The United Kingdom of Great Britain and Northern Ireland's submission to the United Nations Framework Convention on Climate Change on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation.

As invited to in paragraph 11 of FCCC/PA/CMA/2022/L.14[1]

UK Government

[1] FCCC/PA/CMA/2022/L.14

Context

The UK would like to reiterate that accelerating the achievement of Article 2 of the Paris Agreement, and its complementarity with Article 9, is essential to support efforts to limit the temperature increase to 1.5 °C[2]. The science shows us that urgent action must be taken[3]. However, despite the window for action reducing, the UK notes with concern that there has been a lack of progress with developing options for approaches and guidelines for implementation of Article 2, paragraph 1(c).

The Standing Committee on Finance (SCF) can play an integral role in helping to compile approaches and guidelines for the increased utilisation of Article 2, paragraph 1(c), and should consider the space in which these can be taken forward and considered within the COP process. The SCF should help establish the reasons and associated concerns as to why progress to date has been insufficient, without repeating previous work, to aid future work on this issue. In line with this, the UK considers it essential that an outcome on Article 2, paragraph 1(c) is reflective of the needs and priorities of developing countries[4], whilst still delivering the finance needed to enable a green transition. The SCF should coordinate this work with the Convention on Biological Diversity (CBD) Secretariat and related work to align financial flows with the Kunming-Montreal Global Biodiversity Framework, promoting an integrated approach to addressing the climate and biodiversity crises.

In the year of the first global stocktake, the extent to which the potential of Article 2, paragraph 1(c) has not been fulfilled will be made evident. The UK therefore expects focus to be given, in the SCF and Sharm el-Sheikh Dialogue on Article 2, paragraph 1(c), as to how the UNFCCC can facilitate a standing agenda item which gives the necessary impetus to fulfil this mandate and in turn support wider mandates across the Paris Agreement.

The UK considers that one option to articulate a clear vision of Article 2, paragraph 1(c), is to develop a quantitative approach for realignment of financial flows – one that *increases flows in aid of a green transition and realigns those that run counter to it.*

Realigning flows that run counter to a pathway towards low greenhouse gas emissions and climate-resilient development

In order to implement Article 2, paragraph 1(c) under the UNFCCC, there must be a *focus on aligning flows through regulatory frameworks* that account for both the fiscal and social challenges associated with green investments. The UNFCCC must progress and support work to establish globally consistent and interoperable standards which will bolster domestic regulatory frameworks and enable the impact of climate finance to be greater than the sum of its parts. This should form part of a mix of both price and non-price policy measures that are needed to address the market failures associated with climate change.

We therefore must create the conditions that enable all actors (including but not limited to Parties, non-Party stakeholders, pension funds, sovereign wealth funds) to align their spending with the goals of the Paris Agreement. These conditions can be created through actions such as:

- Central Bank mandate reform: Instructing central banks to act on climate by updating their mandates and remits to include mention of the Paris temperature goal and efforts to reduce physical climate risk.

[2] 1/CMA.3
[3] *AR6 Synthesis Report: Climate Change 2023*
[4] 1/CMA.3

- Sustainability Disclosures and Standards: Apply and continue to enhance requirements, such as those developed by the Task Force on Climate-related Financial Disclosures (TCFD) and the IFRS Sustainability Disclosure Standards, to financial institutions and real economy corporates, and apply transition planning and physical climate risk disclosure requirements aligned with emerging guidance on international best practice to drive action on both mitigation and adaptation.
- Taxonomies: Developing a science-based global baseline on taxonomies, utilising international fora such as the International Platform on Sustainable Finance.
- Carbon pricing: Extending the use of carbon pricing to triple the coverage globally, as per the Global Carbon Pricing Challenge.
- Fossil fuel subsidies: Increase efforts to phase out or reduce inefficient fossil fuel subsidies, as an implicit negative carbon price.

Implementing these frameworks will allow greater regulatory consideration of challenges created by the transition, such as a just transition of the workforce. Noting the work of the Standing Committee on Finance (SCF) forum on financing a just transition, progress on Article 2, paragraph 1(c) should also advance efforts to understand best practice for policies that stimulate green growth and job creation.

