CBI

Financing the transition to a sustainable future

Business recommendations to policymakers to promote a sustainable economy, sustainable markets, and sustainable communities in the UK and globally

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Tax and Regulation

Contents

Foreword: Finance can unlock a sustainable future

Getting behind net-zero targets is the right thing to do for the future of humanity and our planet. Limiting the rise in global temperatures is fundamental to avoiding catastrophic impacts across the globe.[1] Only businesses - in collaboration with the government - can provide the scope of innovation and investment needed to achieve net-zero targets. The transition to a sustainable economy offers multiple prizes to businesses that recognise the need for change early in the process and sustainable finance will be a fundamental tool to unlocking those opportunities. Decarbonisation is the investment imperative for our generation and done right can help to raise productivity and create jobs across all corners of the UK and globally. To support it, we need policy frameworks that can drive the growth of sustainable finance and focus primarily on outcomes, such as lower carbon emissions and biodiversity improvements.

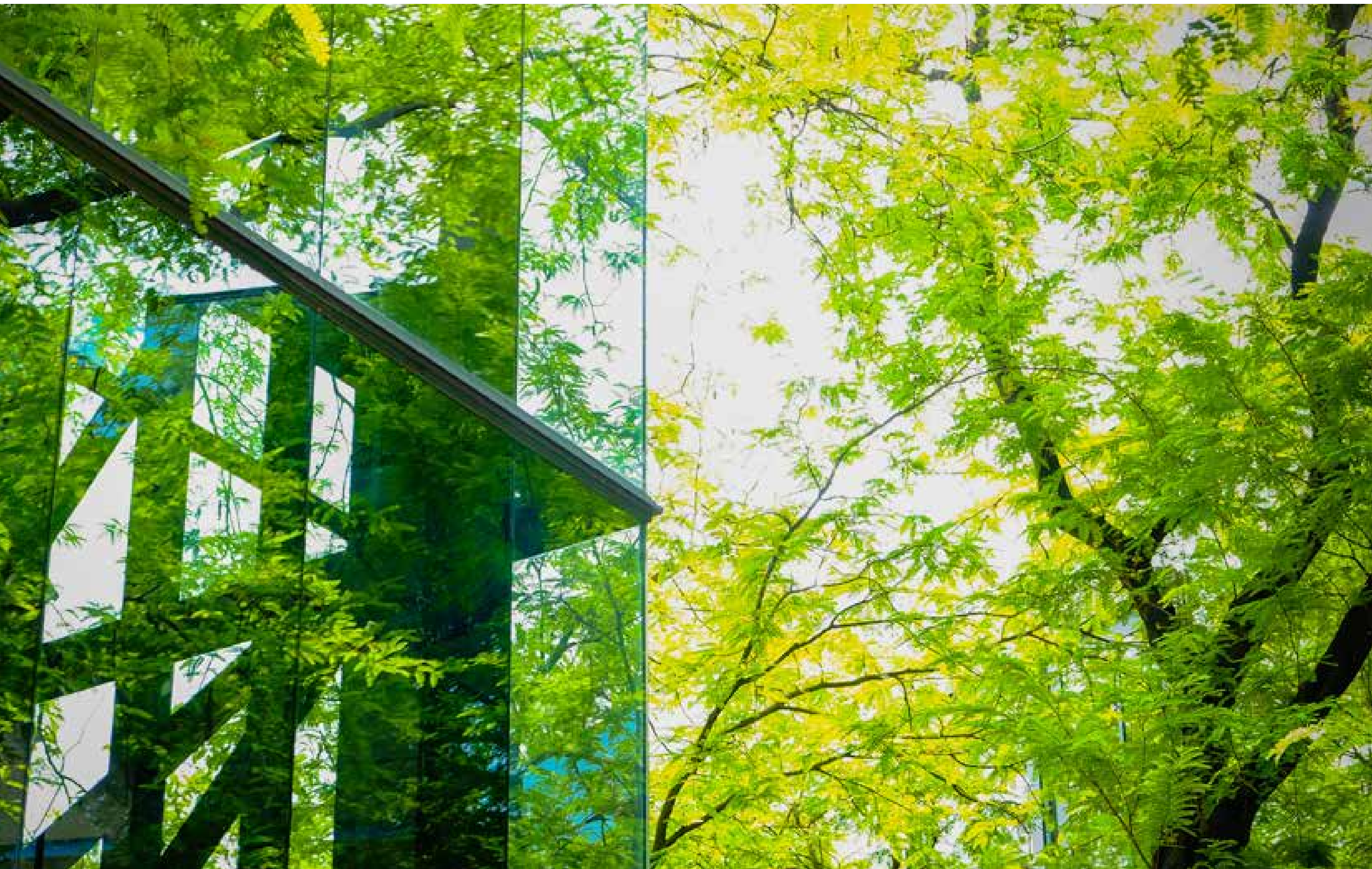
Climate and environmental considerations need to be prioritised by the government and the business community in the year of COP26 to tackle the most urgent threats to humanity's long-term wellbeing. However, we need to also make sure that social considerations are an integral part of public and private sustainable finance initiatives. Plans to decarbonise the UK economy need to go together with plans for a just transition and "levelling up" of disadvantaged regions by providing new jobs, reskilling, and upskilling of the workforce, developing the necessary infrastructure for green economic growth, among others. Impact investing has the potential to improve social resilience in a broader sense focusing on vital areas such as education, health, and connectivity.

The COVID-19 pandemic has shown us the importance of systemic resilience, which can only be secured if the government and businesses tackle broader environmental and social challenges together. Decarbonisation needs to go hand-in-hand with developing sustainable communities both in the UK and globally – with education and job opportunities, fair pay, secure housing, and other priorities outlined by the United Nation's Sustainable Development Goals.[2] Taking all of these aspects into consideration will help the UK become a global leader and enabler of sustainable opportunities for economies, businesses, and societies. We need to broaden the focus beyond "green finance", aimed primarily at climate-related and environmental risks, to "sustainable finance", defined as "investment decisions that take into account the environmental, social, and governance (ESG) factors".[3]

This is a key moment in British economic history and private sector innovation and investments will be critical to building back greener and better. Effective public policy and deployment of public finance can have a catalytic impact on mobilising the right scale of investment to reach national and global net-zero targets. To help finance the transition to a sustainable future, corporates and finance providers need a regulatory and policy framework with a solid set of principles focused on the transition process itself. Businesses recommend policymakers to:

- **Principle 1: Support the whole domestic economy transition with effective sectoral plans and mechanisms that can unlock critical sustainable finance flows.**
- **Principle 2: Ensure appropriate policy frameworks and unambiguous regulation to allow the financial services sector to drive the growth of sustainable finance and avoid unintended consequences hindering the transition to a net-zero economy.**
- **Principle 3: Promote international convergence in sustainability and reporting standards to scale up ESG investments beyond the UK's borders and ensure a smooth and just global transition.**

These three guiding principles should inform policy frameworks and solutions aimed at delivering three pillars of a sustainable future: **a sustainable economy, sustainable markets,** and **sustainable communities.**



