A Marshall Plan to Save the Planet:

How governments and the private sector must work together to finance the Global Goals

FOREWORD

By Maurice Tulloch

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Time is running out. The world has slowly woken up to the urgency of the climate crisis, but it is not enough simply to recognise the need for action. What are we waiting for? When will governments, politicians and industry start listening to the people and the planet? Our whole future depends on it. The cost of doing nothing is far greater than any costs incurred by taking action.

Aviva has long recognised our responsibility to help make the world a more sustainable place. It is the right thing for the planet, for our business and for our customers. As part of the world's financial system, we understand we have to be part of the solution.

We also understand that no organisation can solve these global challenges alone. That's why we work with policy makers around the world to improve rules and regulations for a more sustainable system. The current market and regulatory failures demand a new approach. The public and private sector will need to come together to help shape the market in such a way that the enormous potential of the world's capital can flow efficiently where it is needed.

This document sets out our ideas for a 'Marshall Plan for the Planet'. It addresses the major barriers that are still preventing proper investment in a sustainable future. I hope these proposals spur global leaders from business, government and civil society to renewed action to build the future we wish to see. I look forward to promoting them further when I join the group of CEOs convened by the UN Secretary General later this year.

I want the world to be better for my kids. For everyone's kids. We cannot rely on the system that has got us here to solve the problems we face. It is only by working together to come up with a better way that we have any chance of putting things right.

Summary

Our world faces a sustainability crisis. The planet is not on track to meet our sustainable development commitments and insufficient investment is flowing in the right direction.

Governments, the private sector and NGOs need to come together and demonstrate the same level of ambition US Secretary of State George Marshall showed in helping rebuild Europe in 1948.

A new 'Marshall Plan' to save our planet and fund a sustainable future would:

1. **Establish and strengthen international and national frameworks for sustainable finance**
2. **Ensure a greater share of all public sector financial flows are sustainable**
3. **Shift private sector financial flows by adjusting pricing and other incentives**
4. **Improve market information to make the sustainability risks and rewards of financial assets clearer**
5. **Educate people about the connection between their personal finances and sustainability**

The world is facing an existential crisis

Aviva provides 33 million customers around the world with insurance, savings and investment products. For our customers and our business, addressing climate change and supporting the transition to a low carbon future represents the largest combined health, life, liability and general insurance contract that the world could sign up to. The risks and uncertainty resulting from us not doing so are incalculable.

The world is on track to warm by over 3 degrees Celsius by 2100, more than doubling the limit of 1.5 degrees Celsius agreed in the Paris Agreement[1]. This year, Aviva's own Climate Related-Financial Disclosure showed Aviva's own portfolios at a lower carbon intensity than the market as a whole, but still on average around 3.3 degrees[2].

And the problems we face are not limited to climate change. Over 50% of the world's agricultural land is now degraded[3]. Over 80% of the world's fisheries are fully exploited[4]. An estimated half of the world's coral has been lost over the last century[5]. Two billion people live on less than $3 per day[6] and over 170 million people are unable to find work[7].