The UK has been progressing its own framework through the Green Finance Strategy, updated in March 2023. This Strategy outlines how the UK government will pursue its ambition to become the world's first Net Zero-aligned Financial Centre through a number of new measures and commitments, including;

- Committing to consulting on the introduction of requirements for the UK's largest private companies to disclose their existing transition plans, which will be in addition to existing requirements on listed companies.
- Setting up a framework to assess IFRS and ISSB standards for their suitability for adoption in the UK as soon as the final standards are published.
- Delivering a UK Green Taxonomy – a tool to provide investors with definitions of which economic activities should be labelled as green.
- Exploring actions the UK can take to enable key transmission channels through which financial markets can support businesses to grow as part of a net zero, resilient and nature positive economy.

The Strategy also sets out the UK's commitment to collaborate with international partners to accelerate the alignment of global financial flows with a net zero, climate resilient and nature positive global economy. Underscoring the importance of international interoperability of regulatory frameworks, the UK is working to develop and promote the adoption of international standards and is providing green finance capacity building in emerging and developing economies. Efforts such as these should be scaled coherently across jurisdictions with recognition of the differing development pathways and circumstances between countries.

In addition, we must scale up the *tracking and reporting* of progress on Article 2, paragraph 1(c) under the UNFCCC. Despite some Parties and non-Party stakeholders taking action on this agenda, approaches are disparate and there is no unified means for Parties to build upon the best practices of other countries. Articles 2.1a and 2.1b both have clear reporting processes (NDCs and Adaptation Communications), and we must create a similarly helpful approach for aligning finance flows to realise the associated advantages. The first global stocktake this year should seek to make progress on this issue as one of its technical outcomes.

Increasing finance flows that support a pathway towards low greenhouse gas emissions and climate-resilient development

The UNFCCC has called on private actors to take a greater role in climate financing, however results have been limited. The UK plays a central role in bilateral and multilateral financing initiatives that have been developed adjacent to the process to mobilise wider financial flows. However, to achieve the system-level change required to catalyse financial flows towards achieving the objective of Article 2, paragraph 1(c), the regulatory measures set out above must also be enacted upon.

Addressing the funding gap in emerging and developing economies will be a critical enabler in meeting global finance needs – as set out in the UK's Green Finance Strategy, efforts to mobilise finance to these jurisdictions should be focussed in five key areas:

- Country partnerships and building capability
  Building long-term relationships to exchange learning, support national planning processes, and develop project pipelines.
- Strategic public investment and enhancing the scale of investment opportunities
  Mobilising private investment through blended finance structures, public-private partnerships, revenue support mechanisms, guarantees and supporting access to large-scale investment, such as through issuance of green and sustainable bonds.
- Innovative approaches to unlock private capital
  Supporting the financial sector to adopt and scale innovative financial instruments, including by establishing high-integrity- carbon markets and developing listed products.
- Global impact through reform of the international financial architecture
  Reforming international financial institutions to work better with the private sector and deliver greater impact in meeting the climate and nature investment challenge.
- Enabling private investment in international climate adaptation
  Given that private investment in adaptation and resilience is more nascent than private investment in mitigation, in addition to the actions listed above, greater collaboration is required to build coalitions around the tools, data, regulatory measures, financial support and coalitions required to address the barriers to private investment in adaptation and resilience.

Across the five areas, the international community should seek to maximise synergies and co-benefits for people, climate and nature, including through scaling up support for effective nature-based solutions[5,6].

The UK has been delivering on these priorities through a range of policies and initiatives. We are championing specific reforms of the international financial system to make it stronger and increase the quality and quantity of climate and nature finance, recognising that International Financial Institutions are a major source of support to emerging and developing economies Combined with our wider efforts to green the financial system and enhance the effectiveness of the climate funds, this will be critical in ensuring an international system that is able to deliver better for emerging and developing economies, specifically on the key challenge of mobilising finance for adaptation and nature.

The UK has progressed country partnership initiatives, such as the Just Energy Transition Partnerships (JETPs), that will support global ambition, accelerate investment, and build lasting capability and partnerships between public and private financial institutions. These initiatives should be built upon, noting they are not intended as a total solution but an

[5] CBD15/8
[6] CBD15/19

indication of what needs to be taken forward at the global level through a larger package of support, measures and approaches. The UNFCCC should assess the merits of these approaches and consider what action can be taken to promote these as best practices and furthered within regional and domestic settings.

The UK has also been an international leader on delivering legislation to underpin NDC commitments, through the work of the independent Climate Change Committee, created in the Climate Change Act 2008. Extending the use of legislation to underpin NDC commitments ensures strong domestic governance, including from ministries of finance, and provides further regulatory certainty for investors over future growth technologies and sectors.