High-level summary of recommendations: Three pillars of action

	Pillars		
	Sustainable economy	**Sustainable markets**	**Sustainable communities**
Principle 1: Support the whole domestic economy transition with effective sectoral plans and mechanisms that can unlock critical sustainable finance flows.	Prioritise the delivery of the Ten Point Plan and develop ambitious long-term sectoral transition plans to attract more investment.	Develop clear, consistent and usable sustainability disclosures and metrics, which reflect the incremental managed transition to a net-zero economy by 2050 and focus on outcomes such as lower carbon emissions and improved biodiversity.	Drive a just and managed transition by ensuring fair associated costs and participation of the whole economy.
Principle 2: Ensure appropriate policy frameworks and regulation to allow the financial services sector to drive the growth of sustainable finance and avoid unintended consequences hindering the transition to a net-zero economy.	Enhance public-private sector collaboration to unlock private capital flows, in particular to less established sectors and technologies.	Ensure that the UK's financial system is fit for transitioning the economy to a sustainable model - from a favourable investment environment to common understanding of environmental risks.	Go beyond "green" finance to "sustainable finance", to drive impact investments.
Principle 3: Promote international convergence in sustainability and reporting standards to scale up ESG investments beyond the UK's borders, and ensure a smooth and just global transition.	Champion sustainable solutions globally by defining strengths of the UK's sustainable finance services sector and encouraging enhanced cooperation in global carbon markets.	Encourage global regulatory alignment on sustainable finance, including standards, metrics, taxonomies, and data.	Support solutions for greener and fairer societies beyond UK's borders.

Executive summary of policy proposals

Pillar I: Sustainable economy

1. Prioritise the delivery of the Ten Point Plan and develop ambitious long-term sectoral transition plans to attract more investment.

- More **centralised coordination** across transitioning sectors, government departments and regulators is needed, supported by regular dialogue with private sector representatives, to make sure that different parts of the economy work towards a common vision. To achieve this, the CBI recommends several changes to current governance and government structures within its response to BEIS call for evidence on net-zero governance.
- The government should prioritise the development of long-term comprehensive and **UK-specific sectoral transition plans,** with clear "roadmaps" to decarbonisation to enhance investor confidence.
- Government **spending outlined in these plans needs to be strategic** - it should focus on areas which cannot be financed by the private sector alone and should take into consideration long-term competitiveness benefits for the UK economy.

2. Enhance public-private sector collaboration to unlock private capital flows, in particular to less established sectors and technologies.

- The United Kingdom Infrastructure Bank (UKIB) should use direct capital and guarantees **to de-risk investments and unlock private capital flows to less established sectors and technologies.**
- In the long term, UKIB will need to **proportionally mirror the European Investment Bank's (EIB) financing capabilities.**
- The UK government should also make sure that the **full range of EIB's other capabilities is matched** by UK institutions, whether UKIB or others such as the British Business Bank.
- Public-private cooperation should be particularly focused on **enhancing innovation and the development of critical technologies and solutions** for a sustainable economy. Besides direct funding and effective procurement, the government can help scale it up with the help of incubators, pilot programmes and tech clusters.

3. Champion sustainable solutions globally by defining strengths of the UK's sustainable finance services sector and encouraging coordination on establishing frameworks for global carbon markets.

- The government needs to clearly **identify competitive strengths** of the UK's sustainable finance services sector and promote them internationally through effective collaboration between the Department of International Trade and financial services firms. If needed, the government should **overcome regulatory hurdles** that are preventing the UK from gaining competitive advantage globally.
- The government should **promote global coordination on carbon markets** and focus on making progress on Article 6 of the Paris Agreement during COP26. The goal is to make sure that more nations develop their own carbon markets, which adhere to the same principles, and which can be coordinated at an international level.

Pillar II: Sustainable markets

1. Develop clear, consistent and usable sustainability disclosures and metrics, which reflect the incremental managed transition to a net-zero economy by 2050 and focus on outcomes such as lower carbon emissions and improved biodiversity.

1.1. Usable and interoperable taxonomy

- The UK taxonomy should be **science-and principle-based**, aligned with the UK's net-zero targets, taking note of consecutive carbon budgets, and suitable for alignment through a principle-based approach with international taxonomies.
- The UK taxonomy should be **accessible and usable** for the private sector. We need to develop solutions, such as a visual representation of different technical criteria. The government could also consider mandating machine-readable taxonomy-aligned reporting.
- Before the government develops the UK taxonomy, it should have a **clear vision on its purpose and use cases** in future policy frameworks. Having clarity on this can help inform its design, as well indicate policies for which the taxonomy framework might not be the right tool.
- If the government identifies the taxonomy as a critical tool for guiding the UK transition, it could **consider potential broadening of the EU's original taxonomy framework** and look at incorporating non-binary elements from other jurisdictions, such as Singapore's Taxonomy or the "shades of green" approach. The idea should be carefully considered in more detail and any review process would need to prioritise interoperability with international taxonomies.

1.2. Clear and practical disclosures

- Integrated Sustainable Disclosure Requirements (SDR) offer an opportunity to tackle the issue of poor comparability of sustainability reports. The government should introduce **uniform sustainability reporting standards** and terminology, and a common, **simple reporting template** for industry, as recommended by the Kalifa Review.[4]
- To expand the UK's disclosure framework successfully, the government needs to make sure that it has a clear and **realistic roadmap** on rolling out reporting requirements. Additionally, regulations should be proportional and include timely supporting guiding principles for consistent adoption.
- The regulatory environment needs to enable **consistent provision and access to data by relevant financial markets participants.** One of the solutions could be to create a centralised ESG data register, as proposed by the Kalifa Review.[5]

- Taxonomy regulation, enshrined in UK law before Brexit, does not include a legal requirement to introduce **taxonomy-aligned disclosures** for financial market participants and corporate entities. They should be introduced by the SDR to make the most of the taxonomy's capability to drive sustainable investments.
- The government could consider introducing more flexibility in the regulatory framework for the time being to **appreciate the international nature of companies' operations.** In the long term, promoting international alignment in global sustainable finance standards and metrics should be the government's priority.
- The CBI encourages the government to continue to promote business-led initiatives aimed at **improving transition plans** in corporate disclosures after COP26 and to **publish best practice guidelines** on how businesses from different sectors can devise them most effectively.

2. Ensure that the UK's financial system is fit for transitioning the economy to a sustainable model – from a favourable investment environment to common understanding of environmental risks.

- To transition the whole economy to a sustainable model, broader regulatory frameworks, such as Solvency II and tax regimes, need to provide a **favourable investment environment** which allows for the scale-up of sustainable investing.
- In the short-term, the Bank of England should focus its efforts on **further developing climate scenario analysis capabilities** in cooperation with the financial sector and clarifying how financial institutions can best engage with counterparties to understand climate-related risks. Lessons learnt from this process should provide us with more understanding of what steps should be undertaken to manage climate risk in the financial system in the long-term.
- The government should continue to explore **biodiversity-related risks** and prioritise international leadership and cooperation within the Task Force on Nature-related Financial Disclosures. In the longer term, policymakers should choose a coherent, principle-based approach to regulation which can be scaled up globally.

