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**Acknowledgements:**

Thanks to Profundo Research for expert advice and research.
Our future in their plans: Why private finance is the public’s business

Summary

The signing of the Paris Agreement at the end of 2015 was an historic milestone in climate campaigning. This was a major step in our transition to a low-carbon future that now needs to be integrated into all aspects of the economy. As part of this integration, we need those managing our finances to shift money away from fossil fuels and towards renewable energy and low-carbon companies. The quicker they can do this, the better our chance of limiting global temperature increases to the lowest level possible. This will particularly benefit the poor and marginalised, who are most vulnerable to the impacts of climate change.

As senior figures, such as Bank of England Governor Mark Carney, have highlighted, this shift provides many opportunities for innovation and new investments. In 2018, governments will review their plans from Paris to see if they can scale up the ambition of their commitments. The scale of finance needed goes far beyond what governments can provide, however. Substantial sums of private finance will be required to enable this increased ambition, and by 2018 we need to see very clear evidence that private finance institutions are rising to the challenge.

Private finance institutions are not abstract entities managing the money of the super rich. They are the high street banks and pension fund managers that rely on our custom to make profits. They are managing our financial transactions, our savings and our pensions. To meet our responsibility to the planet and its people, we need to ensure that they use our money in a way that helps create a sustainable low-carbon economy as soon as possible.

We looked at whether the biggest UK headquartered banks and asset managers are doing enough to accelerate the shift to this sustainable economy. Most of the financial institutions researched had signed the Paris Pledge for Action, in which they affirmed their commitment to act to support the realisation of the goals of the Paris Agreement. We tried to assess what concrete actions and commitments they are taking to live up to this pledge. We have found that the Paris Agreement has not yet catalysed the major changes in the financial sector we would like to see. Many private financial institutions are not seizing the opportunities presented by the shift to a low-carbon economy. We see this in several ways.

They are still financing the building of coal-fired power stations, which will lock countries into high-carbon infrastructure, making it harder for them to meet their climate ambitions. They are still financing oil and gas companies far more than they are renewables. They are reluctant to set measurable targets for scaling up support for renewables and phasing out support for fossil fuels. There is only partial measurement of the carbon footprint of investment portfolios or company lending. It is unclear whether private financial institutions are pushing the companies they finance or invest in to work on comprehensive transition plans.

We looked at the progress of five banks and 10 asset management companies and gave each institution a grade based on a range of climate-relevant policies. We generally awarded half marks for some demonstration of progress with full marks awarded for
comprehensive commitments. The scores, which averaged around 50%, demonstrated the partial progress of the sector on climate. We do not see that the sector fully grasps the magnitude of change needed and is moving quickly enough. We need to make it clear as their customers that we want them to speed up.

We need to see them:

- Establishing a work process with clear timelines to create and publish transition plans for their organisations in line with the Paris Agreement.
- Demanding that companies to which they lend or invest in work on low-carbon transition plans.
- Setting measurable targets to increase support for renewable energy and decrease support for fossil fuel power generation.
- Immediately stopping the financing of coal power plants.
- Fostering much closer collaboration between asset managers and asset owners on changing how our money is invested to meet the challenge and opportunities presented by climate change.

From our engagement with 13 of the 15 institutions profiled, we agreed that there was a need for policy changes by governments to facilitate a speedier shifting of investment. From Christian Aid’s perspective, the many things governments need to do include:

- Putting in place frameworks for mandatory disclosure of carbon footprints and other climate-related information at both individual company and portfolio level.
- Phasing out fossil fuel subsidies.
- Ensuring that the fossil fuel industry has a limited influence in determining the price and mechanism when implementing carbon pricing.

One of the challenges we faced as a civil society organisation was finding free, publicly accessible financial data which would allow us to assess the flow of private finance. In a survey commissioned by Christian Aid, 70% of British adults said that banks should be legally required to reveal where they invest the money which they receive from individuals and companies, while just 14% said they should not be required to reveal this.¹ We would therefore also urge governments to ensure greater public transparency of private financial flows and how these flows link to the realisation of climate targets.

We hope we can work with private financial institutions to change policies and regulations to accelerate the shift, but first we need to see greater commitment from them. The challenges and opportunities are great, but we must remember that what we call private finance is often your money – and through the right choices it can be used for the public good.
The importance of private finance in achieving climate goals

In December 2015, the world came together in Paris to sign a historic agreement aiming to limit the rise in the Earth’s temperature to 2°C, and an agreed aspiration of limiting the rise to 1.5°C. This ambition will require a big shift in how we live. Over the past 150 years, from food production to transport, our economy has been powered by fossil fuels. They have helped industrialised countries reach unprecedented levels of wealth and prosperity. However, we now know that burning of fossil fuels releasing carbon has created the greatest challenge of the 21st century: a changing climate that has potentially disastrous consequences for all of us, particularly those living in poverty.