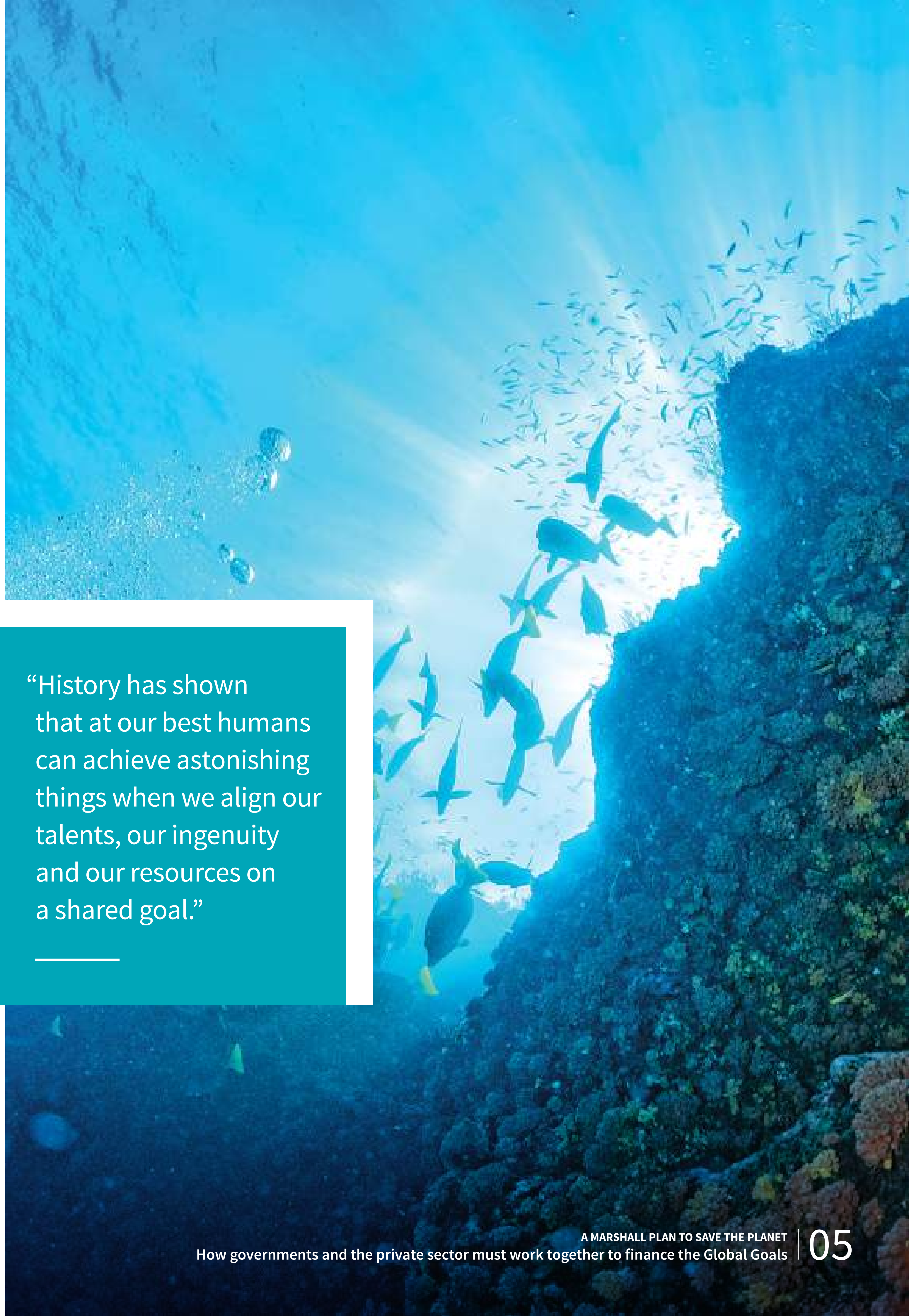
Action is needed. The International Energy Agency (IEA) estimates we need US$1 trillion each year to move the economy onto a net-zero carbon basis. Far more – US$5-7 trillion per year – is needed to deliver the SDGs[8] needed by 2030. How can we meet this challenge?

The current crisis represents a collective failure of public and private institutions: a failure by business to think for the long term, and to represent the future interests of customers and shareholders; and a failure by governments to match a collective vision with decisive, impactful short-term action that prioritises impactful solutions to long-term global issues rather than being distracted by short-term, localised political pressures.

Existing economic and political models have proven unequal to the challenge: neither a 'command and control' style system, where government attempts to fully direct finance flows, nor systems where market participants are given free rein to allocate capital have managed to set our planet on a sustainable footing or deliver the scale of finance needed.

The need for action has never been greater. But history has shown that at our best humans can achieve astonishing things when we align our talents, ingenuity and our resources on a shared goal.

1. Matt McGrath, 'Climate change: 12 years to save the planet? Make that 18 months', BBC, 24 July 2019.
2. https://www.bbc.co.uk/news/science-environment-48964736 https://www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/climate-related-financial-disclosure-2018-report.pdf
3. https://www.un.org/sustainabledevelopment/biodiversity/
4. https://www.un.org/depts/los/convention_agreements/reviewconf/FishStocks_EN_A.pdf
5. https://www.un.org/sustainabledevelopment/blog/2019/05/nature-decline-unprecedented-report/
6. https://www.worldbank.org/en/news/press-release/2018/10/17/nearly-half-the-world-lives-on-less-than-550-a-day
7. https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_670542.pdf
8. https://www.un.org/pga/72/wp-content/uploads/sites/51/2018/05/Financing-for-SDGs-29-May.pdf



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A Marshall Plan to save the planet

In 1948 much of Europe lay in ruins following the Second World War. US Secretary of State George Marshall led an investment plan to help Europe recover. The Marshall Plan ultimately led to over $13bn (over $140bn in today's money) of funding to help Europe rebuild[9].