3. Encourage global regulatory alignment on sustainable finance, including standards, metrics, taxonomies, and data.

- Without **global cooperation and alignment on standards and metrics,** it will be much more difficult to promote the UK's financial services industry as a centre of excellence and to sell services into other markets.
- The government should make the most of its participation in international fora, such as the G20, G7 and the International Platform on Sustainable Finance, and **share suggestions on how to make regulatory frameworks and their implementation more efficient at a global scale.**
- The UK government needs to make sure that all relevant **domestic regulations take international developments into account.** They must be fit for cross-border alignment according to the "building blocks" approach proposed by the IFRS Foundation for the International Sustainability Standards Board.
- The UK government should encourage the development of **shared international principles for taxonomies at international fora** such as the G7 and G20 to allow for greater cross-border comparability and interoperability.
- When it comes to the development and challenges of ESG ratings, the UK should **focus on improving transparency on rating methodologies, data sources, conflict of interest management and engagement with rated companies**. The goal should be to find common solutions at an international level.

Pillar III: Sustainable communities

1. Drive a just and managed transition by ensuring fair associated costs and whole economy participation.

- The government must ensure that the upfront **cost of investing in and delivering the green transition is distributed fairly** among businesses, workers, and consumers, based on their environmental impact, ability to pay, ability to adapt and potential for gain.
- The market and consumers need to be provided with the right financial incentives to support the transition. This can be done, for example, by **greening the tax system.**[6]
- In some sectors, such as housing and building stock, the costs of decarbonisation might unevenly fall on individuals and small businesses. This is where the **government will need to closely cooperate with industry** to manage the costs of the transition.
- Future prosperity will depend on investing in **green jobs, and the re-skilling and upskilling of the workforce.** The UK's decarbonisation policy should therefore be closely aligned with the government's "levelling up" agenda
- **SMEs should be enabled** to seize opportunities and thrive in a sustainable economy and markets.

2. Go beyond "green" finance to "sustainable finance", to drive impact investments.

- To mobilise impact investing, the government should make sure that social and ecosystems considerations are key elements of its policy – broaden the discourse beyond "green finance" and **think more holistically about "sustainable finance".**
- After providing a robust framework for disclosing climate and nature-related risks, **the government could explore including social considerations in the integrated SDR to allow businesses to showcase their impact investing in a consolidated form.** Burdensome and complex metrics should be avoided, and a flexible, principle-based approach needs to be prioritised.
- Explore innovative finance-based proposals, such as scaling up institutional capital, including local government pension fund investment, into **opportunities that positively impact local economy, promote sustainable development and achieve positive outcomes** for people, communities and businesses'.

3. Support solutions for greener and fairer societies beyond the UK's borders.

- Following the G7's success with the agreement on climate-related disclosures, **promoting and encouraging common sustainable solutions abroad** should be the priority for the government beyond 2021. This includes national interoperable carbon pricing systems and international sustainability standards.
- The government should encourage further progress in the regulatory space abroad by **sharing the UK's experience and learnings at international fora**, such as the International Platform on Sustainable Finance, suggesting more efficient regulatory solutions, or even by providing direct support with the help of skills-sharing programmes involving international civil servants.
- **Standardising voluntary carbon offset markets** has the potential to direct funds to regions where they can contribute to global decarbonisation.
- There is a need for a **common international approach to accelerating the 'S' in ESG.** The UK government should support international convergence on social principles and standards on international fora, such as the G7 and G20.

Three pillars of a sustainable future in practice

I) Sustainable economy

In the lead-up to COP26, the financial services sector has shown a clear ambition to align finance flows to net-zero targets, with many UK-based institutions signing up to the Glasgow's Financial Alliance for Net-zero (GFANZ) and developing ambitious transition plans. However, the success of the transition does not rely only on rebalancing investment portfolios to reduce their exposure to polluting activities. Divestment alone will not reduce the overall number of carbon emissions – investment in the transition of the economy to a more sustainable model is key.

The high global demand for green bonds[7] shows that the scale-up of sustainable finance is not limited by the private sector's lack of willingness to "green" their financing, but rather the gap in projects in the real economy. Therefore, the key to a sustainable future lies in ensuring that there are enough sustainable projects across different sectors and regions for the private sector to invest in. The Prime Minister's Ten Point Plan is an excellent starting point for outlining detailed plans for decarbonisation of the real economy. To enable the private sector to invest confidently at an even larger scale, policymakers should:

1. Prioritise the delivery of the Ten Point Plan and develop ambitious long-term sectoral transition plans to attract more investment.
2. Enhance public-private sector collaboration to unlock private capital flows, in particular to less established sectors and technologies.
3. Champion sustainable solutions globally by defining strengths of the UK's sustainable finance market and encouraging enhanced cooperation in global carbon markets.

1. Prioritise the delivery of the Ten Point Plan and develop ambitious long-term sectoral transition plans to attract more investments.

Decarbonisation of the UK economy is a goal which will not be achieved by any organisation alone. There needs to be strong cooperation between the government and businesses to ensure that the journey to net-zero is a coordinated effort conducted as effectively as possible. The government must provide details and paced progress on strategic economic policies otherwise the UK will end up lagging behind on business investment, as pointed out by the CBI's Director-General Tony Danker.[8] Cabinet Office ministers need to prioritise the delivery of the Ten Point Plan and make sure that there are robust structures and funding available to enable coordination of different departments responsible for the delivery of a net-zero economy by 2050.

There is a need for more centralised coordination across different sectors, government departments and other public institutions, supported by a regular dialogue with private sector representatives, to make sure that different parts of the economy work towards a common vision for a sustainable future. To achieve this, the CBI recommends several changes to current governance and government structure in its response to BEIS call for evidence on net-zero governance. For example, government departments and devolved administrations should be given an objective to achieve the UK's overarching 2050 net-zero target. More economic and environmental regulators should also be given a clear remit to contribute and report towards achieving the UK's net-zero target. Additionally, to ensure coordination and accountability on cross-government delivery of net-zero, a critical adviser should be implemented in the longer term. Meanwhile, Treasury should play a leading role in the delivery of net-zero through regular fiscal events such as the budget and comprehensive spending review and through its upcoming Net-zero Review.

While private investment will play a central role in funding decarbonisation, the government has a major role in providing businesses with a strategic steer on what to invest in to make sure that they successfully enable decarbonisation. The CBI is looking forward to the Net-zero Strategy to provide a comprehensive vision for the transition of the UK economy. **Without long-term and comprehensive sectoral transition plans across the real economy** – a clear "roadmap" for decarbonisation developed by the government in cooperation with businesses - **the private sector will lack the confidence to invest in new technologies at scale.** UK-specific transition pathways will provide the clarity and the level of granularity, which cannot be provided by global initiatives. These sectoral plans need to outline:

- How the decarbonisation of specific sectors contributes to achieving a net-zero target by 2050.
- What are the estimated financing targets for specific sectors?
- Working with industry, set out which specific investment opportunities will be pursued in each sector.
- What mechanisms will be deployed to reduce the investment risk for the private sector?
- How will the government allocate the public funds to support and complement the private sector's financing efforts?
- What regulatory changes will be introduced to allow for the practical implementation of specific projects?