Climate change is characterised by the Intergovernmental Panel on Climate Change (IPCC) as a ‘threat multiplier’ most affecting people whose livelihoods are already vulnerable. Extreme weather events, compounded by other stressors such as greater competition for water, lead to declining crop yields that erode farming livelihoods. Small business owners watch their livelihoods destroyed by hurricanes, storm surges and floods. Wage labourers are particularly vulnerable to food price rises and their often informal or temporary settlements are more exposed to floods and landslides.

We need to break our dependence on fossil fuels and power our economy through low carbon solutions and we need to do this as quickly as possible. The pledges made by countries in Paris put us on track for a temperature rise of 2.7°C when they are added together. To limit the rise to the 2°C target, we will need to move faster. To limit it to the 1.5°C that was aspired to in the Paris Agreement, we need strong action now. The differences between a temperature increase of 2.7°C versus 2°C versus 1.5°C may seem tiny on paper but they mean the difference between survival and destruction for millions around the world. The longer we wait to shift investment, the harder it will be to meet the 1.5°C goal, if at all.

As part of the Paris Agreement, countries have committed to arrive at net zero-carbon economies by the second half of the century. Therefore, ahead of the 2020 start date of the Paris Agreement, every effort must be made to ratchet up the ambition on carbon reduction and put in place the low-carbon pathways that will lead to these zero-carbon economies.

The Global Commission on the Economy and Climate is an international initiative to examine how countries can achieve economic growth while dealing with the risks posed by climate change. A key message from its most recent report, issued in October 2016, is that ‘the window for making the right choices is uncomfortably narrow because of lock-in of capital and technology and because of a shrinking carbon budget. The next 2–3 years will be crucial in bringing about a fundamental change of direction.’

According to the same report, the global South will require around $4 trillion per year to invest in low-carbon clean infrastructure. However, the Paris Agreement makes provision for richer countries to transfer a minimum of $100 billion per year to poor countries to finance adaptation and mitigation.
We need to continue to help developing country governments raise more domestic tax revenue and prevent illegal financial flows to help them invest in their low-carbon future. However, given the vast sums needed for investment in the low-carbon economy, we must also consider the important role of private finance.

Globally it is estimated that there is $250 trillion of global household wealth. North America accounts for $92.8 trillion and Europe for $75.1 trillion (the UK’s share of this is $15.6 trillion), compared with African countries which have just $2.6 trillion.

It is important for us to consider how we invest the vast wealth we have to meet our responsibilities to the planet and to its people. In the 21st century, finance flows around the world quickly and easily. The money you save in your bank account in Manchester could be financing a new coal-fired power station in India. Monthly pension contributions in Cardiff could be used to finance a new energy project in Kenya. What matters is whether those who are managing our money are making the right decisions. Are they investing our money in ways which safeguard the future of our planet and help the world’s poorest work towards greater independence and security for themselves and their families? Our research found that that this is currently still not the case. Almost one year on from the euphoria of the Paris Agreement, we found that not enough has happened in terms of real change.

We found that the people managing our money are still heavily invested in fossil fuel companies with relatively low levels of investment in renewables. To a certain extent, this is not surprising because much of the information we looked at is tied to historic investment decisions. We understand that it is not as easy as simply changing all our investments overnight. However, the more quickly we shift investment, the more likely we are to achieve the ambition of limiting warming to 1.5°C.

Private finance is focused on short-term financial return rather than long-term economic, social and environmental impact. In the long term, we will need to change the rules and frameworks of how private finance works in many ways to ensure that finance does not work contrary to our ambitions on climate change. In the short term, we need to engage more with those people managing our money, develop a better understanding of what they are doing and ensure they realise that now more than ever, private finance is a matter of public interest.

We must ‘shift the trillions’, but this has to be done in a responsible manner, ensuring it prioritises the needs of the poor. In the same way in which richer nations have been urged to show leadership on their climate commitments, this applies at an individual level as well. Our prosperity, as seen in our savings and pension funds, must be invested accountably and for the benefit of all. The world’s poorest people have neither savings nor pensions, and their needs are often ignored. The actions of large private financial institutions affect everyone. Their activities are a matter of social interest and social justice and we must work with them to finance a sustainable future.

‘The money you save in your bank account in Manchester could be financing a new coal-fired power station in India.’

‘Our savings and pension funds must be invested accountably and for the benefit of all.’

‘Globally it is estimated that there is $250 trillion of global household wealth, the UK’s share of this is $15.6 trillion, compared with African countries which have just $2.6 trillion.’
The power of our money

The prospect of engaging with private finance to shift global financial flows can seem daunting at an individual level. However, it is important to remember both the role the UK plays in the global financial system and its link back to our personal finances.

The UK is a global financial hub. According to the Bank of England, nearly a fifth of global banking activity worldwide is booked in the UK, and around half of the world’s largest financial firms, including banks, insurers, asset managers and hedge funds, have their European headquarters in the UK. British banks also have a major presence abroad, especially in the Americas and Asia.

