PRI Principles for Responsible Investment

# INVESTING FOR THE ECONOMIC TRANSITION: THE CASE FOR WHOLE-OF-GOVERNMENT POLICY REFORM

## Key messages

- Economic progress – and the financial returns it generates – relies on the stability and resilience of natural and social systems. If these are under threat, so is present and future economic growth.
- For decades, policy makers and market practitioners have been increasingly trying to protect the environment and address extreme economic inequality through various approaches and strategies. Despite these efforts, macro-level indicators of environmental and social sustainability continue to move in the wrong direction.
- The transition to a sustainable and equitable economy that benefits natural and social systems has become an increasingly urgent policy objective in many countries and within international forums. Such a transition aims to shift economic activity from that which exploits and irreversibly degrades the environment to that which the Earth's natural systems can support sustainably. It also aims to ensure social cohesion by reducing extreme inequality, upholding human rights and protecting vulnerable people and communities from the impacts of transition.
- To drive the economic transition, governments are introducing policies and regulations to address climate change, biodiversity loss, macroeconomic instability, and effects on the cost of living, among others. However, these reforms are often pursued in isolation to each other, and with insufficient influence over business-as-usual public policy and business strategy.
- An effective policy approach to redress decades of market and government failures on environmental and social issues needs to be the responsibility of governments as a whole and needs to be executed as such.

## Key challenges

Governments pursuing a just transition to a sustainable and equitable economy face significant barriers, and more rapid and comprehensive reform is needed to address them. Research has shown that financing of climate goals has grown at an impressive rate since 2011/12, but it is still well below what is needed to

### RELEVANT ACTION AREAS

Domestic and International Private Business and Finance

Addressing Systemic Issues

### ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

The full series is available at: https://financing.desa.un.org/iatf/report/financing-policy-brief-series

### MORE ABOUT THIS TOPIC

This briefing is part of the Financing Policy Brief Series developed by PRI and other members of the Inter-agency Task Force on Financing for Development. The objective of the briefing is to inform the substantive preparations for the Fourth Conference on Financing for Development (FfD4).

It addresses two action areas of the Addis Ababa Action Agenda (the outcome document of FfD3): 1) domestic and international private business and finance; and 2) systemic issues.

It is based on PRI's 2023 policy white paper, *Investing for the Economic Transition: The Case for Whole-of-Government Policy Reform*.

limit global warming to 1.5 ° C.[1] Adaptation is particularly underfunded and for developing countries, international adaptation finance flows are five-10 times below estimated needs, and the gap is widening.[2] A similar picture emerges in other areas targeted by the SDGs;[3] there has been clear ambition, significant progress and large amounts of investment, but much more targeted, well-planned and well-communicated policy action is needed to raise the capital required to transition successfully to a sustainable economy.

A successful economic transition at the scale needed will require more comprehensive and rapid changes across all sectors of the economy and in all aspects of how we live and work. There are numerous barriers to a successful economic transition at the scale needed, including vested interests, short-term investment cycles, failures to price environmental and social externalities, perverse subsidies, and tax avoidance and evasion practices.

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. To achieve buy-in across diverse societal groups, policy makers need a complete understanding of the transition's stakeholders, including their needs, societal constraints, and the drivers of their resistance to the transition.[4]

Many, if not all, of these barriers can be removed by effective public policy reform.[5] However, the necessary policy making cannot be undertaken in a piecemeal manner, nor can it be seen simply as a matter for one arm of government or as an issue for the public rather than the private sector. Instead, the economic transition must be placed at the heart of public policy making: such a policy approach is referred to as 'whole-of-government', meaning it mobilises all sectors of the economy and society at the relevant level to ensure policy effectiveness for the results sought – a sustainable and equitable economy that benefits natural and social systems.[6]

## Policy solutions

PRI's policy white paper on the economic transition presents a high-level conceptual framework for a whole-of-government approach that can be used by governments to understand and identify the key features of public policy needed to enable the transition. This framework stresses the importance of the economic transition becoming a central goal of public policy, both as a necessary prerequisite for ensuring effective coordination across government (i.e., 'structural features') and to ensure consistency of policy goals, of implementation measures and of collaboration (i.e., 'dynamic features'). It identifies stakeholder consultation (e.g., with cities, sub-national governments, labour unions, companies, investors, civil society organisations, and academia) and public-private sector partnerships as cross-cutting aspects.