Government spending needs to be strategic - it should focus on areas which cannot be financed by the private sector alone and should take into consideration long-term competitiveness benefits for the UK economy. It is relatively easy for the private sector to provide funding at competitive rates to more established sectors, such as wind and solar. In such cases extensive public finance could crowd-out private financing. For example, the EIB was deemed by some to have inadvertently crowded out private finance with its involvement in infrastructure projects.[9] Thus, businesses have welcomed the UKIB's stated focus on crowding in private finance.[10] Still, to encourage more private sector investing in newer industries, such as battery production, hydrogen, and green manufacturing, the government will have to provide more direct public sector funding as well as guarantees to reduce risk on renewable energy production and storage. Another key to successful private-public sector cooperation will be prioritisation. As has been outlined in the CBI's paper on infrastructure policy, the government should outline a priority list of top decarbonisation projects in each sector and where there is a clear opportunity for private sector investment. This would enable investors to determine where to focus their efforts.[11] Estimated investment needs should be clarified in the Treasury's Net-zero Review.

2. Enhance public-private sector collaboration to unlock private capital flows, in particular to less established sectors and technologies.

As rightly noted in the government's "New Chapter for Financial Services", the response to the pandemic has demonstrated that a coordinated effort across the public and private sector can deliver extraordinary results.[12] Similar efforts are needed to unlock private capital flows to finance the transition. In particular, crowding-in private finance for sustainable investments will be one of the most important steps on the road to decarbonisation. Without this, it will be impossible to reduce carbon emissions at scale. One of the key obstacles that the government will need to overcome is the risk that private companies face when considering sustainable finance. There are a lot of uncertainties linked to "financing green". For example the lack of confidence in the effectiveness of new technologies, and the lack of clarity whether they will attract the income and have a lifespan long enough to support project finance. Therefore, UKIB should use direct capital and guarantees to **de-risk investments and unlock private capital flows to less established sectors and technologies.**

Case Study: The Offshore Wind Industry

The UK is currently the world leader in offshore wind production, with over 10GW of installed operational capacity.[13] The sector provides a perfect example of a successful partnership between the government and industry that could be emulated in other sectors to secure investor confidence in nascent technologies and establish new low-carbon markets. The government demonstrated long-term commitment to the sector through establishing the Contracts for Difference (CfD) revenue support mechanism. Through the competitive bidding rounds of the CfD, the sector has a clear indication of future market demand that has bolstered private sector confidence to invest. This has not only secured high deployment rates of offshore wind, but has enabled significant cost reductions, with costs falling from £119/MWh in 2015[14] to £39.65/MWh in 2019[15]. In addition, the Offshore wind Sector Deal further reinforced the partnership between industry and government, unlocking a continued focus on UK supply chains, exports, regional skills, and diversity.[16] This combination of strategic government support has enabled deployment alongside substantial cost reductions.

The CBI welcomed the creation of the UK Infrastructure Bank (UKIB) with £12bn in the budget for direct spending, and further £10bn in the form of guarantees at its disposal. The UKIB will be critical for crowding-in private finance to support the decarbonisation, and regional levelling-up of the UK economy. **In the long term, UKIB will need to proportionally mirror European Investment Bank's (EIB) financing capabilities.** This is because the direct support and guarantees that the bank can provide will be one of the most effective ways to reduce investment risk and accelerate desired private sector investment into sustainable projects needed to decarbonise the UK economy. Mechanisms that could achieve this are set out in the table below.

UK Infrastructure Bank: Project examples

Direct capital (£12bn)	Guarantees (£10bn)
Support developing industries and technologies with uncertain credit risk, which the private sector finds particularly difficult to finance. A good example would be the Carbon Capture Utilisation and Storage (CCUS) industry, which remains underdeveloped and needs to expand for the UK to achieve its net-zero target by 2050. **Invest directly in local authorities and local government bodies** to help new "green" markets mature and pave the way for the private sector to continue these efforts in the future. Retrofitting industry is one of the examples where public investments can stimulate progress in the private sector. Improving the energy efficiency of schools and hospitals will help develop the industry, which will be needed to make private infrastructure and residential properties more energy-efficient at scale. The quicker the retrofitting sector matures, the cheaper and easier it will be for businesses to rely on its services.	**Guarantee the residual value of new technologies,** which do not have a historic data set yet that would allow investors to properly estimate technology risk. Having the certainty on residual value, will reduce the risk exposure of banks providing loans for the development of new technologies, and will encourage more businesses to invest in nascent markets. A good example of an industry where this could be helpful is the development of green transport. UKIB could guarantee a base line residual value for electric buses, reducing the risk exposure of lenders and enhancing confidence in these technologies. The money flowing into British businesses would have a knock-on effect promoting UK manufacturing in new technologies. **Reduce price uncertainty over the short, medium, and long term (merchant risk) by expanding Contracts for Difference (CfDs).** The current CfD offering is limited compared to the decarbonisation challenge that the finance community is aiming to respond to. Even guaranteeing energy prices at an average wholesale energy price in 2020 at £40-50 per MegaWatt/Hour would give investors confidence to fund new sustainable energy projects. As has been outlined in the CBI's response to the Ten Points Plan, the CfDs need to be expanded for example to the hydrogen industry, nuclear power, and CCUS.[17]

It is worth noting that the EIB's capabilities extended more widely than its role in lending and guarantees to support infrastructure projects. As has been outlined in the CBI's report on infrastructure finance, the EIB's role includes "lending to SMEs, utility companies and universities. Furthermore, the EIB has helped resolve affordability issues across numerous contracts, facilitating the sharing of costs fairly between funders and sponsors. The EIB also plays an important role in solving complicated contracts to enable smooth transactions and as a standard setting body in contract behaviours".[18] The UK government should make sure that the **full range of the EIB's capabilities is matched by UK institutions, whether UKIB or others, such as the British Business Bank.**

Public-private cooperation should be particularly focused at enhancing innovation and the development of critical technologies and solutions needed to transition the UK to a sustainable economy. As outlined in the table above, this can be done for example by direct subsidies or increasing demand through public procurement of green tech. Another important area, where business and the government can work together to support innovation, is joint R&D development. Innovation should also be scaled up by creating incubators, regional tech clusters and pilot programmes connecting investors to sustainable initiatives. An example of how this can be done is the City of London Corporation's Finance for Sustainable Growth (F4SG). This initiative aims to create a supportive environment for innovative companies throughout the UK – starting in the North East – helping them source scale-up finance as they develop and commercialise green and sustainable solutions. A 12-month promotional pilot, delivered together with three public and private regional partners, will showcase local sustainable activities to a wider investor base.[19]

3. Champion sustainable solutions globally by defining strengths of the UK's sustainable finance market and encouraging enhanced cooperation in global carbon markets.

