



Net Zero Finance Tracker

Findings Summary

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CLIMATE
POLICY
INITIATIVE

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ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices around the world in Africa, Brazil, India, Indonesia, the United Kingdom, and the United States.



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[NZFT: Methodology and data sources](#)

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EXECUTIVE SUMMARY

Climate Policy Initiative's Net Zero Finance Tracker (NZFT) is a collaborative and interactive data platform that aims to provide a comprehensive assessment of how private financial institutions (FIs) are progressing on their climate commitments and delivering impact on the ground.

This marks the first effort to track comprehensive, material progress by major FIs globally: from their commitments, through action within the institution, to impacts on the wider economy.

The 2023 edition of the NZFT covered 562 private finance institutions (FIs) that are members of the Glasgow Financial Alliance for Net Zero (GFANZ), whose collective assets under management exceed USD 80 trillion. Building on a beta tracker covering UK institutions released in 2021, the tracker monitors a wide range of actions signaling progress on financial alignment with the Paris Agreement and net zero emissions goals.

Since the Paris Agreement in 2015, many initiatives have been launched to galvanize climate action. However, there is currently no comprehensive view of progress across the financial system and real economy. This is essential to understanding the transitions underway, the outstanding gaps, and who needs to play which role going forward.

The NZFT can be used to better inform decision-makers in FIs, industry associations, government, and civil society to set the direction for and spur future net zero action.

KEY FINDINGS FROM THE 2023 DASHBOARD

Our analysis yields important insights on how FIs are progressing on targets, implementation, and impact:

- **TARGETS:** Most FIs are just starting to adopt broad net zero mitigation targets. Targets related to investment in climate solutions and divestment from fossil fuels are far less common.
- **IMPLEMENTATION:** Almost all GFANZ institutions have committed to climate stewardship, but less than 25% have engaged in activities that encourage net zero transition, without also opposing it.
- **IMPACT:** Although clean energy investments now outstrip fossil fuels, progress is faltering and falls far short of what is needed to achieve 2030 Paris Agreement goals.

While our analysis finds that setting targets drives implementation among FIs, these have not yet proved sufficient to drive net-zero investment in the real economy. To spur change, a multi-faceted approach is needed, including implementing stringent prudential regulations, providing incentives for sustainable practices, and fostering greater public and corporate awareness of the environmental and social impacts of investments.

Coordination between data providers is critical to ensure that data efforts focus on closing information gaps. We also need metrics that can improve the financial system's accountability to the real economy by examining indirect investment from shareholders and corporate lenders.

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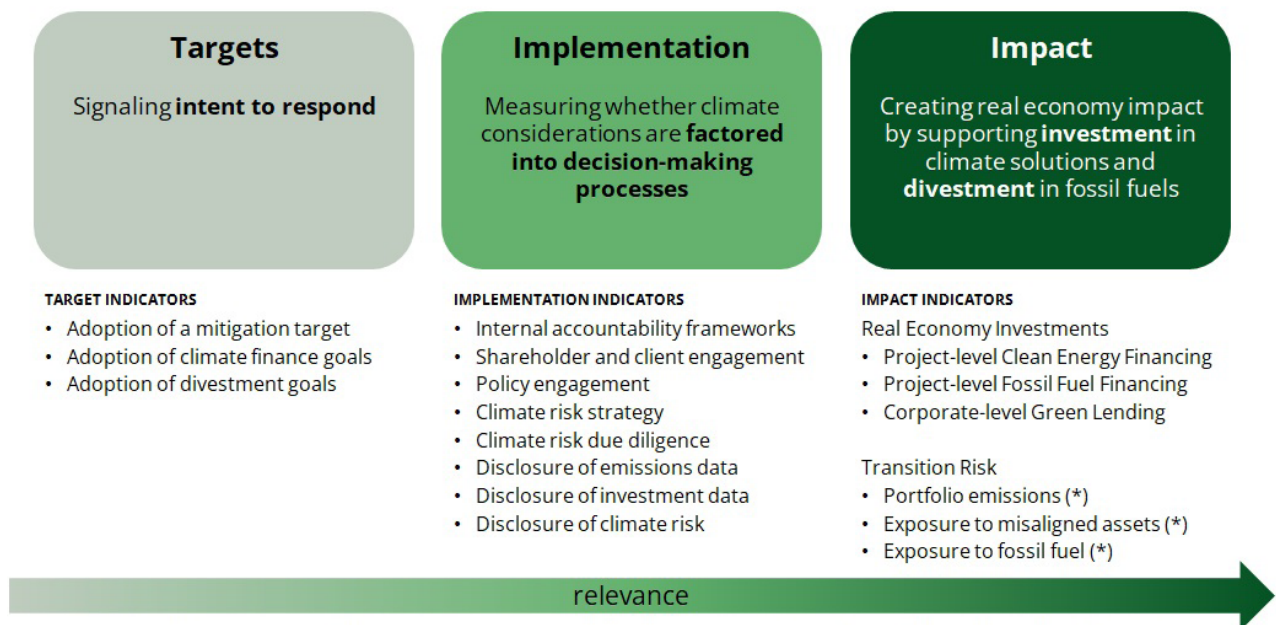
INTRODUCTION

