

POLICY BRIEFING

THE ROLE OF THE G7 IN SUSTAINABLE FINANCE AND ECONOMIC TRANSITION POLICY REFORMS

April 2023

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United Nations
Global Compact

ABOUT THE PRI

The [Principles for Responsible Investment](#) (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, the financial markets and economies in which they operate and, ultimately, the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

ABOUT THIS BRIEFING

This briefing presents recommendations to embed sustainability within the international policy dialogue taking place at the G7 in 2023. Previous analyses and recommendations to G7 and G20 host governments can be found [here](#). All PRI policy research and positions can be found [here](#).

The G7 Summit is an international forum held annually for the leaders of the G7 member states: France, the United States, the United Kingdom, Germany, Japan, Italy, and Canada (in order of rotating presidency), and the European Union (EU). At the G7 Summit, leaders exchange views on important challenges the international community is facing at that time, such as the global economy, regional affairs and various global issues, subsequently releasing a document as an outcome of these discussions. In 2023, Japan will host the G7 Summit in [Hiroshima](#) from 19–21 May.

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THE G7 AND THE ECONOMIC TRANSITION

World economies are at a crossroads. Climate change, biodiversity loss and increasing economic inequalities are system-level issues that will affect social stability, economic performance and investors' financial returns. Governments are called upon by scientists, international organisations and, increasingly, investors to reform public policy and address these challenges effectively. Further, Russia's unprovoked war in Ukraine will continue to impact energy, food and supply chains through 2023, and the case for an urgent transition to a clean energy economy is evident.

As global leaders, the G7 group is uniquely placed to influence global trends, tackle pervasive and cross-cutting issues and shape a sustainable future for the global economy. Along with investors and corporations, G7 governments should lead in developing a policy environment capable of meeting the goals of the Paris Agreement, the Global Biodiversity Framework and the Sustainable Development Goals.

The 2023 Hiroshima G7 Summit is an opportunity for G7 governments to align mainstream economic policy with global sustainability goals. G7 governments should lead by example and embed these issues at the core of their work, and not address them separately from mainstream economic policy discussions. An integrated economic policy approach will effectively address key issues, including financing the transition to net zero, climate and energy security and ensuring socially just and inclusive economic growth.

FINANCING A WHOLE-OF-ECONOMY TRANSITION

All finance and investment policy frameworks, policies, strategies and standards developed at the national and multilateral level need to create and support sustainable, resilient and inclusive economies.

G7 policymakers need to take a leadership role and accelerate reforms to shift the baseline and clarify and adapt financial regulations to build a sustainable financial system.¹ Sustainable finance policies and regulations can:

- support national policy goals on climate change and broader sustainability goals;
- enhance the resilience and stability of the financial system and the economy;
- improve market efficiency by clarifying and aligning investor and company expectations;
- increase the attractiveness of countries as investment destinations.

Financial policy reforms should be hardwired into existing finance and investment regulatory frameworks – sustainable finance should not be treated as separate, or optional to mainstream finance. Policy reforms should also be designed in alignment with international standards such as the IFRS Sustainability Disclosure Standards, and built in collaboration with international platforms such as the International Platform on Sustainable Finance (IPSF).

Policymakers need to clarify how investors can support sustainable economic growth. Legal analysis shows that investors can pursue sustainability impact goals that contribute to the sustainability of social and environmental systems on which the economy relies while seeking financial returns.² To enable investors to navigate a changing, goal-oriented world, however, policymakers need to further clarify and adapt financial regulations. This approach will ensure market efficiency and prevent greenwashing and freeriding.

A whole-of-government approach to the economic transition that ties real economy policies and financial policies together is essential to shift financial flows and address key societal concerns such as climate change, biodiversity loss and rising inequality. Financial policies and regulations that work in tandem with real economy policies have played an important role in supporting the growth of sustainable investment practices and in better aligning these practices with national and international objectives. G7 policymakers should continue to cooperate to enable functioning transition policies by engaging in knowledge sharing and seeking opportunities to provide alignment and interoperability – especially for policies concerning transition plans and transition taxonomies.

¹ <https://www.unpri.org/pri-blogs/supporting-policy-makers-and-regulators-to-build-a-sustainable-financialsystem/6930.article>.

² <https://www.unpri.org/policy/a-legal-framework-for-impact>.

CLIMATE, NATURE AND ENERGY SECURITY

Policy reforms should support and contribute to energy security within the context of transitioning the economy to net zero, protecting nature as part of this commitment.

Coordinated climate and nature policy frameworks are necessary to transform the ways in which markets and businesses operate and to accelerate the achievement of an emissions-free future.

We recommend that G7 governments commit to bold, ambitious and urgent policy reforms aligning economic activity with net zero across all sectors of the economy.