Tackling climate change will require a huge mobilisation of capital not only domestically but also beyond borders. UK businesses, with their international operations and expertise in financial services, can play a key role in the global transition to a sustainable economy. This process has already begun, with British firms providing world leading ESG investment solutions and financing mechanisms.[20] Additionally, British firms are actively engaged in the UK's Voluntary Carbon Markets Forum, which aims to make the UK a global hub for voluntary carbon trading. Businesses are fully aligned with the Chancellor's enthusiasm to make the UK a "world leader in green finance"[21]. To make this a reality, however, **the government needs to clearly identify competitive strengths of the UK's sustainable finance services sector and promote them internationally with the help of the Department of International Trade and the private sector.** If needed, the government needs to overcome fiscal and regulatory hurdles that might be preventing the UK from gaining competitive advantage globally. The CBI would like to highlight the work done in this field by the The CityUK[22], which can provide the government with actionable ideas on how to enhance the international competitiveness of the UK's sustainable finance industry. They propose removing some of the barriers that are making it harder for the UK-based financial and related professional services industry to export sustainability solutions to global customers and clients.[23]

It will be difficult to transition the global economy to a sustainable model, without establishing global carbon markets that put a price on emissions and prevent carbon leakage to different parts of our planet. At the moment, national carbon markets are not properly linked or, in many regions, they do not exist at all. Hence, jurisdictions such as the EU resort to introducing suboptimal legislative solutions to prevent carbon leakage, such as the Carbon Border Adjustment Mechanism. **The government should promote global coordination on carbon markets and focus on making progress on Article 6 of the Paris Agreement during COP26.** The goal is to make sure that more nations develop their own carbon markets, which adhere to the same principles, and which can be coordinated at an international level. Moreover, given its extensive existing financial services capabilities, the UK is itself very well positioned to develop one of the world's leading carbon trading markets. The CBI aims to provide more detailed policy recommendations in this field in the future.

II) Sustainable markets

It will be impossible to transition the economy without transitioning financial markets at the same time. This is why, one of the goals of COP26 is to make sure that every professional financial decision takes climate change into account.[24] The recent Climate Action Pathway for Finance, published by the United Nations Framework Convention on Climate Change, shows that there is still a long way to go before there is a global sustainable financial system aligned with a net-zero global economy by 2050.[25] Awaiting COP26, the financial sector has shown great ambition in their sustainability efforts, with dozens of systematically important institutions committing to net-zero targets through initiatives such as GFANZ, enhancing standards for voluntary response to the climate and environmental crisis. Now, the financial services sector needs government action to be able to appropriately estimate sustainability-related risks and opportunities. Policy and regulatory frameworks do not need to focus on perfect "green" metrics but should rather aim to capture the nature of transition and focus on outcomes, such as reducing carbon emissions and improving biodiversity. Only then will investors, and particularly the UK's world-leading financial services industry, be able to do what they do best – look for risk adjusted returns in this space and, thus, channel capital into a sustainable economy. To enable this activity, government and regulators must:

1. Develop clear, consistent and usable sustainability disclosures and metrics, which reflect the incremental managed transition to a net-zero economy by 2050 and focus on outcomes such as lower carbon emissions and improved biodiversity.
2. Ensure that the UK's financial system is fit for transitioning the economy to a sustainable model – from a favourable investment environment to common understanding of environmental risks.
3. Encourage global regulatory alignment on sustainable finance, including standards, metrics, taxonomies, and data.

1. Develop clear, consistent and usable sustainability disclosures and metrics, which reflect the incremental managed transition to a net-zero economy by 2050 and focus on outcomes such as lower carbon emissions and improved biodiversity.

1.1. Usable and interoperable taxonomy

Being able to say what kind of economic activities can be considered as "sustainable" will be a fundamental step for the scaling up of sustainable financing. It will bring the clarity that investors need to classify which investments are considered "green" and which are not. The CBI supports the UK government's plan to introduce a UK taxonomy and is delighted that the CBI's Chief Economist Rain Newton-Smith is part of the Green Technical Advisory Group (GTAG) advising on this process. To ensure that the taxonomy can be used successfully by both financial and non-financial services companies, HM Treasury must propose a framework which is **science-and principle-based, aligned with the UK's net-zero targets, taking note of consecutive carbon budgets, and suitable for alignment through a principles-based approach with international taxonomies.** By following this approach, the UK government will make sure that the UK taxonomy reflects the UK's net-zero targets, while appreciating the international scope of many UK-based businesses. **The UK taxonomy should be accessible and usable for the private sector.** Solutions are required to be developed, such as a visual representation of different technical criteria. The government could also consider mandating machine-readable taxonomy-aligned reporting.

Before the government develops the UK taxonomy, it should have a clear vision on its purpose and use cases in future policy frameworks. Taxonomies are useful if well-designed and implemented but can have unintended consequences hindering the transition if they are not. They are a tool that can be used to show which investments classify as strictly "green". By following the EU's original design, however, the UK taxonomy may struggle in certain cases to capture the dynamic transition aspect of certain industries, particularly the energy sector. From an investor point of view, the binary nature of the taxonomy does not necessarily provide the right "dictionary" for investment purposes. If wrongly interpreted, it could lead to divestment from certain industries that do not classify as "green" yet but still contribute to decarbonisation of the economy. It could encourage the creation of financial products, such as bonds, which support only purely "green" economic activities, ignoring those that may not be fully "green" yet but might be necessary to gradually reduce carbon emissions and transition certain sectors to more sustainable solutions. It could also miss the opportunity to support investments in energy intensive industries where there is the highest potential for carbon reduction. Moreover, if implemented in its most purist form, without any proxies or additional tools simplifying taxonomy-aligned disclosures, the taxonomy may impose disproportional burdens on its users, outweighing its benefits. Having clarity on the UK taxonomy's vision and purpose can help inform its design, as well indicate policies for which the proposed taxonomy framework might not be the right tool.

If the government identifies the taxonomy as a critical tool for guiding the UK transition, it could consider potential broadening of the EU's original taxonomy framework and consider a less binary approach. There is, for example, Singapore's taxonomy, which introduced a "traffic light system" for different economic activities. An alternative could be a "shades of green" approach, such as is FTSE Russell's Green Revenues Classification system. As pointed out by Mark Carney, UN Special Envoy for Climate Action and Finance and UK Prime Minister Johnson's Finance Adviser for COP26, there is merit in such solutions as climate finance becomes mainstream.[26] The idea should be carefully considered in more detail and any review process would need to prioritise interoperability with international taxonomies. Any changes to the taxonomy framework would need to follow a scientific approach, aligned with the UK's sectoral transition pathways. They should inform investors on what economic activities can support decarbonisation of the UK economy at a given stage in time as science and technology develop.

1.2. Clear and practical sustainability disclosures

The key role of disclosures is to enable comparability of sustainable performance across corporates and investments. The current TCFD reporting requirements do not fulfil this purpose entirely. While they provide useful insights on how companies aim to deal with climate-related risks, their format enables limited comparability of transition efforts, and the quality of the information provided often varies in quality. The **new integrated Sustainability Disclosure Requirements (SDR) provide the opportunity to tackle the issue of poor comparability of sustainability reports by introducing uniform sustainable reporting standards and terminology, and a common, simple reporting template for industry, as recommended by the Kalifa Review.**[27] The framework should be developed in close cooperation with the private sector and with the help of thorough consultations.