The Net Zero Finance Tracker (NZFT) provides a comprehensive assessment of how public and private finance institutions are progressing on Paris Agreement goals and delivering net zero impact on the ground.

The NZFT is the first effort to track comprehensive, material progress by major financial institutions globally: from their commitments (Targets), through action within the institution (Implementation), and to impacts on the wider economy (Impact).

Each dimension (Targets, Implementation, Impact) is comprised of a set of indicators that, together, create the measured response for individual entities and at the aggregate level.

Figure 1. NZFT dimensions and their indicators



Note: Due to data limitations regarding coverage and comparability, the current version of the dashboard provides information only at the individual entity level for indicators followed by an asterisk (*). Aggregated indicators will be included in the next version of the dashboard.

METHODOLOGY

The NZFT captures, standardizes, and assesses action across multiple data sources—including CDP, PRI, InfluenceMap and many others—offering the most comprehensive coverage of large financial institutions.

Our analysis to date covers 562 members of the Glasgow Financial Alliance for Net Zero (GFANZ), as of December 31, 2022. Given that all GFANZ members have made net zero pledges, our analysis is skewed towards entities committed to climate action, and therefore provides an optimistic view of the sector. However, since GFANZ members’ assets under management (AUM) exceeds USD 80 trillion, representing more than two-thirds of global AUM, their net-zero transition progress can be considered fairly representative in terms of asset volume.

Our analysis is also constrained by data availability. Given that data collection on financial institution climate action is relatively new, our tracking of trends over time embodies reducing information gaps over time.

Data also reflects delays in entity-level voluntary disclosures and gaps deriving from entities failing to disclose progress to aggregators and failing to provide data in accessible formats. Moving from voluntary to regulatory disclosure schemes will help close these gaps, improving the accuracy and usability of the NZFT.

Figure 2. NZFT data sources

| | | |
|---|---|---|
| <ul style="list-style-type: none"> • Banking Environment Initiative (BEI) • Bloomberg New Energy Finance (BNEF) • Climate Action 100+ (CA 100+) • Climate Action in Financial Institutions (CAFI) • Climate Bonds Initiative (CBI) • CDP • Carbon Pricing Leadership Coalition (CPLC) • CPI's Global Landscape of Climate Finance • ESG Book • FinanceMap/InfluenceMap (FM) • Fossil Free Divestment (FFD) | <ul style="list-style-type: none"> • Global Climate Action Portal (GCAP) • IJ Global • Investor Agenda (IA) • Net Zero Asset Managers Initiative (NZAM) • Net-Zero Asset Owner Alliance (NZAOA) • Net Zero Banking Alliance (NZBA) • Net Zero Insurance Alliance (NZIA) • Observatoire de la finance durable • Paris Aligned Investment Initiative (PAII) • Partnership for Carbon Accounting Financials (PCAF) | <ul style="list-style-type: none"> • Principles for Responsible Banking (PRB) • Principles of Responsible Investment (PRI) • Principles for Sustainable Insurance (PSI) • Race To Zero (RTZ) • Rainforest Action Network (RAN) • Science Based Targets (SBTi) • Task Force on Climate-Related Financial Disclosure (TCFD) • We Mean Business Coalition (WMB) • WRI's Green Targets |
|---|---|---|

1. TARGETS

Despite significant progress in recent years, most GFANZ financial institutions are just starting to adopt broad net zero mitigation targets. Further, critical, more operational targets related to investment in climate solutions and divestment from fossil fuels are far less common.