A new Plan, on an even greater scale, is needed to address the daunting challenges of climate change and sustainability.

The challenge can seem almost impossible – global investment on the scale of at least 50 Marshall Plans every year until 2030 to deliver the Global Goals.

But there have also been positive developments since the time of the original Marshall Plan that we can and must utilise.

Firstly, for all its current problems, the multilateral global system is far more developed than it was in 1948, when institutions like the United Nations had only recently been founded. There are now numerous fora where the world's countries can and do come together to discuss problems and work through solutions – indeed the Paris and SDG agreements represent the crowning achievements thus far of the multilateral system. Global civil society is also far more developed than it was seventy years ago, with networks of expert NGOs contributing to the public good around the world.

A Marshall Plan for the planet would take advantage of the way in which these institutions can create global norms and standards, disseminate best practice and build capacity.

Secondly, the pool of global capital potentially available to meet these challenges is far greater than it was at the time of the Marshall Plan. While estimates vary, most place the pool of available global capital at upwards of US$170 trillion[10]. This is more than enough to bridge the financing gap to the SDGs – the problem is that much of this capital is currently misdirected, the result of misaligned incentives and short-term thinking.

A Marshall Plan for the planet, then, would leverage the multilateral system to shift market incentives towards a far more sustainable funding model, thereby delivering enough investment to meet global sustainability needs.

The original Marshall Plan was the vision of one man, enacted by one country. A Marshall Plan to save our planet must be both broader and deeper: a network of interlocking, supplementary initiatives at international, regional, national and local levels.

We have identified five key elements we believe are necessary for global policymakers to set the direction towards a sustainable future. Together, we hope they provide a framework for a new Marshall Plan.

9. https://www.hsdl.org/?view&did=807907
10. https://www.sifma.org/wp-content/uploads/2019/09/2019-Capital-Markets-Fact-Book-SIFMA.pdf

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1 Establish and strengthen international and national frameworks for sustainable finance

We need to refocus the multilateral architecture of global cooperation more forcefully on sustainability, climate, and other long term issues – in particular more needs to be done to ensure better governance of financial flows.

- **The UN, IMF and World Bank should work together to create a Global Climate Capital Raising Plan:** this plan could inform national Capital Raising Plans, which include a view on the infrastructure required, the capital involved, and the financing that can be raised via infrastructure investment, project finance, corporate debt, foreign direct investment, equity investment as well as sovereign and Multilateral Development Bank (MDB) debt. The UN's Addis Ababa Action Agenda notes that "integrated national financing frameworks that support nationally owned sustainable development strategies" will be at the heart of countries' efforts, supported by an enabling international economic environment and international cooperation. However, at the High Level Political Forum (HLPF) in New York this July (2019), only a quarter of the Voluntary National Reviews presented an investment strategy at all.
- **The UNFCCC should establish an Intergovernmental Panel on Climate Finance (IPCF):** this would be a capital market-focussed equivalent to the International Panel on Climate Change, which focuses on the science base around climate change. Rather than look at the science base, an International Panel on Climate Finance (IPCF) could support an assessment of article 2.1.c of the Paris Agreement – i.e. the "consistency of finance flows with a pathway towards low greenhouse gas emissions and climate resilient development". It would assess market-based analysis on the impact of climate policy. Observations would be secured from the various market disclosures by companies and investment analysts from various sectors and regions. The report would serve as a market test of policy effectiveness. Such a report would be provided to policy makers at each Conference of Parties (COP) and inform them about the view of capital market participants in relation to the likelihood of the delivery of the Paris agreement.

2

Ensure a greater share of all public sector financial flows are sustainable

Many governments in the world have started the journey towards using public spending to support green and sustainable initiatives. But the scale and speed of this spending needs to increase exponentially if we are to meet the challenge of the SDGs.

Public bodies should therefore look to embed sustainability in a significant share of all public sector financial flows, including not only standard spending but also:

- **Ensuring a proportion of all funded public sector pensions is invested in sustainable assets –** e.g. if just an additional 5% of US, Canadian and Japanese funded state pension schemes were invested sustainably, this would amount to almost US $300bn[11].
- **Looking at whether central banks can use their balance sheets to support sustainable investment,** for example by tilting asset purchases towards sustainable investments. For example the European Central Bank's asset purchase scheme since the financial crisis has seen it purchase over €180bn in corporate bonds[12].
- **Ensuring Sovereign Wealth Funds (SWF) invest a proportion of their investments sustainably.** Again, if an additional 5% of SWF assets were invested sustainably, this would amount to almost US$400bn[13].