Some recent studies on the UK’s financial system have shown that:

- UK banks hold nearly £5 trillion in assets.¹⁰
- Compared with other EU countries, UK banking is highly concentrated in the hands a small number of big players. Four major UK-owned banks (HSBC, Barclays, RBS and Standard Chartered – the ‘Big Four’) have been designated as Global Systemically Important Banks by the G20 Financial Stability Board.¹¹
- The UK has the world’s second largest asset management industry. At the end of 2013, with more than €6 trillion, the UK had around 37% of all assets under management in Europe; in comparison France had €3.2 trillion and Germany had €1.6 trillion.¹²

Therefore, what happens in the UK financial system has a global impact and shifting finance in the UK can create momentum for global change. It is important to remember that each of us can be part of creating that momentum as private finance institutions, both banks and asset managers, are managing our money.

To put it simply, banks gather funds and deposits, such as the money that is in our own savings and current accounts. On the other side of their balance sheet, they make profits by lending out that same money to individuals and companies. This can include loans to companies, project finance, supply of capital and underwriting of shares. Of course, today’s multinational banks are huge corporate entities with other sources of funds and profits, but at their heart, banks continue to use the savings and deposits of customers to finance lending to companies and to other people.

Banks operate mainly as suppliers of credit to companies rather than shareholders. Sometimes banks lend money to a company for a specific project, such as a power station, and can assess the financial risk caused by climate change related factors to that project. However sometimes when they lend money to companies, they are not always clear what it will be used for, as it is termed as being for ‘general corporate purposes’. Therefore, banks may need to ensure climate considerations are built into their credit risk assessment of the entire company. Post Paris, we would hope that banks begin to assess the credit worthiness of fossil fuel companies to assess whether they have a future. To do so, we would expect them to press these companies for more information on their plans for their business post Paris.

‘It is important to remember that private finance institutions, both banks and asset managers, are managing our money.’

‘What happens in the UK financial system has a global impact. Shifting finance in the UK can create momentum for global change.’
Asset managers are also an important player in the financial management industry. In return for a fee, they invest clients’ money in products such as company shares or bonds. Their clients are split into institutional investors (such as pension funds and insurance companies) and retail investors (individuals); both types of clients are referred to as the asset owners. Asset owners contract asset management companies to manage investments. In the UK, pension funds account for 33% of institutional assets under management, pooling the money of millions of individual contributors.

As investment professionals, it is reasonable to expect asset managers to be aware of the risks associated with climate change of investing in certain companies, eg, oil companies such as Shell or BP, and to explore their potential long-term impact on returns. As with banks, we would expect them to be pushing companies for more information on their plans to transition their business in line with a 2˚C scenario. Since the clear majority of a company’s market value tends to relate to its ability to make profits over decades to come, climate change-related risks and opportunities are potentially significant.

In a recent survey of institutional investors, only 16% of UK respondents said they were planning to include climate protection into their investment decisions in the next five years. A pivotal question is therefore the relationship between the pension fund and asset manager (as well as any advisers involved in this process, such as actuarial consultants) in understanding how best to invest capital. A client such as a pension fund gives instructions to an asset manager to manage assets according to predefined objectives. If the asset owner does not fully understand the risk caused by climate change, we would hope that asset managers are helping their investors comprehend these risks.

However, many funds set up by asset managers simply automatically invest in a group of stocks, such as the FTSE All-Share Index, to match the returns of the market at a minimum management cost. It is possible, but potentially costly and difficult, to screen out certain industries from funds, such as tobacco or arms manufacturers. However, even if fossil fuel companies were screened out, many companies not directly involved in fossil fuel extraction may be intensive users of fossil fuels, eg, through electricity usage or manufacturing processes. That is why simply screening out fossil fuel companies will not provide the long-term answer. That is why it is urgent when phasing out fossil fuel investments to simultaneously scale up investment in renewables to ensure they can provide the clean energy needed by the whole range of industries in which we invest.

The Paris Agreement is clear that business as usual simply cannot be an option over the medium to long term. That is why those managing our money need to be engaging with companies they invest in or lend money to, asking them about their plans for a low-carbon transition. Effective engagement by private financial institutions will be vital in ensuring we can keep that 1.5˚C aspiration in sight. We are seeing a lot of engagement by banks and asset managers with companies. However, we worry they are not asking tough enough questions and pushing companies to speed up their

‘A recent survey of institutional investors showed that only 16% of UK respondents said they were planning to include climate protection into their investment decisions in the next five years.’

‘A pivotal question is the relationship between the pension fund and asset manager in understanding how best to invest capital.’
change. And yet, as we will see in the next few pages, the scientific, moral and business cases all favour decisive action.

The time for change is now

The scientific community has now reached 99% consensus that man-made climate change will change our world dramatically. Due to ongoing sea-level rises, low-lying coastal areas will increasingly be submerged; coastal flooding and erosion will affect increasingly large numbers of people and assets. More frequent and severe extreme events will increase losses and make it harder to predict the value of losses. According to the Intergovernmental Panel on Climate Change (IPCC), ‘delaying mitigation will substantially increase the challenges associated with limiting warming to 2°C.’