To expand the UK's disclosure framework successfully, the government needs to make sure that it has a clear realistic roadmap on rolling out reporting requirements. Additionally, regulations should be proportional and include timely supporting guiding principles for consistent adoption. The CBI encourages regulators to carefully consider the usability and timelines of their proposals, to avoid regulations that prove to be impractical and contribute little to driving the transition. While some reporting requirements can introduce more clarity for market participants, others might lead to confusion. A prime example would be the EU's attempt to regulate financial products - so called "Article 8" and "Article 9" products in the Sustainable Finance Disclosure Regulation – which proved to be difficult to understand and implement by businesses.[28] While some sustainability indicators are necessary to classify investment products and investments, it is important to ensure that financial markets participants have the access to sustainability-related data to disclose the required information and are informed about their reporting requirements in good time.

Technology has huge potential to scale up sustainable finance investments by making it easier for companies to complete sustainability disclosures, and easier for investors to analyse the information provided.[29] Going beyond disclosures, technology can also provide smart solutions to better monitor sustainability targets and outcomes, for example in supply chains. The benefits of FinTech and AI can fully be reaped only if businesses can access and utilise sufficient data. The CBI strongly supports the efforts of the UK Centre for Greening Finance and Investment established to accelerate the adoption and use of climate and environmental data and analytics by financial institutions internationally.[30] **To enhance innovation in sustainable digital finance, the regulatory environment needs to enable consistent provision and access to data by relevant financial markets participants.** Further standardisation of ESG metrics would allow for a creation of a centralised electronic register for ESG data, also proposed in the Kalifa Review.[31]

As the new "dictionary" for green investments, the UK taxonomy should be included in the new framework for disclosures. It is important to make sure that it reflects companies' efforts to decarbonise and provides investors with material information. The **taxonomy regulation, enshrined in UK law before Brexit, does not include a legal requirement to introduce taxonomy-aligned disclosures for financial market participants and corporate entities. This should be covered by the SDR to make the most of the taxonomy's capability to drive sustainable investments.** Below are examples how such requirement can prove to be useful.

- The requirement to **disclose taxonomy-aligned capital expenditure (CapEx), operational expenditure (OpEx) and turnover** would reflect the capital-intensive nature of the green transition. Clear disclosure rules in this area will help companies justify increased debt and spending on their balance sheet at the time when they need to heavily invest in their operations.
- Another good example of how a taxonomy can allow for more comparability, is the proposal from the EU's financial regulators to require financial undertakings to report their **Green Asset Ratio** - the proportion of taxonomy-aligned economic activities in their financial activities, such as lending, investment, and insurance. This would allow for comparability of performance of financial undertakings and showcase the UK's financial sector's leadership on sustainable finance.

At the same time, the CBI would highlight that while London's financial markets are global in scope, the regulatory regime is not. While metrics such as the Green Asset Ratio are effective at enhancing sustainability ambitions of market participants, when implemented, they often cannot be considered as realistic depictions of sustainable investments as they accept the taxonomy as the only legitimate sustainability metric. Hence, for institutions that attempt to report at a global level, disclosures such as the Green Asset Ratio cannot be considered as accurate proxies for entity's broader sustainability performance. **The UK could consider introducing more flexibility in the regulatory framework for the time being when there are no global sustainability standards and equivalence frameworks for international taxonomies to appreciate the international nature of companies' operations**. At the same time, promoting international alignment in sustainable finance frameworks should be the government's priority to maintain the highest possible sustainability standards (more on this below).

There is a need to make net-zero target-setting a standard practice among both financial and non-financial corporates committing to a Net-zero economy. **The CBI encourages the government to continue to promote initiatives aimed at improving transition plans in corporate disclosures post COP26, and to publish best practice guidelines on how corporates from different sectors can do it most effectively.** The more understanding businesses will have on how to devise effective transition plans with interim targets, the more likely it is that they will achieve their net-zero goals in the long term.

2. Ensure that the UK's financial system is fit for transitioning the economy to a sustainable model – from a favourable investment environment to common understanding of environmental risks.

Sustainable finance should not be seen in isolation from the broader financial system. **To transition the whole economy to a sustainable model, the UK needs to make sure that broader regulatory frameworks provide a favourable investment environment which allows for the scaling up of sustainable investing.** This includes the flow of cash to illiquid assets such as sustainable energy systems, and SMEs contributing with the development of innovative sustainable products and services. Tax and regulatory reform that could support this includes enhancements to Solvency II to unlock pools of capital, the development of the Long-Term Asset Fund (LTAF) as an attractive proposition for pension funds to invest in, and a review of how the tax system supports and incentivises entrepreneurship in a dynamic, modern, and competitive economy. An effective reform of Solvency II itself could unlock up to a third of the c. £2.7trn of investment needed over 2021-35 to hit the UK govt's net-zero target.[32] Moreover, the government should support firms' long-term growth ambitions by committing to creating a tax environment that enables small and medium sized businesses to make long-term investments in sustainable products and services, including a review of the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trust (VCT) Relief.

The UK's financial system will not be fit for transitioning the economy to a net-zero model if investors have a poor understanding of risks associated with investments that are not Paris-Aligned. The Bank of England's (BoE) 2021 Biennial Explanatory Scenario is the first crucial step to helping investors assess the true costs of climate inaction and informing policymakers how to adjust the financial system to respond to the challenge. The CBI also welcomes the BoE's active engagement as part of the Network of Greening the Financial System, which coordinates this work internationally. Once banks and insurers have more clarity on different climate scenarios, they will have a clear incentive and understanding how to reorient capital flows towards more sustainable outcomes. The CBI recognises that with time this could lead to potential changes in prudential policy frameworks, and it is important that a risk-focused approach is maintained. It is necessary to understand the impact of climate risks on the financial system and gather the necessary amount of data, before introducing any kind of risk-based recalibrations of capital requirements. Hence, **in the short-term, the BoE should focus its efforts on further developing its climate scenarios in cooperation with the financial sector and clarifying how financial institutions can best engage with counterparties to understand climate-related risks.** Lessons learnt from this process should provide us with more understanding of what steps should be undertaken to manage climate risk in the financial system in the long-term.

Businesses are aware that besides climate, nature-related risks also pose a grave threat to society and need to be consistently managed, to avoid catastrophic results. As estimated by the World Economic Forum, more than half of the world's GDP (US$44tn of economic value generation) is moderately or highly dependent on nature.[33] As a consequence, nature represents significant risk to corporate and financial stability.[34] Many businesses have already attempted to incorporate biodiversity concerns into their ESG practices, however the area still remains underexplored, primarily because of its complexity and the vast number of nature-related performance indicators. Hence, **the CBI welcomes the Task Force on Nature-Related Disclosures (TNFD), which aims to standardise nature-related reporting in such a way, that it can be complementary with the TCFD framework.** The UK, with its expertise on biodiversity supported by the Dasgupta Review, has a unique chance to become a global leader on managing biodiversity concerns affecting economies worldwide and provide a best practice example. **The CBI encourages the government to continue to explore this policy field, prioritise international leadership and cooperation, and, in the long-term, choose a consistent, principle-based, flexible approach to regulation which can be scaled up globally.**

3. Encourage global regulatory alignment on sustainable finance, including standards, metrics, taxonomies, and data.

The UK government's priority should be to increase international alignment in developing sustainable finance taxonomies, disclosures, regulations, and policy frameworks, as recommended in the B7 Joint Statement on Climate and Biodiversity.[35] Otherwise, it will be impossible to scale up sustainable financing internationally. If we are serious about solving environmental problems on a global scale, rather than just shifting them around the world, the move towards common sustainable finance standards and policies is a "must-have". From the perspective of UK businesses specifically, without global cooperation and alignment, it will be much more difficult to promote the UK's financial services industry as a centre of excellence and to sell services into other markets. Where policy and standards diverge, local markets are more dependent on local resources and local expertise instead, which limit the exchange of knowledge and the expansion of business opportunities. Hence, from a business perspective, the UK government's primary objective should be to work with its international partners to avoid doubling reporting burdens across jurisdictions.