Whole-of-government approaches should be developed bearing in mind the following elements:

- **The economic transition must be a central goal of public policy.** This must be backed up by governance structures, notably through allocating cabinet or ministerial responsibility for the economic transition, and making the transition an integral part of the statutory mandates of regulatory and oversight bodies and agencies.
- **Governments must adopt national transition plans that are informed by science and international norms.** They should include short-, medium- and

1. Climate Policy Initiative (2021), Global Landscape of Climate Finance: A Decade of Data: 2011-2020.
2. UNEP (2022), Too Little, Too Slow.
3. See, for example, the UN's assessment of progress against the Sustainable Development Goals.
4. PRI (2024), The socioeconomic implications of the transition: Analytical framework for a whole-of-government approach.
5. To address opposition to the transition due to its social effects, 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.
6. European Commission (2021), Whole-of-government approach.

long-term sustainability targets and define resource allocation. The specific details of each plan and its implementation will depend on a series of factors, including economic context, economic structure, political and institutional capacity and expertise, the sources and types of finance available to the country, domestic economic, social, and environmental priorities, and the nature of the relationships between the various actors involved in the policy development and implementation processes.[7]

- **The economic transition requires all major areas of government policy to be aligned.** Specifically, the economic transition necessitates coordinated and integrated action across three levers: addressing economic externalities, incentivising markets for solutions, and enabling finance to support the transition.[8]

- **Public and private finance to enable the transition.** Policy makers need to create the conditions to support and enable private finance to contribute to the transition. This requires policy certainty over the short, medium, and long term; removing barriers to private finance; removing perverse incentives; setting up green development banks; and supporting the private sector with concessional guidelines. It is also necessary to be realistic about the role that private finance can play. There are likely to be areas where there is no business case for action, where costs significantly outweigh benefits, or where the benefits accrue to actors other than those making the investment.

- **International collaboration to complement national transition policy reform.** While domestic legislation is the critical determinant of the level of capital flows into the economic transition, rules-based international regimes supported by governments are critically important to global capital markets. There are various reasons for this: international regimes are seen as important signals of intent and as providing a higher level of certainty that government commitments will be delivered; they can enable governments to work together, helping to address the reluctance of individual governments to act in a way that may undermine national competitiveness; and they can create the rules and markets necessary to incentivise private sector investment.[9] In addition, collaboration across markets on transition policy will be essential to avoid fragmentation and costly competition between governments.[10]

- **Monitoring and review processes**. There is much that we do not know about the economic transition. Priorities may change. Technologies that do not exist today may be developed. The relative economics of technologies and solutions will change over time. In addition, our understanding of policy interventions – what is needed, what works, what doesn't work, what the costs are – will further develop. Robust and regular monitoring is critical to ensure that the policy interventions adopted are meeting their goals, and to ensure that the spillover and knock-on effects are identified and addressed by policy review processes. Policy makers need to retain the flexibility to change course if policy is not as effective as it needs to be or if the social, environmental, or economic impacts are not acceptable.

## Specific recommendations for FFD4

FfD4 has the potential to be a forum for Member States to agree on the policy approach and policy reforms needed to achieve the global sustainability goals. Responsible investors have a clear interest in governments designing and implementing effective policy frameworks that

7. Investor Agenda (2023), The changing climate policy landscape: considerations for policy-makers and the needs of investors.

8. The PRI policy white paper on the economic transition provides a non-exhaustive list of policy tools that governments can put in place to activate these interdependent levers. It also identifies green budgeting as a cross-cutting instrument.

9. See for instance IMF (2023), Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation. This report highlights the need to connect countries' climate targets and plans (NDC/LTS/NAPs) with taxonomies and transition planning frameworks for the financing sector.

10. Foreign Affairs (18 April 2023), 'The perils of the new industrial policy', David Kamin and Rebecca Kysar.

enhance the resilience and stability of financial and economic systems, improve market efficiency, address their concerns regarding ESG issues, and safeguard financial returns.

To support private finance in playing a greater role in achieving the global sustainability goals, the FfD4 outcome document should:

- **explicitly identify the economic transition to net zero as a central goal of the sustainable development strategies of Member States and relevant multilateral organisations;**
- **call on all relevant UN entities and International Financial Institutions to explicitly integrate economic transition goals, aligned with the global sustainability goals, into their activities;**
- **provide guidance on how to develop a whole-of-government approach as elaborated above; and**
- **establish a monitoring and reporting process for Member States to demonstrate progress on developing and implementing their national transition plans.**