To ensure commitments are meaningful with real impact, financial entities should disclose short- and medium-term targets, with specific, measurable implementation goals. These should aim at expanding climate-positive investments (i.e., Adoption of a Climate Finance Target), or to end fossil fuel investment (i.e., Adoption of a Divestment Target). Entities also need to set targets for financed emissions, helping them monitor their exposure to transition risk.

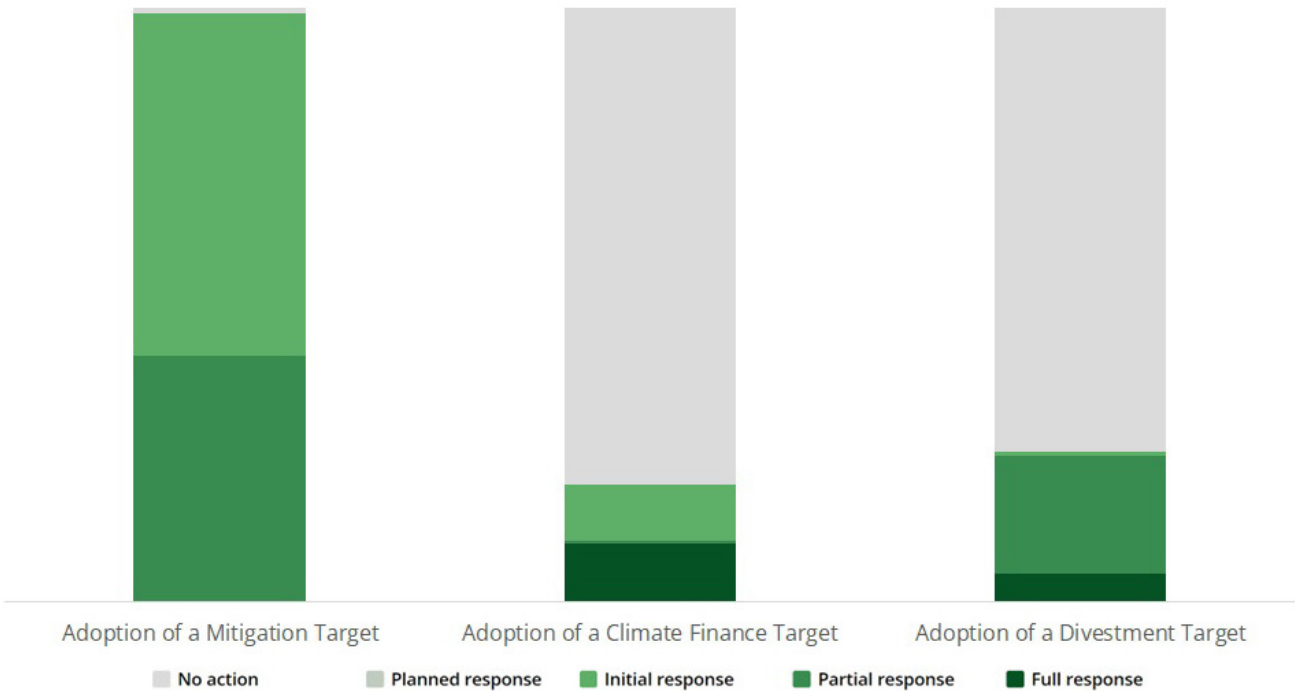
While the number of entities with a Mitigation goal has almost doubled between 2021 and 2022, with 98% of entities having adopted one, only 40% are on their way towards a well-developed goal (classified by the the NZFT as a Partial Response). Drivers of current levels of action include:

1. **Regulatory bodies**, increasingly requiring financial institutions to disclose their financed emissions, shifting disclosure from voluntary to mandatory.
2. **Investor demand for transparency** on the climate risks associated with their investments.
3. **Growth in voluntary membership initiatives**, as more financial institutions join initiatives, such as the Net-Zero Banking Alliance and the Net-Zero Asset Owner Alliance, which have specific guidelines and provide support for financial institutions to engage more proactively in net zero transition goals and implementation (McKinsey, 2022). However, alliances have set various timelines for their goals, and at the end of 2022 some did not yet have established methods to define targets and get them verified, we therefore expect significantly higher figures for 2023.

To be fully aligned, mitigation goals need to also ensure independent external validation (e.g., via the Science-Based Targets Initiative or similar initiatives), and appropriate breadth of coverage involving their entire activity portfolio.