The UK's strength is its ability to develop and implement robust, business-friendly and usable regulations. **To emerge as leaders in sustainable finance, the government should make the most of its participation in international for a, such as G20, G7 and the International Platform on Sustainable Finance (IPSF) and share suggestions on how to make regulatory frameworks and their implementation more efficient at a global scale.** Taxonomies and sustainability disclosures are developing at pace across jurisdictions, but there are still obstacles to making sure that these frameworks are effectively taken up by businesses and support the scale up of sustainable finance. The UK can become more globally competitive and contribute to the international uptake of sustainable finance primarily by improving existing frameworks, implementing them swiftly and, thus, benefit from first-mover advantage.

The CBI is looking forward to the establishment of the International Sustainability Standards Board (ISSB), under the IFRS Foundation, which has the unique opportunity to standardise global sustainability reporting and limit reporting burdens across borders. The CBI welcomes the IFRS Foundation's intention to focus on climate-related metrics first and rely on the TCFD-framework to ensure a broad application of their standards.[36] The work on the TNFD is progressing at pace, hence, the CBI recommends that the ISSB looks at standardising biodiversity-related metrics in due course to avoid the proliferation of diverging regional standards. The UK government needs to make sure that all domestic regulations take these international developments into account and are fit for cross-border alignment according to the "building blocks" approach proposed by the IFRS Foundation.[37]

Recently, there has been increasing number of jurisdictions develop taxonomies classifying sustainable economic activities. If well designed, taxonomies can play a role in the development of sustainable finance globally. However, the more taxonomies there are, the more complex it is to navigate global markets for sustainable financial products and investments. Hence, **the government should encourage the development of shared international principles for taxonomies at international fora such as the G7 and G20 to allow for greater cross-border comparability and interoperability.** Some theoretical work has already been done in this field by the Boston Consulting Group and the Global Financial Markets Association in their report on Global Principles for Developing Climate Finance Taxonomies.[38] The business community is also looking forward to the report on "common ground taxonomies" prepared by the IPSF. The next step will be to put these recommendations into action and develop an agreed usable framework for common principles.

The CBI welcomes International Organisation On Securities Commission's (IOSCO) work to explore the development and challenges of ESG ratings. As outlined in IOSCO's expert report, even though the role and influence of ESG ratings and data products providers has grown, there is little clarity on definitions of "sustainability" and methodologies underpinning different ratings.[39] At the moment, the best solution to solve this issue would be to **focus on improving transparency on rating methodologies, data sources, conflict of interest management and engagement with rated companies.** The UK government should focus its efforts to find common solutions at an international level, with IOSCO's help, to support market dialogue on different ESG rating methodologies.

III) Sustainable communities

Businesses agree with the government that the transition to a sustainable economic model needs to be just, and the post-pandemic economy should drive prosperity of the whole community. The Prime Minister's "levelling up" agenda goes together with corporate social responsibility – without sustainable communities, it will be impossible to secure a sustainable future. To fully capture the transformative power of finance, it is important to look at broader investment impacts beyond climate change alone. Focusing on "green finance" alone, instead of "sustainable finance", is no longer enough. The pandemic has only highlighted that broader ESG issues such as regional inequalities and poverty need to be mitigated to ensure future prosperity and resilience. Thus, policymakers should:

1. Drive a just and managed transition by ensuring fair associated costs and the participation of the whole economy.
2. Go beyond "green finance" to "sustainable finance", to drive impact investments.
3. Support solutions for greener and fairer societies beyond the UK's borders.

1. **Drive a just and managed transition by ensuring fair associated costs and the participation of the whole economy.**

Decarbonisation, while necessary, will pose a financial challenge to many households, SMEs, and carbon-intensive regions in the immediate future. The transition to a sustainable economy needs to happen with the engagement and support of local communities, not despite their opposition. The role of the government is to drive a managed and a just transition by ensuring fairness of how associated costs are borne. As outlined in the CBI's past paper, **the government must ensure that the cost for delivering the transition is distributed fairly among businesses, workers, and consumers, based on their environmental impact, ability to pay, ability to adapt and potential for gain.**[40]

The market and consumers need to be provided with the right financial incentives to support the transition. The tax system will play an important role in such a transition. This is why the CBI has been called to green the tax system by delivering fundamental change with a holistic, coherent tax plan to help the UK meet its net-zero target. Whilst following the "polluter pays" principle, the government should reward corporate and personal investments in sustainable solutions, such as electric vehicles.[41] The key will be to find the right balance between "carrot and stick" for both consumers and businesses and enhance investor confidence by publishing a strategic tax roadmap underpinned by the government's net-zero agenda.

Certain communities will need additional financial support to cope with socioeconomic changes caused by the transition. In some sectors, such as housing and building stock, the costs of decarbonisation might unevenly fall on individuals and small businesses, which often do not have financial capabilities to switch to more sustainable solutions. **The government needs to closely cooperate with the industry to manage the costs of the transition.** As an example, the CBI supports the Green Finance Institute's Coalition for the Energy Efficiency of Buildings, which aims to coordinate the public and the private sector's actions to ensure the right level of investment.[42] It is important that the government provides direct financial support, such as the discontinued Green Home Grant programme, in areas where market intervention is not enough to ensure a just transition.

Another key pillar of a just transition will be ensuring future prosperity by investing in green jobs, and the re-skilling and upskilling of the workforce. This is where UK's decarbonisation policy should be closely aligned with the government's "levelling up" agenda, particularly in former industrial regions. As described in the CBI's previous paper "industry will play a major role in preparing their workforces for change, meaning huge amounts of upskilling. However, anticipated changes are likely to see some people leave the industry rather than retrain, and new workers with better matched skills join. There is an important role for government to support more fundamental retraining that keeps people in work, and to support transitions between industries".[43]

IN FOCUS: Bankers for Net-zero paper on "Mobilising SMEs for Climate Action"[44]

It will be impossible to secure a sustainable future in the UK without activating SMEs - 99% of businesses in the British economy. **SMEs should be enabled to thrive in a sustainable economy and markets.** At moment they still face many barriers – from accessing knowledge to navigating the complex regulatory environment – which prevent them from making the most of opportunities posed by the green transition. This is why Bankers for Net-zero, an initiative bringing together leaders from the private and the public sector, had a closer look at how to mobilise SMEs for Climate Actions. They propose the following solutions:

1. Provide SMEs with incentives to make net-zero their priority
2. Enable access to high-quality, trustworthy information on how SMEs should act
3. Streamline and simplify sustainability reporting frameworks for SMEs to be able to use them voluntarily.

