

Executive summary

Making finance consistent with climate goals

Insights for operationalising Article 2.1c of the UNFCCC Paris Agreement

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Parties to the Paris Agreement – 183 countries as of November 2018 – have committed to ‘making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’ (Article 2.1c). This commitment represents one of the Agreement’s three long-term goals, with the other two (2.1a and 2.1b) focused on limiting the increase in global average temperatures to well below 2°C, and ideally 1.5°C above pre-industrial levels (Article 2.1a) and increasing the ability to adapt to climate change (Article 2.1b). The three goals are closely connected: realignment of finance is a necessary condition for achieving the temperature and adaptation goals of the Agreement. And there is no time to delay: the recent Intergovernmental Panel on Climate Change (IPCC) report found that to keep warming to 1.5°C the world needs to reach net-zero greenhouse gas emissions within 25 years, and that this will require a ‘major reallocation of the investment portfolio’. More starkly, emissions are currently on track to exceed the ‘carbon budget’ for 1.5°C by 2030.

Article 2.1c breaks new ground. It is the first time that the United Nations Framework Convention on Climate Change (UNFCCC) process has set a collective goal reflecting the full scale of effort needed on finance to successfully address climate change. It acknowledges a vital piece of the puzzle in tackling climate change, sending a strong signal about the need to look at all finance (both public and private, domestic and international) and ensure it is supportive of, and not undermining the transition to a low-greenhouse gas emission, climate-resilient world.

To meet their commitments under Paris Agreement, and reap the wider benefits of climate-compatible investment, governments and non-state actors need to identify processes – both within the UNFCCC and beyond – to operationalise Article 2.1c, and to explore the array of tools available to cost-effectively manage the transition.

To this end, this paper develops a three-part framework to support governments (primarily – as they are the Parties to the Paris Agreement) and non-state actors to identify opportunities to: (1) drive action to mobilise and shift finance; (2) track progress against Article 2.1c; and (3) increase ambition (see Figure S1).

As part of highlighting the approaches that can be taken both inside and outside of the UNFCCC, we also outline the four key sets of tools that primarily governments can employ to shift finance. This toolkit includes: financial policies and regulations; fiscal policy levers; public finance; and information instruments (see Figure S2).

Using real-world examples for each, we look at how these tools are currently being used to drive action and how they are included in existing processes to track progress, and at the focus of efforts to raise ambition towards Article 2.1c. To limit the scope of this toolkit, we focus on financial policies and regulations linked to the finance specific goal of Article 2.1c. We have not included an analysis of wider policies and regulations that are key to achieving the mitigation and adaptation objectives of Articles 2.1a and 2.1b, while recognising they are also critical for shaping finance.

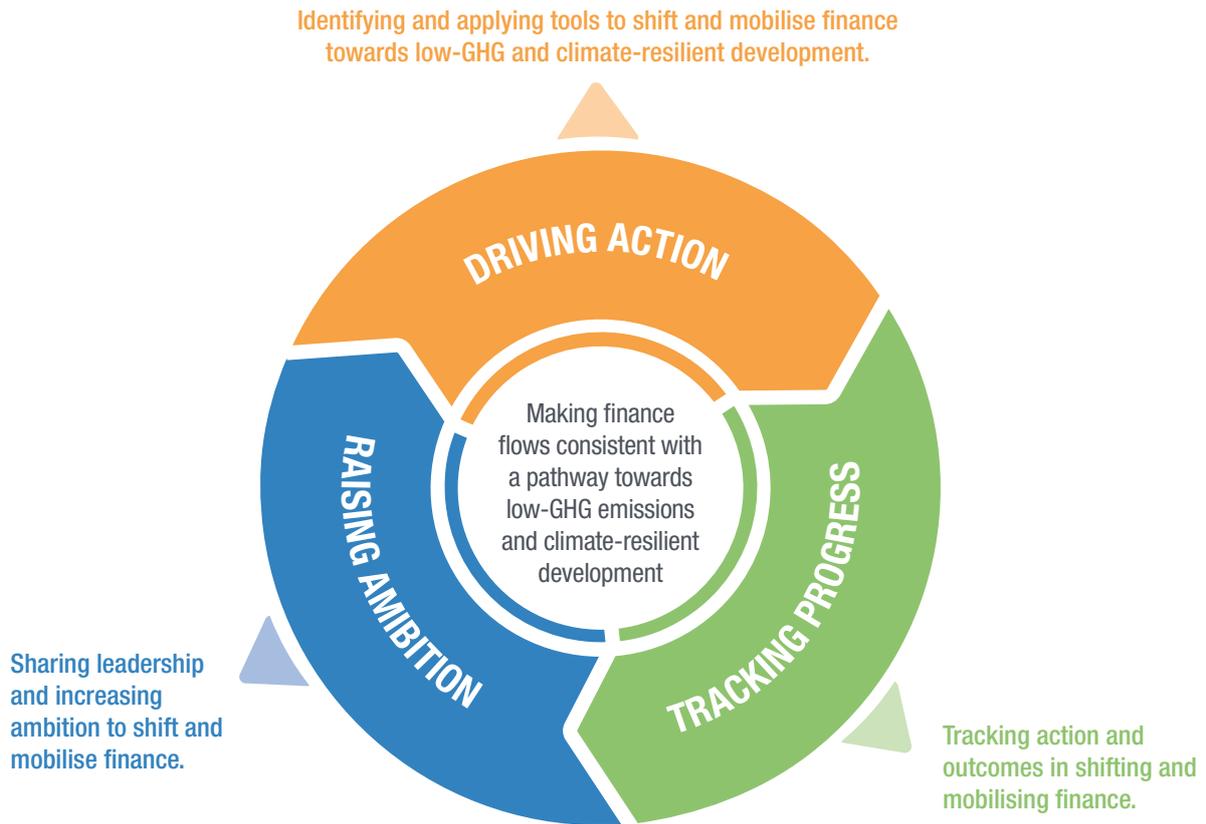
Finally, we outline key next steps needed to ensure that the UNFCCC processes and linked activities support countries to achieve the objectives of Article 2.1c. These include:

- **within the UNFCCC** – clarifying and building upon provisions of the Paris Agreement and associated UNFCCC processes to more clearly support action that countries can take towards Article 2.1c. These include the Global Stocktake, nationally determined contributions (NDCs) and the enhanced transparency framework. Given the nationally determined nature of commitments under the Paris Agreement, countries can voluntarily integrate Article 2.1c into their efforts

- **beyond the UNFCCC** – mobilising key actors beyond Parties to the UNFCCC (including public finance institutions, investor and business groups, etc.) on Article 2.1c and its implications and opportunities; follow-up with existing initiatives to ensure these groups deliver on

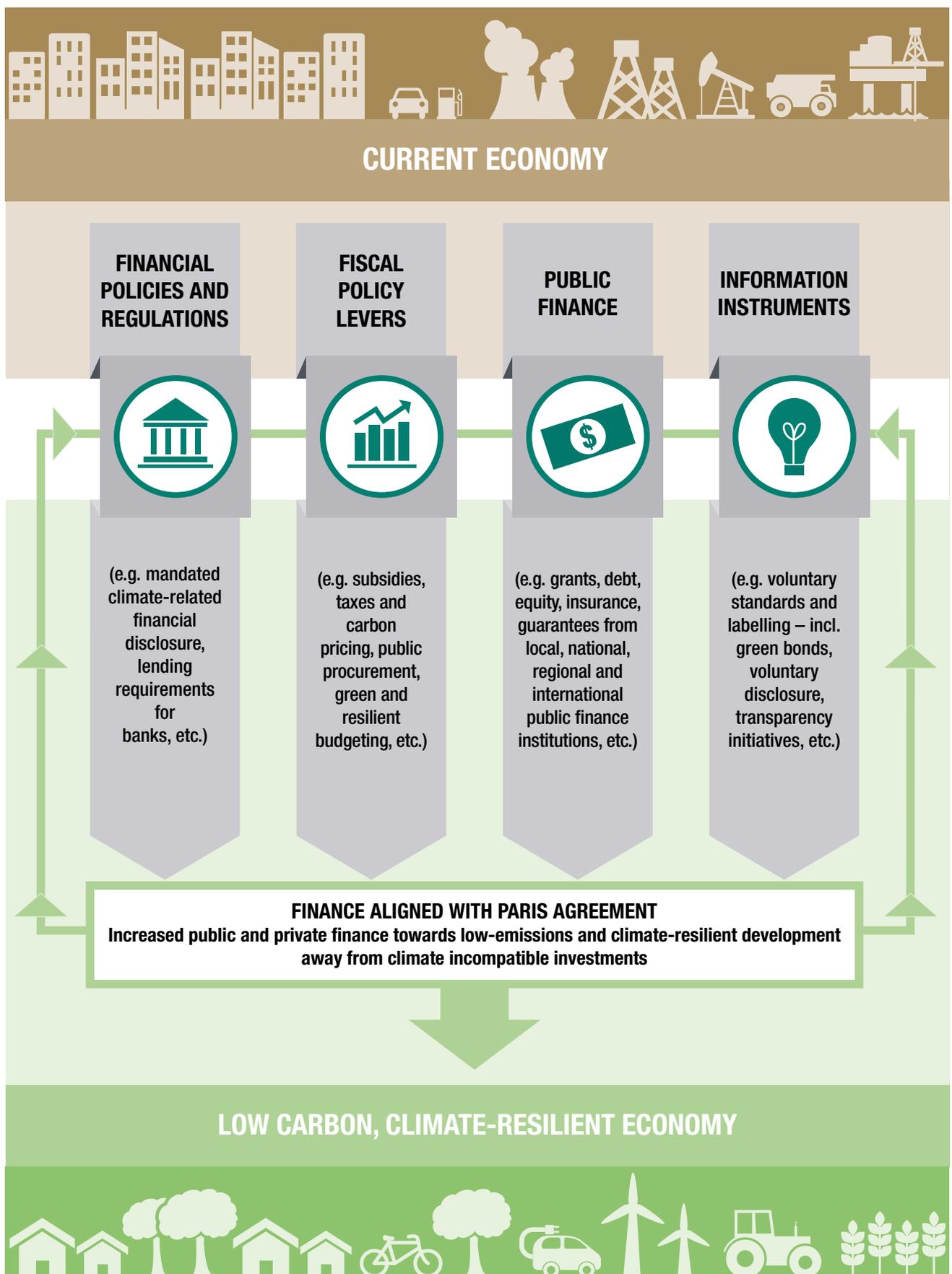
their existing commitments as well as make new Paris-aligned, ambitious commitments that target the mainstream of financial markets; and, in the near-term, engage with the UN Secretary-General’s 2019 Climate Summit and its linked Climate Finance Leadership Initiative (CFLI).

Figure S1 Framework for operationalising Article 2.1c of the Paris Agreement



*Note: GHG=greenhouse gas
Source: authors' own.*

Figure S2 Government tools to shift and mobilise finance



Source: authors' own, adapted from Watson and Schindler (2017).



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