11. https://www.federalreserve.gov/releases/z1/dataviz/pension/funding_ratio/table/

http://www.cppib.com/en/public-media/headlines/2019/cpp-fund-totals-3920-billion-2019-fiscal-year-end/

https://www.gpif.go.jp/en/performance/pdf/2019-Q1-0802-En_035988.pdf

12. https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html#cspp

13. https://www.reuters.com/article/us-global-swf-assets/global-sovereign-fund-assets-jump-to-7-45-trillion-preqin-idUSKBN1HJ2DG

"If just an additional 5% of US, Canadian and Japanese funded state pension schemes were invested sustainably, this would amount to almost US$300bn."

"Carbon pricing is fundamental to internalising the externalities of climate change."

3

Shift private sector financial flows by adjusting pricing and other incentives

Public bodies also influence sustainable finance by creating the incentives in which market forces operate. Much more needs to be done to shift these incentives towards sustainable investments.

- Carbon pricing is fundamental to internalising the externalities of climate change. **All governments must work together to agree and implement a meaningful cost of carbon.**
- A major factor in institutional investors' decisions about what to invest in is based on the amount of capital they must hold against each investment. **If regulators set capital levels to reflect the long-term risks of assets to financial stability,** thereby incentivising more Strategic Asset Allocation in sustainable assets and a transition away from polluting assets, the largest investors in the world would move money in a more sustainable direction without costing governments a penny. Similar measures could be used to incentivise banks to shift their lending practices towards assets that pose less risk to financial stability.
- Governments could also look to support measures to **ensure that the polluter pays to clean up the pollution they have created**, thereby making polluting assets far less attractive investments – the EU's Producer Responsibility Directive, for example, could be extended to ensure that fossil fuel extractors and utilities are required to pay for the cost of carbon capture and storage.
- Governments also need to remove damaging fossil fuel subsidies that create perverse incentives to fund emissions. Yet fossil fuel subsidies in 2018 actually increased by a third, to more than $400bn globally[14].

14. https://www.iea.org/weo/energysubsidies/

4

Improve market information to make the sustainability risks and rewards of financial assets clearer

Currently, not only are market incentives misaligned, but there is very little consistent information on environmental issues available in financial markets.

- **Central Banks could help support the production of sector-specific reference climate risk scenarios for corporate boards – particularly banks, insurers and investors – to use as input.** This would significantly help the process of scenario planning within financial institutions and assist the comparability of the scenario plan outputs, which are currently based upon disparate assumptions.

- **Global regulators and standard setters should also look to make the analysis and disclosure of climate risk mandatory for all companies.** The International Organization of Securities Commissions (IOSCO) could begin by recommending that all stock market regulators make listed companies adopt the governance and strategy recommendations of the Task Force for Climate Related Financial Disclosure (TCFD)[15].

