

# PRI RESPONSE

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## BUSINESS STEERING COMMITTEE RECOMMENDATIONS FOR FFD4

October 2024

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# INTRODUCTION

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, of the financial markets and economies in which they operate and ultimately of 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.

The PRI develops policy analysis and recommendations based on independent evidence-based policy research, considering signatory input.

## ABOUT THIS SUBMISSION

This submission is part of the suite of recommendations developed by PRI and other members of the FfD4 Business Steering Committee. The objective of the submission is to inform the substantive preparations for FfD4.

It is based on PRI's 2024 discussion paper, *The Socioeconomic Implications of the Transition: Analytical Framework for a Whole-of-Government Approach*, which can be found here:

<https://www.unpri.org/policy-reports/discussion-paper-the-socioeconomic-implications-of-the-transition/12764.article>.

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## RECOMMENDATION NO. 3

**Effectively account for the social effects of the economic transition to net zero in terms of socioeconomic conditions and the protection of fundamental rights.**

To effectively mobilize private finance and investment for sustainable development, and encourage long-term finance and investment, policy makers need to secure support for the transition from diverse societal groups. This requires a complete understanding of the transition's stakeholders, including their needs, societal constraints, and the drivers of their resistance to the transition. Policies should target the root cause of social discontent and economic disparities to foster inclusive development and social cohesion, committing to the respect of fundamental rights as a baseline for any policy intervention.

## RATIONALE FOR RECOMMENDATION NO. 3

The economic transition to net zero emissions implies a transformation of unsustainable economic activities with unmanaged environmental and social externalities to more sustainable, inclusive, resilient growth models. Understanding and managing the socioeconomic factors at play will be instrumental in achieving a transition that is both economically successful and socially acceptable. The effective implementation of net zero policies will ultimately depend on whether transition pathways can produce social gains and garner widespread support across diverse societal groups.

The recent backlash against the net zero transition and the policies aimed at achieving it has emphasised the importance of accounting for the transition's social effects in terms of socioeconomic conditions and the protection of fundamental rights.

Public policy will be critical to mediate between the competing interests of different societal stakeholders. Government will only be able to successfully facilitate, enable, and deliver national economic and sustainability objectives if they effectively anticipate and manage negative social impacts of the economic transition and ensure broad societal support for transition measures. In reviewing today's social landscape, it is necessary to acknowledge the role of increasing inequality and political polarisation in shaping both the urgency of and challenges to achieving a successful economic transition.

PRI's high-level analytical framework was developed to support government efforts to pursue an equitable economic transformation. The framework guides policy makers on how considerations of social issues can be integrated into a whole-of-government approach to the transition, and in turn the policy solutions that exist to achieve cross-society buy-in for the transition. The framework underscores the importance of adopting a people-centric approach to transition policies, meaning that policy makers should first understand the transition's key stakeholders and their needs to craft effective and inclusive policy.

Coordinating efforts across different sectors and levels of government is crucial to address the diverse social challenges and opportunities arising from the transition.<sup>1</sup> Further, a unified approach in which the social costs of certain policies are harmonised with the benefits of other policies – including through social safety nets or incentives – can help to address the concerns of affected stakeholders. This can help to avoid potential and significant pushback against specific environmental policies, as well as risking undermining public trust, both of which weaken the overall case for the transition.

There are three key components of a whole-of-government approach to addressing the social aspects of the climate transition:<sup>2</sup>

- **The relevant stakeholder groups that might benefit or incur risks with the transition.** By extensively considering which groups are affected by which policy area and what policy lever

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<sup>1</sup> This whole-of-government approach to social issues in the transition builds on PRI's 2023 policy white paper, [Investing for the Economic Transition: Making the Case for Whole-of-Government Policy Reform](#).

<sup>2</sup> For more information on these three components, see PRI's 2024 discussion paper, [The Socioeconomic Implications of the Transition: Analytical Framework for a Whole-of-Government Approach](#).

should be actioned, the benefits and opportunities of the transition can be fairly and equitably shared.

- **The relevant policy areas for the transition.** Each policy area includes key policy solutions and instruments that are commonly considered as having the strongest potential to address stakeholders' needs. The specific situation in different jurisdictions will necessarily influence the type of policy instruments and solutions to be prioritised.
- **Three key policy levers of the transition:** 1) addressing economic externalities; 2) incentivising markets for solutions; and 3) enabling finance to support the transition.<sup>3</sup>

This analytical framework is aimed at supporting policy makers in identifying potential adverse impacts, promoting effectiveness across all segments of transition policy reform, and securing broad-based support for the economic transition. The policy approaches proposed by PRI are not exhaustive but instead lay a foundation for placing people at the centre for the climate transition, managing the competing interests inherent to this transition, and setting a course for future work in this area that can be considered by Member States.

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<sup>3</sup> These three policy levers were identified by the PRI policy white paper on [investing for the economic transition](#).

# REFERENCES

PRI (2024), [The Socioeconomic Implications of the Transition: Analytical Framework for a Whole-of-Government Approach](#).

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of UN Member States further.

Please send any questions or comments to [policy@unpri.org](mailto:policy@unpri.org).

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