Evidence from Cambridge Institute for Sustainable Leadership

You asked about the role of public and private finance, investors and businesses in tackling climate change; what the UK Government can do to drive action from those sectors; and how the UK Government can continue that drive whilst it tackles COVID-19 and the impact on our economy, the global economy and society.

At CISL we work closely with business and investors to help them address major global challenges and climate change has been a core focus of the Institute – most visibly through hosting The Prince of Wales's Corporate Leaders Group (CLG), an influential cross-sectoral group of 12 UK business leaders that have come together to champion climate action. The group was one of the first and loudest supporters of the UK's Climate Change Act, has recently championed the net zero target adopted by government and continues to work with the UK Government to advance climate action. The CLG is a founding partner of the global We Mean Business Coalition (WMB), and sits alongside a sister group CLG Europe that works with EU policy makers. We also work with a variety of financial services companies, including banks, insurers and asset managers through the platforms hosted by our Centre for Sustainable Finance.

As set out in our core framework 'rewiring the economy' we believe that in order to achieve the systemic changes required to create a sustainable economy, business, finance and government have to act together. Ultimately to create the kind of changes required to decarbonize the economy, and address other sustainability concerns you need clear policy frameworks to drive action, but you also need business innovation and delivery, and you need to mobilise and align the significant sources of finance in the private sector.

Specifically, in relation to climate change, we have observed through our work that both government and business can be reluctant to act without strong evidence that there will be a positive response from the other side. Conversely when leaders act, a virtuous cycle can be created – what we call an ambition loop. Clear signals from government prompt business action and underpin investor confidence. Ambitious business commitments and actions from leading companies can demonstrate to governments that change is possible and aligned with better economic outcomes.

One specific example of how these positive loops can work is the wave of change prompted by the G20 Taskforce on Climate Related Disclosure. Initiated by a government process the TCFD has highlighted to public and private financial institutions around the world the systemic nature of climate risks and has prompted increased investor scrutiny and action. As this exposes business risks in companies, it in turn prompts changes in business and investment practice, justified on the basis that there will be further action by government to accelerate decarbonization.

The COVID-19 pandemic presents a global health crisis, but also a global economic crisis as it has caused an effective economic freeze, a huge downturn in GDP and an even larger decline in employment. At the same time the world is failing to do enough to act on the climate crisis and needs to see an urgent acceleration of efforts to address this challenge.

If the response to the COVID-19 pandemic undermines the challenge of climate action, we accelerate one major systemic threat to the economy as we deal with another and this clearly makes no business sense. In fact, the opposite must be true. We have had numerous engagements with businesses in our network who stress the need to ensure that efforts to rescue and repair the economy in response to the current crisis can and must be aligned with actions to build a more sustainable and resilient economy.

Resources such as the reports of the Global Commission on the Economy and the Climate clearly document how investment in climate action is associated with benefits that more that cover the existing costs. At the same time we know that climate action does require up front investment and it would represent a massive missed opportunity if stimulus funds and actions provided by governments to support economic recovery were not effectively aligned with wider long term goals including climate action.

We are currently developing work with the businesses and experts we work with about the shape of a global economic response, but in our initial thinking there are a number of areas where action on climate change and the kinds of economic actions required to restart the economy are well linked.

1. Investment in infrastructure

Climate action requires significant infrastructure investment in power, transport, homes and buildings, as well as 'soft' infrastructure such as nature conservation and land management. As this kind of spending requires an expanded workforce to deliver and develops a stronger base for the economy to grow back it is well associated with supporting an economic recovery. Projects such as supporting decarbonized power networks, infrastructure for low-carbon heating, better public transport and electric/hydrogen vehicle support infrastructure would be valuable. One particular opportunity would be supporting increased energy efficiency of UK homes as accelerating renovation rates is a high priority. Another important priority here is the investment in climate adaptation and resilience measures to minimize the chances of future economic shocks.

2. Investment in innovation

The process of decarbonisation requires an accelerated process of innovation, securing change across the economy. Government support for innovation measures can and should have long term economic benefits – improving productivity and developing competitive advantage in new and growing industries. There are a number of areas of innovation at which government finances could be targeted in order to support both climate action and economic recovery. These include: measures to accelerate the roll out and development of electric vehicles, including vehicle scrappage schemes; support to innovation around industrial decarbonisation; support to help develop zero carbon aviation, shipping and freight; and innovative measures to support the development of a more energy and resource efficient economy (i.e. smart and circular economy innovations).

3. Investment in skills

As documented by a report we have recently released the labour market is rapidly changing and proactive climate action can help moderate that change, creating work for people who would otherwise be most at risk. At the same time new low-carbon industries are often held back by the lack of a skilled workforce. One major impact of COVID-19 is soaring unemployment levels, and improving labour skills can help smooth the path of workers reentering the labour market. The government could use stimulus funds to invest in the UK skills base, improving our productivity and economic competitiveness, particularly if focussed on new low-carbon industries.

4. Encouraging business best practice

Well managed modern businesses need to take account of climate risks. More and more businesses already are – e.g. setting science based targets, disclosing their climate impacts etc. Any company that is supported by public funds should demonstrate they are well and thoughtfully managed by adopting the following actions:
- Integrate risk into company disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Consistently screening for risk in company investments and strategy will ensure future investment decisions mitigate climate change, avoid stranded assets and prevent future risks.
- Build science-based approaches to inform company strategy. Companies should set science-based targets consistent with limiting global average temperature increase to 1.5°C and reaching net-zero emissions by no later than 2050. Understanding and integrating science into decision making is the best way to protect against future shocks.
- Invest in low-carbon solutions that create new jobs. Companies should prioritize investment in available solutions like the retrofitting of buildings, deployment of renewable energies or in achieving mass production and economies of scale in technologies that can decarbonize industry. This will support the creation of new jobs now while reducing the risk of climate change.

5. Maintain policy certainty

Business and investors benefit from policy certainty to help them develop business cases and secure finance affordably. Currently there is a growing understanding of the significance and materiality of climate and other environmental concerns and a growing confidence in the direction of policy action to prompt change. There should not be any rollback of measures in this space that could be interpreted as mixed signals as this would undermine business action.

Already the response to COVID-19 has demonstrated the UK government's ability to rapidly and dramatically act when when responding to external risk. The businesses and investors we work with are clear that improving the sustainability of the economy is not in competition with economic recovery but is an ongoing parallel priority that can contribute to it. Investment in low-carbon industries and enabling infrastructure can help society by providing jobs, can stimulate the economy and improve public health and wider social outcomes.

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