15. https://www.fsb-tcfd.org

16. https://www.world benchmarkingalliance.org

5

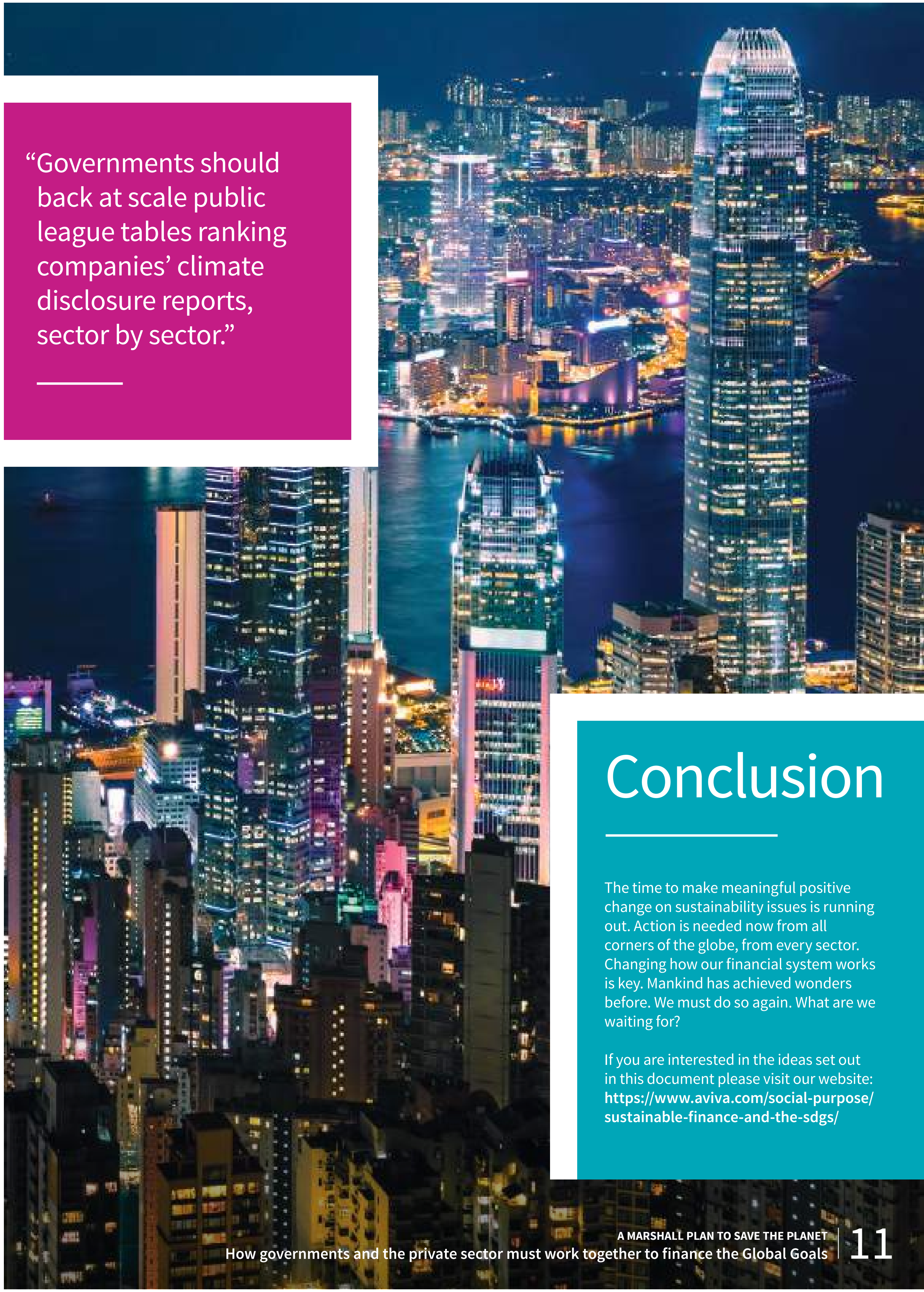
Educate people about the connection between their personal finances and sustainability

Most people that own capital through their pensions and investments have no idea how the financial system works, or how their money impacts the world for good or ill. More can be done to correct this.

- Governments should provide strong backing for Civil Society campaigns that would look to mobilise their supporters. Actions that government and non-governmental organisations could jointly take include NGO **sustainable finance education initiatives that teach people about the climate impacts of their investments and encourage them to think about the impact everyone on the planet can have to shape all our futures.** Teaching the owners of capital how to care about the climate impact of their assets would change the nature of the supply of capital overall as well as what concerns are raised via investment.

- **Governments should back at scale public league tables ranking companies' climate disclosure reports, sector by sector.** For Aviva's part, we have helped to set up and then finance the World Benchmarking Alliance to work with a group of allies including the Carbon Disclosure Project to build climate change benchmarks[16]. The benchmarks will use the new disclosures created by the FSB Taskforce in Climate Related Financial Disclosure (TCFD) as the underpinning framework. When they start to come out toward the end of 2020, everyone from the youth movement to mainstream investors will be able to use these benchmarks to hold companies to account for their climate impacts on the most climate impactful sectors. However, it needs many more allies from across the spectrum if it is to be successful.

- NGOs should also look to move the considerable influence within finance, so that it focusses on this area more. For example, they could **build a Global Youth Movement of shareholder activists within the youth community inspired by Greta Thunberg's strong action on climate change,** working with financial institutions that run their parents' pensions to attend company AGMs and call on the boards to take strong action aligned with the Paris agreement.



"Governments should back at scale public league tables ranking companies' climate disclosure reports, sector by sector."

Conclusion

The time to make meaningful positive change on sustainability issues is running out. Action is needed now from all corners of the globe, from every sector. Changing how our financial system works is key. Mankind has achieved wonders before. We must do so again. What are we waiting for?

If you are interested in the ideas set out in this document please visit our website: **https://www.aviva.com/social-purpose/sustainable-finance-and-the-sdgs/**