- Send a clear signal in response to the latest IPCC report, that a rapid, global phase-out of unabated fossil fuels and a peak in their consumption by 2025 is required, as defined by the IPCC, in order to meet emission reduction targets.
- In this regard, PRI welcomes the G7 climate and energy ministers' communique agreeing to "*an accelerated phase-out of fossil fuels*" in the energy system and "*achieving a fully or predominantly decarbonised power sector by 2035*", including the lifecycle emissions from hydrogen and its derivatives such as ammonia. Robust policy frameworks and mechanisms will be needed from G7 governments to follow through on this agreement, incentivise the flow of private capital and ensure a just transition.
- Build on the previous G7 Presidency Statement's intent to establish an open and cooperative international Climate Club, prioritise high-integrity carbon markets and cooperate to increase the price of carbon in G7 markets to expedite progress.
- Follow up on the commitment made by the G7 in 2022 to '*a highly decarbonised road sector by 2030, fully or predominantly decarbonised power sector by 2035, and prioritising concrete and timely steps towards the goal of accelerating phase-out of domestic unabated coal power*'.³
- The G7 should champion the prominent inclusion of nature and the Kunming-Montreal Global Biodiversity Framework in this year's G7 outcomes.
- G7 governments should seek to align 2030 Nationally Determined Contribution commitments with net zero by 2050, along with concrete actions to significantly reduce emissions this decade.

Mandatory, standardised sustainability and climate-related disclosures underpin the economic transition. The G7 should reiterate its commitment to the international standardisation processes under ISSB. G7 governments should:

- Ensure that sustainability disclosure is in line with international standards – at a minimum – in a timely manner, corresponding with the planned release of ISSB.
- Ensure that Transition Plans are included in any mandatory climate-related disclosures.
- Commit to encouraging corporations and investors to disclose emissions accurately and consistently. Increasing understanding of emissions calculations and reduction targets and having clear, comparable transition plans will be key to ensuring that hard-to-abate sectors receive the necessary finance for the transition.

A rising carbon price is a prerequisite for any meaningful strategy to reach net zero. It should be designed as a behaviour-changing and revenue-neutral market mechanism. Establishing coordinated carbon markets or a targeted introduction of carbon border adjustment mechanisms will incentivise other countries to accelerate the adoption of comparable pricing and regulatory mechanisms.

³ [G7 2022 Leaders' Communiqué](#), p. 2.

A SOCIALLY JUST AND INCLUSIVE ECONOMIC TRANSITION

The economic transition should be socially just, inclusive and in line with international standards.

The 'S' in 'ESG' is connected to other global risks, such as climate change, and key governance topics, such as responsible political engagement and anti-corruption. Increasingly, investors are considering human rights and social factors in their investment decisions. Consistent and coordinated policies championed by G7 countries would offer companies and investors the legal certainty they need to increase their investments. Due diligence requirements can help ensure that no human rights or environmental damage is caused along products and services value chains.

- G7 governments should follow up on the commitment from 2022 to *'work[ing] towards an international consensus on business and human rights to strengthen compliance with international standards, including through mandatory measures that protect rights-holders, provide for greater multilateral cooperation to address abuses, and support remedy...'*⁴ by developing strong due diligence requirements, in line with international standards.

In order to better discharge their obligations, both towards their fiduciaries and under international standards such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises, investors need data.⁵ Access to this information will require the introduction of new disclosure requirements on human rights and human capital and the strengthening of existing ones, for example, those concerning diversity, equity and inclusion (DEI). Supporting the work of international initiatives and bodies, such as the ISSB, will help provide consistency in disclosures.

- G7 governments should develop standardised, mandatory disclosures on human capital and decent work in line with the minimum safeguards spelled out by the International Labour Organization's core conventions and the Universal Declaration of Human Rights.⁶

Social issues and the dignity of people should be at the centre of the economic transition. This process includes requiring the inclusion of social issues and impacts in companies' transition plans, as well as in policies aimed at tackling climate change and environmental degradation.

- G7 governments should reiterate the importance of strengthening respect for human rights and leaving no one behind in the context of G7 countries' efforts to transition to a net-zero, nature-positive, resilient and sustainable future.
- G7 governments should also commit to ensuring that transition plans are developed with a just transition in mind and enacting policies that will enable the emergence and success of sustainable businesses.

⁴ [G7 2022 Leaders' Communiqué](#), p. 10.

⁵ <https://www.unpri.org/human-rights/what-data-do-investors-need-to-manage-human-rights-risks/10856.article>.

⁶ <https://www.unpri.org/human-rights/how-investors-can-advance-decent-work/10190.article>.