Over the past few years’ faith communities have mobilised in increasing numbers in response to the threat to creation. We have seen pilgrimages, fasting, vigils and marches. The Pope’s encyclical Laudato Si’ in 2015 highlighted that the climate is a common good, belonging to all and meant for all. Climate change is a global problem with grave environmental, social, economic and political implications. It represents one of the principal challenges facing humanity in our day. Faith communities have been at the forefront of the divestment movement with many churches and denominations taking their investments out of fossil fuels. In 2016, thousands of churches across Britain have switched to clean energy suppliers. We need to continue to put our money where our prayers are.

However, we are not seeing the same sense of urgency in the investment community. This reticence does not make sense as the business case is just as clear as the scientific evidence and the moral case for urgent action.

The World Economic Forum’s annual risk survey in 2016 placed the failure of climate change mitigation and adaptation as having the greatest potential impact of any risk. A report by insurers Lloyd’s stressed: ‘Climate change is one of the most important supply side drivers of food insecurity… In many places, but particularly in poorer countries, climate change will act as a multiplier of existing threats to food security by 2050.’

The work of the Carbon Tracker Initiative has highlighted the risk of ‘stranded assets’, ie, oil and gas reserves that cannot be exploited if we are to meet our climate commitments and that will essentially be proven worthless in future, leading to a rapid devaluation of fossil fuel companies. Unless we see an orderly transition away from our investments in oil and gas, we could see sudden crashes in the values of pensions – most of which are heavily invested in oil and gas companies such as Shell and BP. The most recent New Climate Economy report estimated that almost ‘$1 trillion worth of current energy assets are at risk of being stranded if markets fail to anticipate the transition to a low-carbon economy.’

However, it is also important to see that there are enormous opportunities in transitioning to a low-carbon economy. A report in 2015 by investment experts Mercers highlighted that a scenario whereby we limit temperature increases to 2°C: ‘doesn’t jeopardise financial returns’. The report added that the limit ‘would be likely to

‘Investors can no longer ignore climate change. Climate factors have been under-appreciated and underpriced.’

‘The Pope’s encyclical Laudato Si’ in 2015 highlighted that the climate is a common good, belonging to all and meant for all.’
lead to gains in infrastructure, emerging market equity, and low-carbon industry sectors’.  

Recently a senior director at BlackRock, the world’s largest asset management company, stated publicly that: ‘Investors can no longer ignore climate change. Climate factors have been under-appreciated and underpriced.’ Climate-aware investing is possible ‘without compromising on the traditional goals of maximising investor returns’.  

The Governor of the Bank of England, Mark Carney, has stated that ‘Financing the de-carbonisation of our economy is a major opportunity for… long-term investors. It implies a sweeping reallocation of resources and a technological revolution, with investment in long-term infrastructure assets at roughly quadruple the present rate.’  

At the Paris Climate Conference, it was agreed to commission a report on the difference in impact between limiting warming to 1.5°C versus 2°C and what this would mean in terms of increased effort. The report is due in 2018 and this will be the first year when countries can begin to take stock of their efforts to reach the long-term goals outlined in the Paris Agreement. By 2018, governments must feel confident that they can count on private finance if they want to increase their ambition. Post Paris, there has been some good news. We have seen the launch of more low-carbon investment products. For the first time, emerging economies spent more than the rich on renewable power and fuels. Overall, however, we have not seen any major changes in global markets in response to the Paris Agreement.  

Of the banks and asset management companies profiled in this report, all five banks and 7 out of 10 asset managers signed the Paris Pledge for Action, in which they affirmed their ‘strong commitment to a safe and stable climate in which temperature rise is limited to under 2 degrees Celsius’, and that they ‘will do this by taking concrete steps now, and without waiting for the entry into force of the agreement in 2020, both individually and cooperatively, to reduce greenhouse gas emissions to a safe level and build resilience against those changes already occurring’.  

In theory, therefore they recognise the need for action. The question is whether are they living up to their pledge. We cannot wait until 2018 to find out whether private finance institutions have taken the Paris signal and begun to hardwire the climate agreement into their operations. That was the motivation in working on this report – to check now that they are acting now before it is too late.  

‘The Governor of the Bank of England, Mark Carney, has stated that “Financing the de-carbonisation of our economy is a major opportunity for… long-term investors.”’  

‘By 2018, governments must feel confident that they can ratchet up ambition and that finance is going in the right direction for them to do this.’
Is private finance responding to the challenge?

Firstly, to understand the scale of change needed we researched a snapshot of some of the financing and investments between 2011 and 2015 of the largest UK headquartered banks (the Big Four, plus Lloyds Bank) and the 10 largest UK-based asset management firms. Because 81% of greenhouse gas emissions are attributable to energy consumption, we centred our research on their ‘best’ and ‘worst’ energy investments to try to understand the proportion which is supporting fossil fuels versus renewables. We focused our sample on investment sectors that cause more than 53% of total greenhouse gas emissions. We also looked at some of the financial institutions’ investments in wind, solar and other renewable industries. We compiled a list of 374 companies – 240 fossil fuel and 134 renewables companies. We then looked at how heavily invested the financial institutions were in fossil fuel versus renewables companies. We found that our money had been far too heavily supporting fossil fuels compared to renewables. We acknowledge that the available potential investment opportunities in fossils fuels are still much greater than renewables. However, we found that some banks could be financing up to five times more fossil fuels than renewables. In some cases, asset managers had 10 times more fossil fuel assets under management than renewables assets.