More importantly, target-setting on the finance side is severely lacking, with climate investment goals (Adoption of Climate Finance Targets) and fossil fuel divestment goals (Adoption of a Divestment Targets) struggling to take off. The main reason is that most data transparency efforts have been invested in tracking portfolio emissions and emissions goals. This largely stems from legacy accounting systems that concentrate on measuring corporate climate progress and have been adapted to track the progress of financial institutions. While this metric is relevant for controlling exposure to transition risk, it holds less importance in relation to global emissions mitigation, which requires increased investment in clean solutions and direct engagement with corporates in high emitting sectors and regions to accelerate the transition.

Figure 3. Level of overall response in setting Targets



2. IMPLEMENTATION

Progress has also been observed – albeit more slowly – in the adoption of measures to reach the targets set. Most GFANZ institutions (57%) have reached the Initial Response stage of Implementation, with most progress seen on Climate Risk Management, Strategy and Disclosure as well as the adoption of Internal Accountability Frameworks. While almost all GFANZ financial institutions have committed to climate stewardship, less than 20% have engaged in activities that encourage a net zero transition, without also taking actions that oppose it.

Targets alone are insufficient - the right set of actions need to be implemented to translate these into tangible impacts. To effectively shift to net zero aligned investments practices, financial institutions should identify climate change leadership and internal incentive systems, engage with policymakers, clients, and shareholders, and follow the Taskforce for Climate-related Financial Disclosure (TCFD) guidelines for climate risk strategy and disclosure.

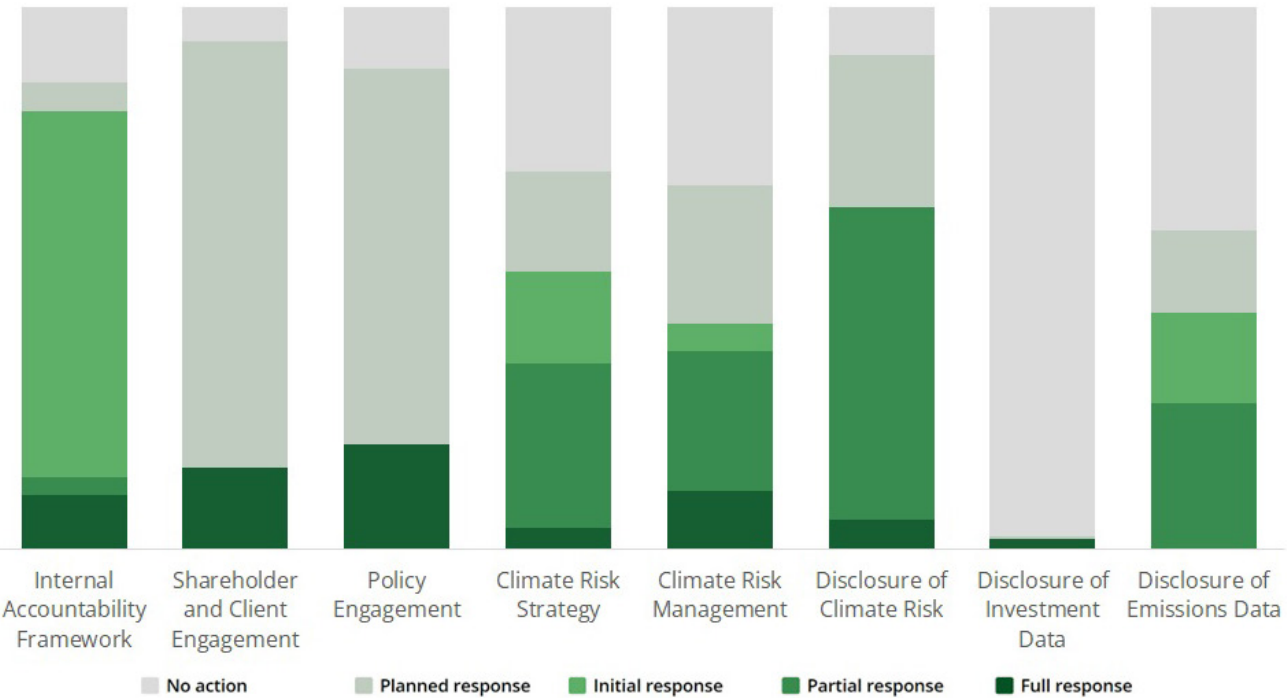
About 35% of GFANZ members - representing more than 80% of owned or managed assets- have at least a Partial Response for Climate Risk Management, Strategy and Disclosures. Reasons include:

1. **Increasing awareness of climate risk** causing events leading to systemic financial crises (TCS, 2021).
2. **Regulatory bodies applying pressure** on financial institutions to manage climate risks. For example, the Prudential Regulation Authority and Financial Conduct Authority's Climate Financial Risk Forum provides practical guidance on how to address climate risks within financial institutions (CFRF, 2020).
3. **The impact of the TCFD.** For instance, in April 2022 the UK become the first G20 country to enforce mandatory TCFD-aligned reporting for large companies and financial institutions (UK Government, 2021).
4. **The role of Net Zero Alliances** in creating collective action and peer pressure.

Some financial institutions have also progressed in the set-up of disclosure systems for portfolio/ financed emissions. However, none are currently able to demonstrate full coverage of scope, and disclosure of investment data is still very patchy.

Finally, there is overwhelming agreement among GFANZ members on the importance of engaging on climate issues with their clients, investee companies, and policymakers, as almost all GFANZ institutions have committed to conducting climate stewardship activities. However, less than 20% have engaged on such topics without also opposing progress on climate legislation, and some financial institutions continue to be affiliated with industry associations that actively hinder climate progress (InfluenceMap, 2023).

Figure 4. Level of overall response in Implementation activities



3. IMPACT

While green lending activities from GFANZ institutions observed an average annual increase of 30% between 2020 and 2022, exposure to fossil fuels remains significant. Similarly, at the project level, although investment in clean energy now outstrips that in fossil fuels, progress is faltering and falls far short of what is needed to achieve 2030 Paris Agreement goals.

What ultimately matter are the impacts that financial institutions directly and indirectly enable in the real economy. Renewable energy investment can reduce emissions, while financing new fossil-fuel power plants can lock emissions into economies for decades.

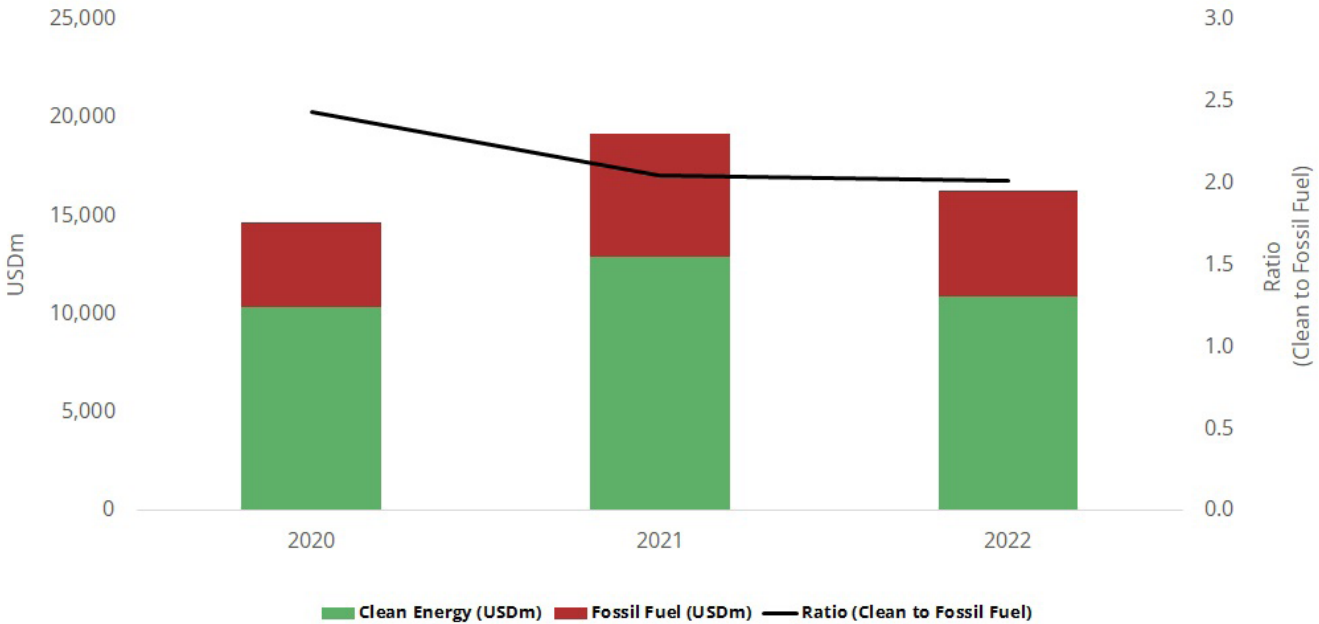
Amid a post-pandemic economic rebound, entities increased their investment in both high-emission and climate-positive activities.

