself to a just transition to climate neutrality with European Climate Law. Given the fact that [public finance flows will be insufficient to fulfil the huge investment requirements](#) (an estimated at €620 billion per year is needed to meet the goals of the European Green Deal and REPowerEU) which are necessary to achieve a net zero and climate resilient economy by 2050, sustainability and an EU Green Deal that works for all will have to remain at the heart of strategic policy decisions in order convey the necessary investment signals.

# Japan

## Policy context over the past 5 years

Overall, there has been an increase in transition policies in recent years following Japan's commitment to net zero emissions by 2050 and interim target of reducing its greenhouse gas emissions by 46% by 2030. Despite these commitments, there is insufficient information on how the transition policies will contribute to achieving these targets; there is a lack of quantitative data in sectoral decarbonization plans and there is no clear commitment on coal phaseout. Japan is also promoting cooperation in the broader Asian region through partnerships that underscore the development of technologies such as ammonia, hydrogen and carbon capture, although the contribution of these to decarbonization goals is yet to be fully demonstrated.



## Specific examples of policy action

The Ministry of Economy, Trade and Industry's (METI) Sixth Strategic Energy Plan aims to advance the goal on carbon neutrality, revising the 2030 energy mix targets relative to those set in 2018, by proposing an increased use of renewable energy (36-28% by 2030) although the share of coal in domestic energy production is projected to remain at 19% in 2030. This updated ambition for renewables is still not at par with those of other developed economies aiming for carbon neutrality by 2050.

Through the G7, Japan committed to ending direct government support for unabated coal-fired power generation by the end of 2021 and to achieve power sector decarbonization by 2035, albeit not supported by a coal phaseout plan as recommended by the International Energy Agency (IEA).

Japan passed the Basic Policy for Achieving Green Transformation in February 2023, followed by the GX Promotion Act in May. The policy is essentially an investment roadmap for JPY 150 trillion of public-private financing over a 10-year period to decarbonize 22 industrial sectors. The focus is on developing a stable energy supply and the introduction of a carbon pricing scheme.

## Direction of travel

Many stakeholders, including investors, are calling for credible sectoral decarbonization strategies to support the transition of Japan's high-emission manufacturing sectors. Having these plans in place will facilitate the flow of finance to support decarbonization and will help Japan increase the ambition of its current interim emission reduction target to align with a 1.5°C pathway.

Japan has also started to implement a carbon pricing scheme in phases from April 2023 to speed up decarbonization by holding companies accountable for emissions. Additional financial resources from carbon pricing could boost public climate investments in achieving economy wide decarbonization.

Japan has also introduced mandatory climate-related disclosure requirements for public companies. Japan's Financial Services Authority is collaborating with the ISSB to align with their standards, and is proposing to release a detailed timeframe of implementation in late 2023.

# US

## Policy context over the past 5 years

The US policy context has shifted considerably since the previous administration, which pulled out of the Paris Agreement. From the outset, the Biden Administration has made addressing climate change and supporting the energy transition a top priority. For instance, in April 2021, President Biden set a new national goal to reduce emissions by 50-52% from 2005 levels by 2030, issuing a new nationally determined contribution (NDC).



## Specific examples of policy action

The US Congress passed the Inflation Reduction Act (IRA) in August 2022 which includes a sweeping set of tax credits, grant funding and new loan authority to support emissions reductions. It is the single largest investment in climate and clean energy in American history, providing nearly USD 400 billion of public funding, and is expected to reduce emissions by nearly 40% by 2030. The IRA, in combination with the Infrastructure Investment & Jobs Act (IIJA), will be transformative for carbon-intensive sectors including electric power, transportation, buildings, and heavy industry.

The Biden Administration is also pursuing a robust regulatory agenda to further accelerate the economic transition and to reduce the costs and the risks associated with the US's current economic system. For instance, for the power and transportation sectors, the Environmental Protection Agency released draft rules that would drastically reduce emissions and improve public health. Meanwhile, for the finance sector, the US Securities and Exchange Commission released a proposed rule on mandatory climate risk disclosures. The final rule has yet to be issued but the proposal would require issuers to disclose their Scope 1 and 2 emissions as well as their Scope 3 emissions, if material. The most important rulemakings are expected to be finalized over the course of 2024 and will complement the funding provided by congressional action.

## Direction of travel

The presidential campaign season has started in the United States ahead of the first primaries in early 2024. The upcoming election could change the makeup of Congress and/or usher in a new administration with different priorities.

However, it is likely that many of the positive benefits of the recently passed legislation will remain as the levels of low-carbon investment increase and as the clean energy economy expands. The dangerous conditions of summer 2023, including heat waves and wildfire-driven smoke plumes, across a wide swath of the country could also portend wider public acceptance and understanding of the consequences of climate change and the need for decisive action to reduce greenhouse gas emissions.