Overall, we saw a picture of substantial industry-wide over-financing of the fossil fuel industry, with limited capacity for wider society to verify progress in the shift towards renewables. We accept that these figures were only a sample. Christian Aid, as a civil society organisation, does not have unlimited resources with which to analyse the totality of investments of major private financial institutions. When we spoke to them, it was difficult to verify the figures due to their concerns about commercial confidentiality.

Therefore, we engaged with the selected institutions to understand their policies in relation to climate change and their plans to bring their investments and lending in line with the 2°C target in the Paris Agreement. Regardless of our difficulties with assessing their figures, if the institutions have the right policies in place, we could be more confident that they are more likely to make progress on climate goals speedily.

We looked at five elements:

- How are they planning to transition their business post Paris?
- Do they have commitments or plans for scaling up support for renewable energy and decreasing support for fossil fuels?
- Are they measuring and disclosing the carbon footprint of their lending and investments? The carbon footprint is just one of many climate-related disclosures we need to see from companies, but we have used it as a basic indicator of progress.
- How are they engaging with the companies they finance or invest in regarding their transition plans?
Are they undertaking other climate-positive actions, such as positive climate lobbying or working with asset owners to better understand the risk climate change poses to their investments?

Once we had a clear picture of their efforts in these areas, we marked them out of 100 and awarded them a grade based on the standard school marking system: below 40% corresponds to an F grade, 40% = E, 50% = D, 60% = C, 70% = B, and 80% = A. We assessed banks and asset managers under the same themes, but with different criteria as befits their different operating models. A detailed breakdown of how we marked each of the banks can be found in Appendix 1, and the asset managers in Appendix 2. For more detail, see each organisation’s individual profile available at christianaid.org.uk/bigshiftscorecards

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<th>Bank</th>
<th>Key facts</th>
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<tr>
<td>Barclays</td>
<td>No timeline for a transition plan.</td>
<td>D</td>
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<tr>
<td></td>
<td>Still financing coal, oil and gas.</td>
<td></td>
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<tr>
<td></td>
<td>Does not have measurable targets for increasing financing to renewables.</td>
<td></td>
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<tr>
<td></td>
<td>Carbon footprinting of some lending.</td>
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<td></td>
<td>Barclays stated that it takes a client’s response to climate risk into account but this is not publicly verifiable.</td>
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<td></td>
<td>Has committed £1bn investment in Green Bonds.</td>
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<td>HSBC</td>
<td>No timeline for a transition plan.</td>
<td>D</td>
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<td></td>
<td>Still financing coal, oil and gas.</td>
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<td></td>
<td>Does not have measurable targets for increasing financing to renewables.</td>
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<td></td>
<td>Carbon footprinting of some lending.</td>
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<td></td>
<td>Its energy policy states that it encourages disclosure of emissions by companies, but this is not a prerequisite for financing.</td>
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<td></td>
<td>HSBC France raised a €500m Green Bond.</td>
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<tr>
<td>Lloyds Banking Group</td>
<td>No timeline for a transition plan.</td>
<td>D</td>
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<td></td>
<td>Still financing coal, oil and gas.</td>
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</tr>
<tr>
<td></td>
<td>Carbon footprinting some lending.</td>
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<tr>
<td></td>
<td>No official position on engagement with companies on transition plans.</td>
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<tr>
<td></td>
<td>In our research, the bank with the largest percentage of financing for renewables.</td>
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<td>RBS</td>
<td>No timeline for a transition plan.</td>
<td>D</td>
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<td></td>
<td>Still financing coal, oil and gas.</td>
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<tr>
<td></td>
<td>Carbon footprinting of some lending.</td>
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<td></td>
<td>No official position on engagement with companies on transition plans.</td>
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<td></td>
<td>Support for oil and gas in 2015 fell 70% compared with 2014.</td>
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<tr>
<td>Standard Chartered</td>
<td>No timeline for a transition plan.</td>
<td>D</td>
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<td></td>
<td>Still financing coal, oil and gas.</td>
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<tr>
<td></td>
<td>Carbon footprinting of some lending.</td>
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<tr>
<td></td>
<td>Engagement with some companies (mainly high emitters) on some aspects relevant to transition plans, but not verifiable how comprehensive this is.</td>
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<td></td>
<td>Will fund and facilitate at least $4bn toward clean technology by 2020.</td>
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<tr>
<td>Asset manager</td>
<td>Key facts</td>
<td>Grade</td>
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</table>
| Aberdeen      | - No new policies since Paris.  
               - No commitment to carbon footprinting its investments.  
               - Unclear targets for its engagement on climate issues with companies. | F |
| Aviva         | - Has issued an updated policy response to Paris.  
               - Committed to measuring the carbon footprint of its investments.  
               - Extensive engagement on climate policy.  
               - Provides public information on its engagement with companies | A |
| Baillie Gifford | - No new policies since Paris.  
                  - No commitment to carbon footprinting its investments.  
                  - Unclear targets for its engagement on climate issues with companies. | F |
| Fidelity      | - No new policies since Paris.  
               - No commitment to carbon footprinting its investments.  
               - Unclear targets for its engagement on climate issues with companies. | F |
| HSBC          | - Updated climate policies since Paris.  
               - Committed to measuring the carbon footprint of its investments.  
               - Unclear targets for its engagement on climate issues with companies. | C |
| Legal & General | - Has updated policies since Paris.  
                    - Clear targets for engaging companies on their transition plans.  
                    - Positive public engagement on climate policy. | B |
| Old Mutual    | - No new policies since Paris.  
               - No record of its AGM voting record online.  
               - Has made a commitment to have 10% of its funds under management invested in the green economy. | F |
| Prudential    | - No new policies since Paris.  
               - No commitment to carbon footprinting its investments.  
               - Unclear targets for its engagement on climate issues with companies. | F |
| Schroders     | - Updated policies since Paris.  
               - No commitment to carbon footprinting its investments.  
               - Unclear targets for its engagement on climate issues with companies. | D |
| Standard Life | - Updated policies since Paris.  
               - No commitment to carbon footprinting its investments.  
               - Unclear targets for its engagement on climate issues with companies. | D |
Overview of the findings from our research and evaluation

