Barclays Response to Transition Finance Market Review Call for Evidence

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Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in 38 countries and employs approximately 90,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

Addressing climate change is an urgent and complex challenge. The financial sector has an important role to play in helping to address climate change. Low-carbon technologies, infrastructure and capacity must be scaled up to meet growing energy demands and for the world to reach net zero – a global transformation to a low-carbon economy is expected to require investment of at least $4.3trn per year by 2030.[1]

At Barclays, we are determined to play our part. We believe that we can, and should, make a positive difference for society - globally and locally. In March 2020, we announced our ambition to be a net zero bank by 2050, becoming one of the first banks to do so. In December 2022 we announced our target to facilitate $1 trillion of Sustainable and Transition Financing between 2023 and the end of 2030.[2] In 2023 we financed $67.8bn of Sustainable and Transition Finance, demonstrating good momentum towards this target. In addition, Barclays' Sustainable Impact Capital portfolio has a mandate to invest up to £500m of the bank's own capital in sustainability-focused start-ups by 2027, helping accelerate the transition towards a low-carbon economy. At year-end 2023, 21 investments had been made, deploying over £138m since 2020. Simultaneously we have been working to reduce our financed emissions, for which we have now set 2030 reduction targets for eight of the highest-emitting sectors in our portfolio. For instance, at year end 2023, the absolute financed emissions from our upstream Energy portfolio were down 44% from our 2020 baseline – an additional 12% reduction from our 2022 level. More information about reduction of our financed emissions and sector targets can be found in our Annual Report.[3]

We welcome the opportunity to respond to the Transition Finance Market Review Call for Evidence (Call for Evidence) as we see two critical gaps: (i) the 'missing middle' financing gap (e.g. for growth-stage climate tech projects that are too big for venture capital but are also too nascent for infrastructure funds); and (ii) transition finance for 'hard to abate' sectors, both of which require cross-industry collaboration.

We published a Transition Finance Framework in early 2024, reflecting our recognition of the importance of lending, facilitating funding and investing into technologies and activities that support greenhouse gas emissions reduction (directly or indirectly) in high-emitting and 'hard to abate' sectors, and share further thoughts on this in our response below. The Transition Finance Framework sits alongside our Sustainable Finance Framework, and together they outline the criteria for transactions to qualify as progress against our targets.[4]

Executive Summary

The financial sector's ability to support the transition will depend on whether the policy incentives and economic conditions are in place to enable the real economy to transition, thereby creating opportunities for finance and investment to support real economy transition activities. It is important to highlight that current market economics do not sufficiently encourage, or enable, the transition - and this is hampering the growth of transition finance and ultimately the UK's ability to meet net zero targets already enshrined in law (the Climate Change Act). As commentary from the International Energy Agency suggests, due to the

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[1] https://www.climatepolicyinitiative.org/wp-content/uploads/2022/10/Global-Landscape-of-Climate-Finance-A-Decade-of-Data.pdf
[2] https://home.barclays/news/press-releases/2022/12/barclays-significantly-increases-sustainable-finance/
[3] https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/annual-reports/2023/Barclays-PLC-Annual-Report-2023.pdf
[4] https://home.barclays/sustainability/addressing-climate-change/financing-the-transition/

current macro-economic climate "projects become harder to finance; companies' profitability is affected as they need to increase their reliance on more expensive equity; and very leveraged companies have a higher risk of default".[5] Meanwhile, "clean energy investments are more vulnerable to a rise in borrowing costs than other types of energy investments, as they typically involve relatively high upfront costs that are compensated over time by much lower operating expenses."[6] To this end, there will need to be a shift in market economics driven by clear and consistent government policy to enable transition finance to flow. The US Inflation Reduction Act is the standout example of this.

Policymakers have a pivotal role in fostering a conducive atmosphere for transition finance. Recognising the inherent ambiguities in transition finance - acknowledging that there are various pathways to net zero - is crucial. A rigid regulatory framework can stifle innovation and progress. Instead, a more nuanced, flexible approach that adapts to the multifaceted nature of transition activities is needed. Such a framework should not only accommodate, but also encourage, diverse methods of transitioning towards sustainability.

Regulators can further bolster this effort by endorsing market initiatives to develop transition frameworks. Public support from regulatory bodies can lend credibility and momentum to these market-led endeavours. Should these efforts fall short, the value of a regulatory-led solution becomes apparent (e.g., via Taxonomies). A balanced regulatory framework, that is both supportive and adaptable, can promote the uptake of transition finance and, subsequently, engagement in transition activities. This approach would mitigate risks, reduce complexity, and ultimately, facilitate the provision of transition finance.