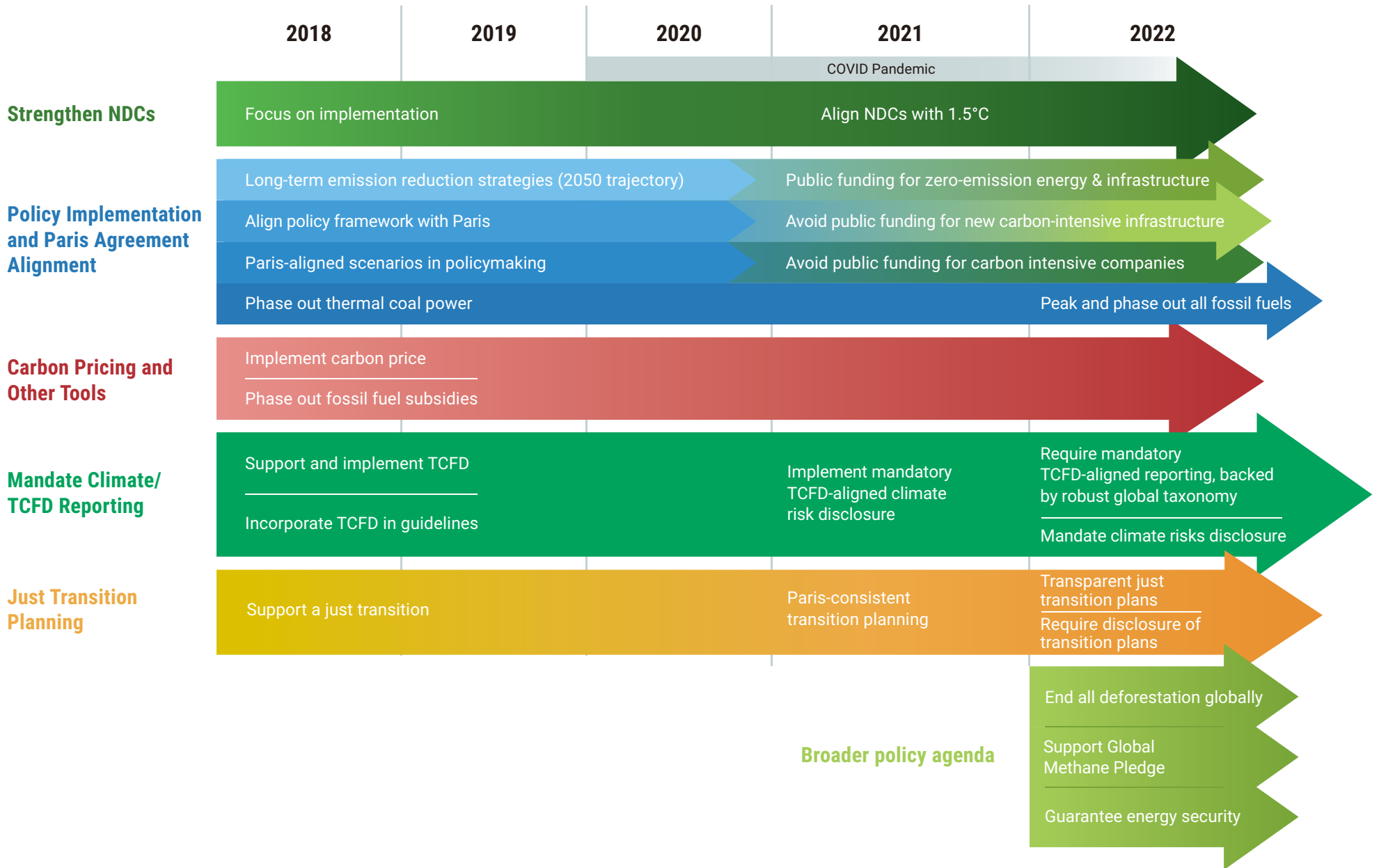
# APPENDIX 2: THE INVESTOR AGENDA GLOBAL INVESTOR STATEMENTS TO GOVERNMENTS ON THE CLIMATE CRISIS

Since 2008, The Investor Agenda's Global Investor Statements to Governments on the Climate Crisis have set out specific policy priorities for all governments. Support for the statements has increased in line with investor awareness of their role in policy advocacy and their desire to step up their actions on climate change. More recently, other organizations have issued similar asks on governments (e.g. the 2021 Glasgow Financial Alliance for Net Zero's [call to action](#)).

The calls to action in The Investor Agenda's Global Investor Statements have evolved in content and ambition as global climate policy has advanced, investors' policy priorities have been addressed by governments, and investor capacity to advocate for a just transition to a net zero and climate-resilient economy has developed. A key trend of the asks has been towards increasing accountability and implementation. The table below sets out the themes of investors' policy priorities and shows the evolution of these statements from 2018 to 2022.



**Graph 2: Elements of annual climate policy statements**



**The Investor Agenda** is a common leadership agenda on the climate crisis that is unifying, comprehensive, and focused on accelerating investor action for a net-zero emissions economy. The founding partners of The Investor Agenda are seven major groups working with investors: Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment and UNEP Finance Initiative.

[theinvestoragenda.org](http://theinvestoragenda.org)

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