The criteria and categories we chose in our assessment represented for us the most obvious areas where we would expect to see private financial institutions progressing. We acknowledge that this is a subjective assessment based on a civil society organisation’s view. The financial sector often marks its own homework based on the limits of what it feels is reasonable or possible. We wished to turn that on its head and start from what may be necessary from a societal perspective, even if that might seem challenging to the financial sector. By choosing five different areas to look at in our evaluation, we felt we were getting a picture of which institutions were mainstreaming climate concerns into their business.

In the categories, we generally awarded half marks for some demonstration of progress with full marks awarded for comprehensive commitments. The low scores across the board, which averaged around 50%, highlight the gap between the fundamental changes which we feel an adequate response to climate change requires and the current pace of change in the financial sector.

What we see from the institutions researched is that they are failing to move quickly enough. Most are passive players in the shift, rather than active drivers. The financial sector does not yet have a clear vision for a 2°C future, let alone a 1.5°C future. Some organisations have issued some new climate polices and scaled up their action. However, we are not seeing a sector-wide attempt to understand what it means to operate in line with the 2°C target, eg, banks are pledging commitment to a low-carbon future while continuing to finance coal extraction and coal-fired power stations, which we believe is completely incompatible with higher ambition on climate action.

Likewise, we are seeing some footprinting of high-emitting projects (eg, all the banks surveyed adhered to the Equator Principles for managing social and environmental risk of investments). But it is not clear to what extent climate risk is being integrated into lending decisions beyond projects which are highly carbon intensive.

We have seen some valuable public engagement by private finance, eg, signing supportive statements and participation in the G20 taskforce (see next section for details), but we are not necessarily seeing this translate into changes in internal policy. There appears to be a culture of ‘wait and see’ in the financial sector, hoping the policy changes will be made before they take more concrete actions. While we agree that we need to change policies, we also need private financial institutions to create greater momentum for governments to make those policy changes.

We have seen some scaling down of support for fossil fuels, but we are not seeing firm targets to phase out support for fossil fuels or increase support for renewables. This may make short-term financial sense, in that banks do not want to rule out financing profitable business opportunities. However, if they want to remain profitable in the long term, they need to think about the type of world they are creating through their short-term lending decisions; a more unstable and unpredictable climate may damage their assets and make operating more difficult. A continued focus on the short-term profitability of fossil fuel-dependent businesses may be preventing them from reshaping their organisations to take advantage of the long-term opportunities presented by the low-carbon economy.

With asset managers, we are seeing some increased engagement, but with little clarity as to when they would divest from fossil fuel companies. A policy of engagement can only work if it has teeth and the companies themselves feel under pressure to demonstrate improvement. We are unconvinced that these engagement policies are driving change at the pace needed. The relationship between asset managers and asset owners continues to prove a sticking point. It is taken for granted that if asset owners have a greater understanding of the risks posed by climate change then they will give asset managers a wider mandate to change their investments. How to engage asset owners remains unclear. Is this the job of asset managers or the customers of the pension providers, ie, the public?

With the asset management industry, it was hard to see real impact from Paris. A couple of larger asset management companies such as Aviva, and Legal and General have devoted time and resources to engaging in policy debates and thinking about the changes that will need to be made for a low-carbon future. Some others have updated their policy positions. However, beyond the notable exceptions it is hard to discern a real engagement with the challenge of reimagining the asset management industry post Paris. It is also interesting to note that the highest scorers in the asset management industry are generally those that have consumer-facing businesses. There is a danger that the more anonymous bulk of the asset management industry holds back progress.
Barriers to a faster transition

In compiling this report, we reached out to the institutions profiled for a response to surveys and draft profiles. Through face-to-face meetings or email exchanges, 13 of the 15 organisations profiled engaged with our work. While we may have disagreed on the expectations we should place on the institutions to drive change, we did agree that there was also a need for wider policy changes at governmental level. There are larger systemic policy barriers which prevent private financial institutions from shifting more money more quickly. In this section, we outline some of the issues on which Christian Aid and other civil society organisations are working and where we would welcome continued or increased engagement from private financial institutions.