While green loans and green bonds have been together increasing by an Average Annual Growth Rate (AAGR) of 33% for the last two years, investment in fossil fuels and misaligned assets is still significant: according to the IEA (2022), institutional investors accounted for nearly 60% of the listed value of the largest oil and gas companies and 40% of the largest power companies as of April 2022. Mitigation of net zero transition risks is also progressing slowly, with 70% of independently examined assets from a subgroup of GFANZ institutions appearing to be misaligned with Paris Agreement goals according to InfluenceMap data.

When zooming in on project-level financing (see Figure 5), clean energy still leads power sector investment, but for every two dollars it receives, one now goes to fossil fuels, a 2:1 ratio. According to BloombergNEF, to avoid the worst effects of climate change this ratio needs to hit 4:1 by 2030, 6:1 for 2031-2040, and 10:1 for 2041-2050 (Lubis et al. 2022), while other benchmarks suggest that investment in new fossil fuels plant investment plants should cease completely if unabated to achieve a net zero system transformation (UNFCCC, 2023; Micale et al. 2020).

But we are headed in the wrong direction: average annual growth rate of fossil fuel project investment in 2020-2022 was 18%, more than four times higher than the rate of clean energy investment (4%).

Figure 5. Level and ratio of clean energy vs. fossil fuel project-level finance



4. ANALYSIS

The findings from the 2023 dataset yielded the following observations:

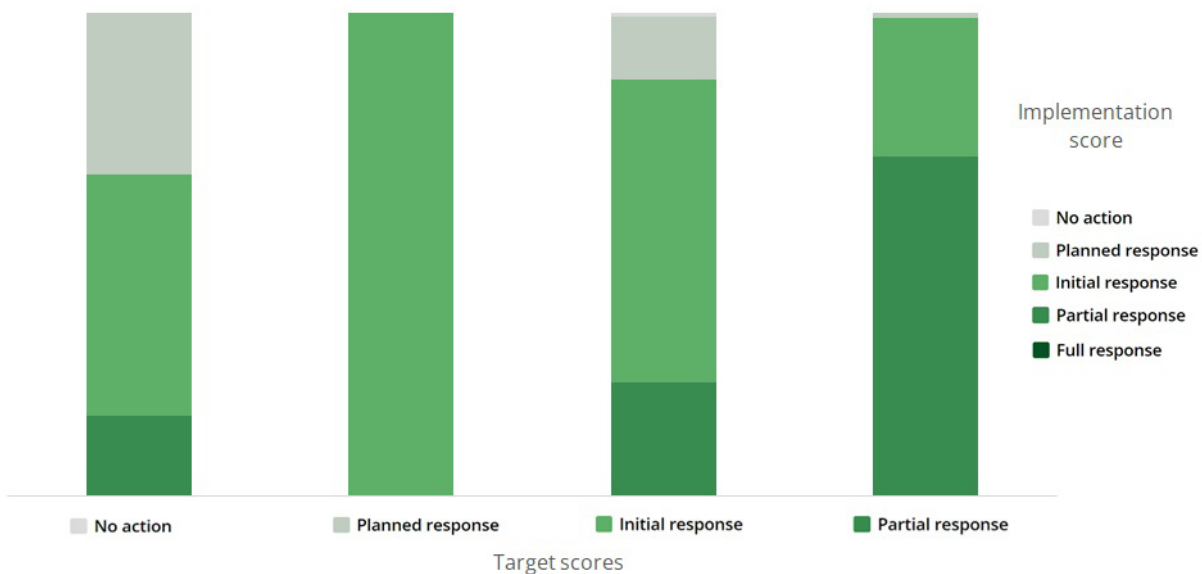
1. **Intuitively, financial institutions with strong targets in our dataset also did better on implementation.**

There is a positive correlation between Target and Implementation scores. **Organizations with Partial Response targets are up to seven times more likely to have taken Implementation action than organizations with lower target responses.** Conversely, poor implementation correlates with weak or lacking targets. Reasons include:

- **Internal motivation:** Setting strong targets provides organizations with a clear direction, motivation, and accountability. When targets are well-defined and communicated, it facilitates effective strategic planning, including gap identification, resource allocation, and a time-bound roadmap to reach the net zero target.
- **External pressure:** Organizations that set ambitious targets face external pressure, including from investors, shareholders, and the general public, to take meaningful climate action. Companies that set and disclose net zero goals are more likely to meet expectations and avoid reputation damage for missing targets.
- **Financial incentives:** Besides the pressure from being scrutinized, these organization will also benefit from climate action. In a survey of 500+ sustainability-leading companies, it was reported that 93% of them have publicly committed to climate goals, with 69% reporting that they have achieved a higher-than-expected financial value from their climate initiatives (Ernst&Young, 2022).

As shown in the chart below, organizations that are further along in setting meaningful targets also have more advanced responses on Implementation.

Figure 6. Level of Implementation action based on level of Target setting



Note: Aggregate Target scores do not include "Full response", as none has been observed. Most entities have indeed moved from Planning to have targets to adopting one, but none has all three targets (mitigation, investment and divestment) fully aligned.

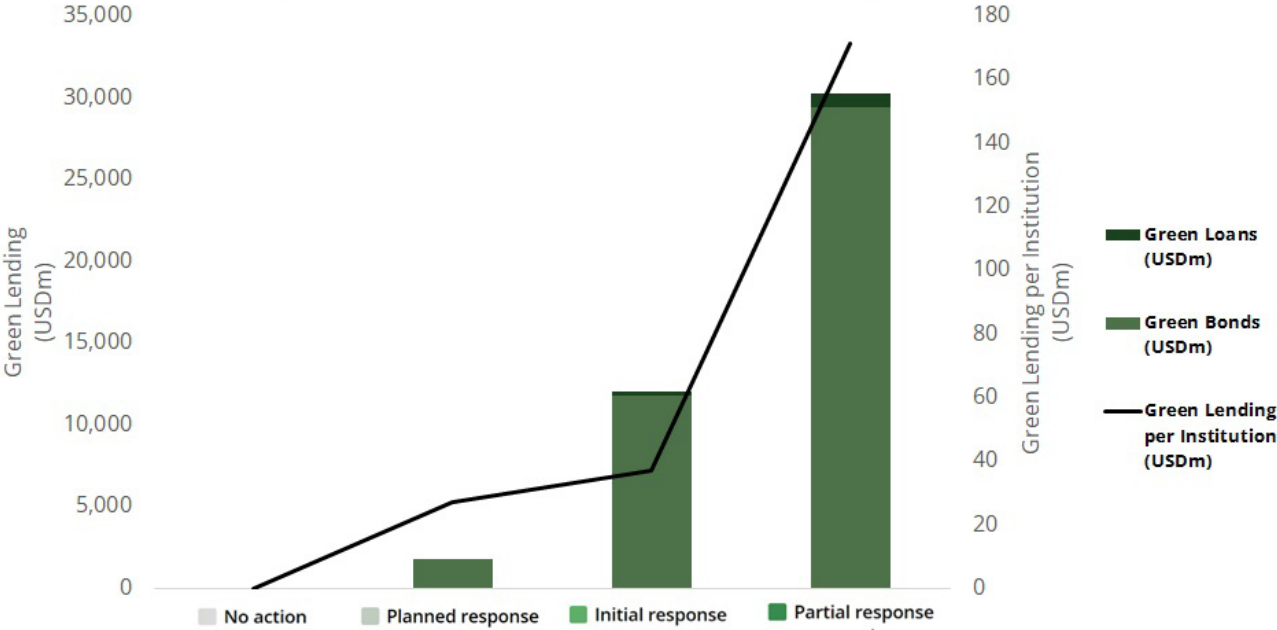
2. While targets drive implementation, they do not always immediately drive net zero investment in the real economy, as it takes time to convert goals and action into results.

As shown in Figure 7, better targets and implementation actions lead to increased amounts of green lending per GFANZ financial institution. However, examining a single metric (clean energy) without also looking into fossil fuels may provide a partial picture of progress.

