MIDLANDS ENGINE OBSERVATORY ACADEMIC INSIGHTS
Transition to Net Zero for Finance

This summary comes from this article in the Aston Business School.

Theme:

Climate change in economics and moving to net zero within financial institutions.

Area of Focus:

The article focuses on “shareholder’s supremacy” and how financial institutions should change their approach. Instead focusing on protecting the climate from risks posed by finance and financial institutions; not vice-versa.

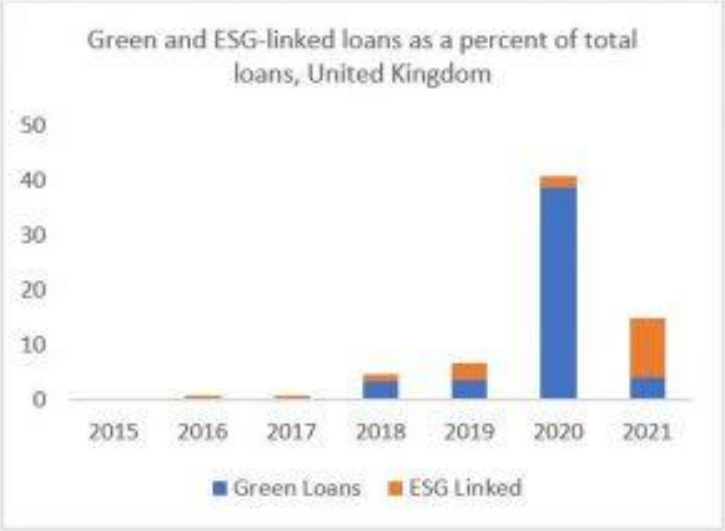
Key Findings:

Decades on finance research has focused on “shareholders supremacy” ignoring other stakeholders as well as the environment, which ultimately impacts stakeholders. This ignorance is not aligned with the transition to net zero for finance. For a transition to net zero, financial institutions need to reduce carbon emissions from their own operations:

- Scope 1 emissions: direct emissions from owned or controlled sources.
- Scope 2 emissions: indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed.
- Scope 3 emissions: all other indirect emissions that occur in a value chain, and from new green products and services offered to their customers.

Within the UK, the percentage of green and ESG-linked (Environment, Social and Corporate Governance) loans as a percentage of total corporate loan issuance are slightly higher compared to the rest of the world. In 2021, green loans were 4% while ESG-linked loans were 10% of the total corporate loan issuance in the UK.

To achieve net zero by 2050, the UK government is intending to green the financial system in three phases of informing, acting, and shifting. Currently it is in the first phase of informing. Overall, the steps are being taken in the right direction toward green finance, however, there is a need to step up the process.



Midlands Engine Impact:

- Green growth within the finance industry will provide numerous environmental, health and business effects within the Midlands economy. Developments within the sector thus provide net positives.
- Given that climate change tends to have superior effects on those who are already worse off, such as the Midlands, a reduction in direct and indirect emissions will improve health outcomes.
- Greening of financial institutions and the financial sector will mean more investment. This can stimulate the economy by allowing businesses to grow, create jobs, and create a “green multiplier” which simultaneously will benefit the economy and the environment.
- Likewise, green growth in the sector will provide a plethora of opportunities for green innovation.

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