Fossil fuel subsidies

Reports in 2015 estimated that the G20 members are providing $444 billion a year in fossil fuel subsidies. Different organisations use different definitions of subsidies, but even using conservative estimates the sums are still vast. If fossil fuel subsidies remain in place, the effectiveness of other measures to shift investment will be undermined. Fossil fuel investments will continue to remain more attractive to investors if they are subsidised and given an unfair advantage over renewables.

Fossil fuel subsidies are often seen as necessary to ensure that poorer people can afford to buy energy for lighting and electrical power. However, according to the International Monetary Fund, the wealthiest 20% of the population gets 43% of the benefit from fossil fuel subsidies, while the poorest 20% gets only 7%. In 2009, G20 members pledged to phase out fossil fuel subsidies, yet we have still not seen much more than rhetoric on this. Recently, investors managing assets of over $13 trillion wrote to the leaders of the G20 asking them to swiftly phase out fossil fuel subsidies. Civil society and investors need to continue pushing governments to put their promise into action.

Disclosure

For a bank or asset manager to understand how to align their business with a 2°C scenario, it is necessary for them to look at the impact of the transition on the companies they finance or invest in, and what these companies are doing about this. An example of one of the things to consider would be what a company is doing to reduce its carbon footprint. Through looking at the information available on a range of climate-related impacts, investors can understand which companies are best placed for a transition to a low-carbon economy.

Last year, the Financial Stability Board of the G20 set up a taskforce to develop recommendations on how companies should best disclose this type of information to investors, believing that standardised disclosure by companies will drive investment into companies that are best managing the transition to a low-carbon economy. The taskforce’s recommendations are due in spring 2017. The recommendations will not be mandatory and it is unclear what
follow-up and assessment mechanisms are planned for the taskforce’s recommendations, but it will be important for us to assess them and see if we can build on them to create mandatory requirements for companies.

We have seen in our research that most asset managers and banks are not measuring their carbon footprint systematically across their portfolio. Currently the taskforce appears to be focused on creating recommendations at company level rather than investor level. Therefore, even if companies improve their disclosure, it is unclear whether it will lead to greater levels of public disclosure by investors. Will civil society be any better positioned to track the progress of asset managers and banks in transitioning their business?

The French Government introduced legislation in 2015 requiring investors to report on how they are managing climate change-related risks in their portfolio as well as an assessment of their contribution to meeting the international target of limiting global warming. This legislation is the first of its kind globally, and we hope that other governments will track the implementation of this legislation to learn valuable lessons about its viability in other countries such as the UK.

Access to data on private financial flows

There is not the same level of transparency of private investment as public investment, although so much of the shift to a low-carbon economy depends on private sector investment. Through our research, we have seen how difficult and costly it is to monitor private financial flows. While Christian Aid and other civil society organisations will continue to hold development banks such as the World Bank accountable for their spending, we currently cannot do so well enough for private financial flows. We urge governments and central banks to take action on this and work more on data collection and reporting for whether private finance as a whole is aligned to climate and sustainability goals.

The myth that coal helps poverty reduction

Many private financial institutions claim that investment in coal helps developing world economies. They claim coal is a cheap, reliable source of fuel for power plants in developing countries and can provide access to energy, thus helping to lift people out of poverty.

However, the experience of our partners in developing world countries shows that the most effective way to help the poorest communities is to give them access to clean, safe and affordable energy. Investing in an energy system reliant on coal can lock developing countries into expensive infrastructure which is likely to become outdated quickly, with many negative impacts on health and the environment. According to the International Energy Agency, the generating capacity from renewable energy (wind and solar PV) over the next 25 years will be double the additional capacity from coal under business as-usual policies.

Most electricity-poor households live far from the grid – 84% are in rural areas. If scaled up appropriately, distributed renewable solutions will be the cheapest and quickest way of reaching over two-thirds of those without electricity. The arguments in favour of coal are short-sighted and fail to see that our transition to a low-carbon economy will require a fundamental reimagining of how energy is created and delivered.

‘Our transition to a low-carbon economy will require a fundamental reimagining of how energy is created and delivered.’
carbon economy will require a fundamental reimagining of how energy is created and delivered.

**Fiduciary duty**

Asset managers have a fiduciary responsibility to their clients. This means that they must place the interests of their clients ahead of their own. This is often interpreted in a very narrow sense that they must ensure they provide as great a return as possible on the investment. Since corporate reporting and investment performance can often be focused on the short to medium term, any considerations which might hinder short-term returns are often interpreted as running counter to the fiduciary duties of asset managers and pension trustees. Many asset managers find it hard to understand how to balance the need for short-term returns with the need to account for the long-term risks presented by climate change.