When looking at project-level financing, where we are able to directly compare financing to clean energy solutions and fossil fuels, we can see that the opposite occurs and lower ratios of clean to fossil fuel investment tend to be associated to higher levels of implementation. While this counterintuitive trend may be a result of a combination of “outlier” behaviour, and a relatively small sample size of entities with investment activities within the “planned response” bucket, possible reasons for the limited impact of better targets and implementation include:

1. **It takes time for new targets and implementation actions to influence investments.** There is a natural time lag between improving investment allocation procedures, the decision-making resulting from them, and investment on the ground. This increases the urgency to scale up best practices to deliver results as quickly as possible.
2. **There is need to define more operational targets and report on their progress.** This should prioritize financial metrics for both low-emissions and high-emissions activities, including to measure how a financial institution contributes to investments in the real economy. Specifically:
 - Climate-related investment targets and fossil fuel divestment targets have not yet been adopted at scale and thus fail to provide incentives to shift investment practices.
 - Similarly, disclosures of clean investments and fossil fuel investments are not yet fully in place. Financial institutions should further improve transparency and accountability to inform decision-making on climate-related investments.
3. **Stronger government action is required to discourage misaligned investments,** which may persist due to pressure to deliver short-term financial results over long-term sustainability considerations. To spur change, a multi-faceted approach is needed, including stringent prudential regulation, incentivizing sustainable practices, and fostering greater public and corporate awareness of the environmental and social impacts of investments.

Figure 7. Level of Impact (green lending) based on level of Implementation action



Note: Investment amounts per financial institution are partially influenced by the size of the institutions. While the graph is valuable for comprehending advancements in green activities, it does not provide a comprehensive view of the progress made in addressing the financing of misaligned / high-emissions activities.

5. RECOMMENDATIONS ON DATA

Coordination between data providers is critical to ensure efforts focused on closing information gaps. Further, we need metrics that can improve accountability of the financial system on the real economy, by tracking financial institutions' indirect contributions as shareholders and corporate lenders.

Gathering data for the NZFT increased our understanding of where data collection efforts have been focused to date, and where the key data gaps still exist. Current data efforts allow to track the quality of mitigation targets and climate risk management, but **more transparency is needed for climate finance targets and related disclosures, as well as of portfolio emissions and how these lead to higher exposure to misaligned assets.**

Analysing project-level climate finance sheds light on the role of direct investors in the low carbon transition. However, many financial institutions, such as pension funds, while not funding projects directly, may still have significant influence in shifting investments towards net zero aligned activities. It is therefore vital to **increase transparency on how financial institutions are indirectly contributing to new project finance as shareholders and corporate lenders.**

Moving from voluntary to regulatory disclosure of emissions and transition planning would significantly improve data availability. Efforts aimed at enhancing the availability and standardization of data in machine-readable formats are also crucial. Initiatives like the Net Zero Data Public Utility play an important role in improving data accessibility and comparability at the source by enhancing reporting by financial entities. Third-party initiatives, independently addressing actions, responses, and impacts from financial institutions, should also be encouraged to make information available where there are:

- Potential conflicts of interest, such as in the case of reporting on fossil fuel investment.
- Data gaps that limit financial institutions' ability to report on their own progress, such as physical asset-level information, are critical to setting targets and measuring progress at a portfolio level.

Figure 8. Extent of data coverage for every NZFT Indicator

| Dimensions | Coverage* | Indicators |
|----------------|-----------|---|
| Targets | Good | ● Adoption of Mitigation Target |
| Targets | Medium | ● Adoption Divestment Target |
| Targets | Poor | ● Adoption Climate Finance Target |
| Implementation | Medium | ● Climate Risk Management |
| Implementation | Medium | ● Internal Accountability Framework |
| Implementation | Medium | ● Disclosure of emissions data |
| Implementation | Medium | ● Shareholder and Client Engagement |
| Implementation | Medium | ● Climate Risk Strategy |
| Implementation | Medium | ● Disclosure of Climate Risk |
| Implementation | Poor | ● Policy Engagement |
| Implementation | Poor | ● Disclosure of Investment Data |
| Impact | Good | ● Project-level investment in Climate Solutions |
| Impact | Good | ● Project-level High-emissions financing |
| Impact | Good | ● Green lending |
| Impact | Medium | ● Exposure to fossil fuels |
| Impact | Poor | ● Exposure to misaligned assets |
| Impact | Poor | ● Portfolio Emissions |

Note: (*) Coverage based on the sample of GFANZ institutions surveyed.

(**) Coverage evaluation assumes that investments in climate solutions and high-emissions physical assets investments are tracked comprehensively by independent third-party data providers.

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