In our response to this Call for Evidence, we wish to emphasise that while there is a high degree of consensus on what constitutes 'green' (e.g., aligning with policy frameworks like the EU Taxonomy), defining transition activities remains a contentious issue. The lack of a universal standard stems partly from the perceived restrictiveness of the regulatory environment. Businesses and financial institutions (FIs) find themselves inhibited by the complexity of regulations, which is compounded by the fear of reputational damage and legal ramifications associated with accusations of greenwashing. This is partly why the market has not yet coalesced around a "transition framework", despite the considerable effort that has gone into this endeavour.

We consider then that, at a high level, the challenges of transition finance include:

- A lack of clear and consistent political and regulatory support for transition finance, supported by real economy measures and incentives.
- A lack of clear sectoral decarbonisation pathways for the real economy against which transition plans can be assessed.
- Concerns regarding reputational and legal risk arising from potential accusations of perceived greenwashing.
- A lack of a common interpretation and understanding of transition finance.
- The high degree of uncertainty associated with the forward-looking nature of transition planning.
- Challenges with articulating the role of transition finance to stakeholders.
- Concerns that pressure on FIs to reduce their financed emissions and KPIs for financial sector disclosures will disincentivise financing for high-emitting sectors or activities most in need of support to transition.

Whilst many FIs continue to demonstrate a strong commitment to facilitating the energy transition and supporting clients with their decarbonisation pathways, there are limits to the pace and scale at which the private sector can drive this change without broader supportive economic and policy conditions. To this end, we recommend that policymakers:

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[5] https://www.iea.org/commentaries/financial-headwinds-for-renewables-investors-what-s-the-way-forward
[6] Ibid

- Work with corporations, institutional investors, and downstream FIs to create a transition pathway roadmap for the next 3-5 years.
- Support the market in defining terms and concepts relating to transition finance in a way which brings clarity to the market, whilst remaining sufficiently flexible to accommodate rapidly evolving markets and technologies.
- Foster a policy framework that avoids a narrow interpretation of transition finance and support the provision of finance and investment to real economy corporates at different stages of their transition journey. The UK should learn from the challenges experienced in the EU, where sustainable finance policy frameworks have proven to be overly restrictive and have unintentionally restricted the flow of capital towards green and other sustainability-orientated initiatives.
- View the various policy frameworks, such as taxonomies and sustainability-related disclosure regulations, as complementary elements of the same overall solution. It is essential that the UK maintains a balanced approach to the individual elements of the transition finance and broader sustainability-related policy framework, without placing undue emphasis on any single aspect or unintentionally duplicating requirements. Linked to this, policymakers should work to ensure that there is close linkage and co-working between different regulatory imperatives.
- Acknowledge that transition activities and finance inherently present a degree of ambiguity. To navigate this effectively, a more adaptable and measured regulatory framework is necessary that recognises the complexities involved.
- Recognise that new financing mechanisms will be required to de-risk investments in nascent green technologies and achieve the right balance of risk between public and private actors. Importantly, this is not simply about the volume of public investment but maximising the effectiveness of existing public institutions - such as the UK Infrastructure Bank and the British Business Bank - to help crowd in private finance.
- Finally, a just transition is an essential element of a successful transition to a net-zero economy. This means addressing the negative impacts of the transition on workers and communities – such as job losses and initial higher costs of energy – while ensuring the social and economic benefits of the transition are accessible and equitably distributed.

Should policymakers incorporate the aforementioned recommendations, we consider that the UK can unlock the following opportunities by becoming a centre of transition finance, which may lead to:

- Increased capital flows. The UK could catalyse the mobilisation of transition capital towards decarbonisation efforts, which would support companies in accessing the requisite funds to innovate and implement more sustainable practices.
- Economic Diversification. The UK can diversify its economic model by fostering growth in new sectors and reducing reliance on traditional industries that risk being stranded in the future.
- Job Creation. The financial mobilisation associated with transition finance has the potential to create more and better-quality jobs.
- Enhanced Market Confidence. The development and export of high-integrity transition finance services could position the UK’s professional services ecosystem as a global leader, thereby enhancing market confidence in a variety of sectors (e.g., legal, accountancy, consultancy, data etc.).
- International Leadership. The UK can re-assert international leadership in transition finance as well as sustainable finance; helping to set standards for integrity and innovation in financial products and services.