2. Go beyond "green finance" to "sustainable finance", to drive impact investments.

It is a common misconception that sustainable finance relates only to environmental sustainability, and primarily climate change. As UN SDGs show, the sustainability agenda is much broader than climate change and the environment, and covers areas such as poverty, access to education, gender equality, decent work and economic growth, amongst others. In the UK context, it will be critical to put the full range of ESG factors into play to fulfil the government's pledge to "build back better" after the pandemic and level up inequalities across the UK. To mobilise impact investing, the government should make sure that social and ecosystems considerations are key elements of its policy. While climate change and nature-related considerations need to be tackled as the highest priority considering the immediate risks posed by environmental concerns, it is necessary to broaden the discourse beyond "green finance" and think more holistically about "sustainable finance". **If we want to achieve a "just transition", environmental and social considerations should go together.** A best-practice example of how this can be done is the government's Green Financing Framework, which introduced a social co-benefit to green gilts. The proposal gained support of 40 leading asset owners and managers, representing more than £10 trillion in assets, proving that there is market appetite for combining environmental and social impact.[45]

It is becoming clear that there is an enhanced industry interest in sustainable finance with a socially positive impact. Businesses are increasingly looking for ways to measure their social impact and ask for more international engagement in this area. **After providing a robust framework for disclosing climate and nature-related risks, the government could explore including social considerations in the integrated SDR to allow businesses to showcase their impact investing in a consolidated form.** However, burdensome and complex metrics should be avoided, and a flexible, principle-based approach be prioritised, for example based on UN SDGs. Before introducing social-related metrics at a domestic level, the UK government should primarily promote an agreement on common principles in this space at an international level to reflect the global nature of financial markets (see more in the section below).

IN FOCUS: Impact Investing Institute's (III) White Paper on Place-based Impact[46]

"There are real opportunities for investors to secure financial returns while addressing place-based inequalities and support more inclusive and sustainable development across the UK", according to the Impact Investing Institute. At the moment, however, there are still relatively few frameworks for doing so. **The government could explore innovative finance-based proposals for achieving positive ESG outcomes in local communities.** One of the ideas on how this could be done is by scaling up institutional investment for place-based impact with the help of, for example, Local Government Pension Schemes (LGPS). In their White Paper, the III outlines what kind of changes would need to be introduced to mainstream place-based impact investing, reduce regional inequalities and contribute to the "levelling up" goals of the Prime Minister.

3. Support solutions for greener and fairer societies beyond the UK's borders.

Sustainability issues are global issues. Thus, the UK government should support policy solutions for a just transition beyond the UK's borders. To achieve further progress, it is ultimately necessary for countries abroad to introduce their own regulatory frameworks, including in the sustainable finance space. The UK has already proven that it can effectively encourage higher regulatory standards globally by facilitating the agreement on TCFD-aligned disclosures across the G7 economies. **Further promoting and encouraging common sustainable solutions abroad beyond 2021 should be the priority for the government.** As mentioned in previous sections, the most effective way would be to establish more carbon pricing systems globally and enable cooperation between them, as well as agree on international sustainability standards which could be easily taken up by jurisdictions across the world.

The government should encourage further progress in the regulatory space abroad by **sharing the UK's experience and learnings at international fora, suggesting more efficient regulatory solutions, or even by providing direct support with the help of skills-sharing programmes involving international civil servants.** Having left the EU, the UK will have a valuable experience of implementing national sustainable finance policy frameworks by relying on domestic institutions. From a business perspective, it would be useful if the UK government shared their policymaking and policy implementation experience with other jurisdictions, for example within the International Platform on Sustainable Finance members.

It is also important to scale up domestic initiatives which can direct more capital to decarbonisation projects abroad. The business community welcomes efforts of the UK Voluntary Carbon Markets Forum led by Dame Clara Furse and Mark Carney's Taskforce on Scaling Voluntary Carbon Markets. While reaching net-zero by reducing carbon emissions is a priority for the industry, "for hard to abate industrial sectors where climate neutral technologies are not yet commercially viable, offsets allow high climate ambition entities to supplement absolute emission reduction efforts".[47] **Standardising voluntary carbon offset markets has the potential to direct funds to regions where they can contribute to global decarbonisation, and a regulatory intervention would provide clarity to market participants.** As pointed out by Mark Carney, it is an essential market which can drive sustainable innovation but requires governance recommendations to prevent greenwashing.[48] COP26 provides the UK government with an opportunity to advocate for international cooperation in this space.

IN FOCUS: International Regulatory Strategy Group's (IRSG) and KPMG's report on 'Accelerating the S in ESG'[49]

As businesses put more attention to their social impacts, it is becoming apparent that **there is a need for a common international approach to accelerating the 'S' in ESG.** Despite the existence of UN SDGs, "one major challenge that all these stakeholders face is how complex it can be to capture the 'S' in ESG" – particularly as we try to navigate it in different parts of the world. IRSG's and KPMG's report shows on how to overcome this and other challenges. Recommendations include, among others:

- Pursue global consensus on social principles.
- Minimum standards should be defined for social issues.
- A single social principle, such as modern slavery, needs to be championed to drive momentum
- Principles and standards must be defined at an appropriate level of granularity.

The **UK government should support international convergence on social principles and standards** on international fora, such as the G20. In the future, this space could be standardised with the help of the forthcoming International Sustainability Standards Board.

Conclusion

COP26 and the post-pandemic recovery period provide us with a unique opportunity to build strong foundations for a sustainable, carbon-neutral, and fairer future. "Building back better" will require an unprecedented level of sustainable investment, directed not only at projects reducing carbon emissions, but also those focusing on strengthening social resilience. Reaching net-zero targets and "levelling up" communities cannot be done by one organisation alone – it must be a joint effort of the public and the private sector. Whilst effective public policy will increase the flow of private finance to sustainable projects, public finance will play its critical role in mobilising sustainable investments at scale, particularly in hard to abate sectors.

Businesses recognise the key role of private capital in the transition to a sustainable future. In this paper, the business community outlines their sustainable finance policy recommendations to UK policymakers on how to effectively mobilise capital to achieve the UK's net-zero targets and tackle other pressing environmental and social challenges. It provides the government with three key principles for policy responses to build a sustainable economy, sustainable markets, and sustainable communities. The paper illustrates that these three key pillars of action are complementary. There is a need for effective sectoral transition plans to secure a pipeline for investable projects. Meanwhile, appropriate policy frameworks and unambiguous regulation are needed to drive the growth of sustainable finance and efficiently channel the capital to the real economy. Finally, it will be impossible to secure a sustainable future without making sure that a transition to a green economy is just and that our communities build up resilience to deal with systemic shocks, such as pandemics. The business community highlights that all policy and regulatory responses should be done with the international community in mind to scale up ESG investments beyond the UK's borders and ensure a just global transition.

The CBI will continue to work with the government on the sustainable finance agenda. We are looking forward to engaging with policymakers at COP26 and beyond to secure a transition to a more sustainable future in the UK and abroad.

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About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

CBI Council in numbers

1000+

Committee and Council representatives

28+

Regional and National Council and sector based Standing Committees

50%

Representatives of the CBI Council at C-Suite level

80%

Of the CBI Council from non-FTSE 350 businesses

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To share your views on this topic or ask us a question, contact:

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