

Limiting Global Warming: Finance & Investment

Progress on the alignment of financial flows with low GHG emissions pathways remains slow. There is a climate financing gap which reflects a persistent misallocation of global capital. Political leadership and intervention remains central to addressing uncertainty as a fundamental barrier for a redirection of financial flows.

CURRENT FINANCE FLOWS AND GAPS



Finance flows have progressed slowly toward meeting the goals of the Paris Agreement and fall short of the levels needed to achieve mitigation goals.



Finance flows for climate mitigation and adaptation have increased by up to 60% since 2013/2014, but growth has slowed in recent years.



Finance flows focussed heavily on mitigation, with differences across regions and sectors.



Despite the increasing attention and commitments of investors to climate change, there is limited evidence that this attention has directly impacted emission reductions.



Public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation.

FUTURE OF FINANCE

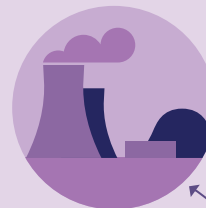
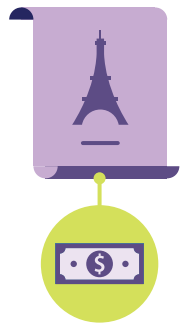
Limiting warming to 2°C or 1.5°C requires investment in the deployment of mitigation technology during this decade 3-6x greater than current levels. For developing countries, flows would have to increase by 4-8x. Investment gaps are wide for all sectors, though widest for Agriculture, Forestry, and Other Land Use (AFOLU).

Clear policy choices and signals from governments and the international community help to reduce transition risk and uncertainty, thereby enabling mitigation.

Innovative financing approaches could foster demand for Paris-aligned investment opportunities. Approaches include de-risking investments, robust 'green' labelling and disclosure schemes, and a regulatory focus on transparency.

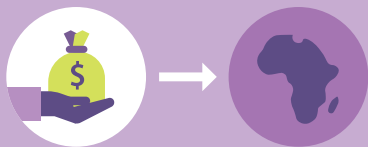


Greater public-private cooperation can encourage the private sector to increase and broaden investments. This can be integrated into national climate change policies and plans.



Increasing knowledge and capacities in the context of climate risk assessments can address the systemic underpricing of climate risk in markets. Investors and financial intermediaries, central banks, and financial regulators can support climate action.

Accelerated financial support for developing countries is a **critical enabler** of mitigation action and addresses inequities in access to finance.



Scaled-up public grants for vulnerable regions would be **cost-effective** and **improve access to basic energy**, especially in Sub-Saharan Africa.



Increased use of **public guarantees** reduces risks and **leverages private flows**.



Other options include developing local markets and building trust in the international cooperation process.

Aligning finance flows with funding needs can enable climate mitigation, through:

Greater **support for technology development**, e.g. through R&D and venture capital.



Economic instruments which consider **economic and social equity** and distributional impacts



Lowering financing costs for underserved groups through entities such as green banks, funds, and risk-sharing mechanisms.



Enhanced **access to finance** for **local communities** and Indigenous Peoples and small land owners

Other aspects enabling mitigation include:



Trust in political leadership which, in turn, affects risk perception and ultimately financing costs.



Appropriate regulatory frameworks and institutional capacity to attract and facilitate investments and ensure safeguards



Upstream financing

OVERCOMING BARRIERS

There is enough global capital and liquidity to close investment gaps, but there are barriers both within and outside the financial sector to redirecting finance to climate action.

<p>Limited analysis of what investment opportunities exist and what the climate-related risks are.</p>	<p>On a regional level, the mismatch between investment needed and funds available</p>	<p>Levels of country debt, economic vulnerability, macroeconomic headwinds, and limited institutional capacities (e.g. to ensure safeguards)</p>	<p>Unattractive risk-return profiles, e.g. due to missing or weak regulatory environments consistent with ambition levels</p>	<p>Lack of standardisation, aggregation, scalability and replicability of investment opportunities and financing models</p>	<p>Policy misalignments (such as persistently high levels of both public and private fossil-fuel-related financing) undermine the credibility of public commitments, reduce perceived transition risks and limit financial sector action</p>
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LINKAGES



- Access to finance results in other sectoral benefits, since access (or lack of access) to finance contributes to:
 - the **lag in adoption of low-emission technologies** in most developing countries
 - the long-term **economic attractiveness** of delivering **mitigation options in the energy sector**.
 - Capturing near-term mitigation potential, e.g. for buildings (where ensuring **finance flows in the 2020-2030 decade** is critical).



- Delayed climate investments and financing will result in significant **carbon lock-ins, stranded assets**, and other additional costs. This will particularly impact **urban infrastructure and the energy and transport sectors**.



To read full AR6 Working Group III report, please visit www.ipcc.ch/report/ar6/wg3