In 2014, a Law Commission review clarified some of this confusion. Its report concluded that ‘where trustees think ethical or environmental, social or governance (ESG) issues are financially material they should take them into account.’ However, we still repeatedly hear fiduciary duty raised as a reason why investors cannot move more quickly to change their investment portfolios. There still needs to be further work in clarifying that fiduciary duty should not prevent investors from addressing climate-related considerations. We need more and clearer statements from international governments and institutions to help further dispel confusion.

**Carbon pricing**

Increasingly we have seen private sector actors, from investors to oil companies, make carbon pricing their number one public policy priority. This means ensuring the hidden costs of carbon we pay for in other ways, eg, through increased healthcare costs from pollution, are properly valued and priced into the cost of products and services. If the prices of the goods and services that are most carbon intensive reflected their true cost, they would become much more expensive, driving a shift in consumption towards less carbon-intensive, cheaper goods.

Carbon pricing is meaningless if the price is not set at a high enough level to radically change consumption and investment patterns and if it is not implemented correctly, eg, by choosing carefully between a carbon tax or a trading mechanism. The sudden enthusiasm of fossil fuel companies for carbon pricing and their eagerness to influence this debate is something that must be watched carefully. We have seen how lobbying by fossil fuel companies has repeatedly undermined efforts to introduce progressive climate policy, and we do not want carbon pricing to become an issue which allows the fossil fuel lobby to slow down progressive climate action. Authorities setting a carbon price must ensure that vested interests do not water down ambition on either the price or the mechanism used.
Recommendations

This report establishes that our money is still not being used in a way that will speed up the transition to a low-carbon future. To change this picture, we will need action both by the individual organisations managing our money and by governments to change policies and legislation. That is why we are calling for the following steps.

**Banks**
- Commit to establishing a work process with clear timelines to create and publish a transition plan for your organisation in line with the Paris Agreement.
- Commit to demanding that companies to which you lend publish a low-carbon transition plan.
- Set an ambitious measurable target to increase finance for renewable energy generation.
- Set a measurable target to decrease finance for fossil fuel power generation.
- Stop financing coal power plants.
- Stop financing the extraction of oil from tar sands.
- Set a date to phase out financing for coal mining.
- Set a date to phase out financing for oil and gas extraction.

**Asset managers**
- Commit to establishing a work process with clear timelines to create and publish a transition plan for your organisation in line with the Paris Agreement.
- Demand that investee companies publish a low-carbon transition plan.
- Commit to carbon footprinting your portfolio.
- Engage with asset owners to highlight the risks of climate change.
- Demand that companies in which you invest do not participate in lobbying aimed at weakening climate policy.

**Governments and policy makers**
- The G20 taskforce must have a clear follow-up mechanism in place before it delivers its final report.
- Mandatory disclosure of carbon footprints and climate-related information at both company and investor level must be considered across the G20 if the taskforce recommendations are to be taken seriously and implemented.
- G20 governments must follow through on their commitment to phase out fossil fuel subsidies.
- Governments implementing carbon-pricing mechanisms must take steps to ensure that the fossil fuel industry has a limited influence in determining this price and the choice of mechanism.
- Continue to provide clarity of the meaning of fiduciary duty in relation to climate change. Clear statements at EU, OECD or G20 level would help further clarify any confusion.
- Governments, central banks and international organisations need to implement mechanisms to ensure greater public transparency of private financial flows and how these flows link to the realisation of climate targets.
## Appendix 1. How we graded the banks

<table>
<thead>
<tr>
<th>Theme</th>
<th>Policy assessed</th>
<th>Points available</th>
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<th>HSBC</th>
<th>Lloyds</th>
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## Appendix 2. How we graded the asset managers

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<th>Aberdeen</th>
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<th>Fidelity</th>
<th>HSBC</th>
<th>Legal and General</th>
<th>Old Mutual</th>
<th>Prudential (M+G)</th>
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<th>Standard Life</th>
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UNFCCC Paris Agreement, Article 4.1.

UNFCCC Paris Agreement, draft decision


UNFCCC Paris Agreement, Article 4.1.


UNFCCC Paris Agreement, draft decision


Reneval energy surges to record levels around the world, Matt McGrath, BBC News, 1 June 2016, www.bbc.co.uk/news/science-environment-36420750

Paris Pledge for Action http://parispledgefederation.org/read/

65% of total GHG emissions are in the energy sector.

For the background document describing the methodology used by our researchers, see christianaid.org.uk/methodology

For further details on the Equator Principles, see http://equator- principles.com/index.php/about-ep/about-ep


Investors call on G20 nations to ratify Paris agreement swiftly and expand low carbon & renewables. We have tried as much as possible to monitor the breakdown of the investments in our analysis.

For the background document describing the methodology used by our researchers, see christianaid.org.uk/methodology

For further details on the Equator Principles, see http://equator- principles.com/index.php/about-ep/about-ep


Carbon pricing is mainly implemented through carbon taxes or carbon trading schemes and almost 40 countries and more than 20 cities, states and provinces already use carbon pricing mechanisms or are planning to implement them.
