Station Note

World Café at TD 1.3

Station 12: How to enable the transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors in order to meet the Paris Agreement goals?

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Scaling up and aligning global financial flows for climate action in line with the Paris Agreement goals entails unlocking trillions of dollars to support the global transition, critically through the strategic use of public international finance which remains a prime enabler for action in developing countries. Transforming international financial architecture should support pathways to low-emission and climate-resilient development, across different contexts. As highlighted in COP27's cover decision text, a total of USD 8-10 trillion of investment across all sectors of the low-carbon economy will be needed until 2030 in order to achieve this finance goal and reach net zero emissions by 2050 (UNFCCC, 2022). Meanwhile, fossil fuel investments in the energy sector (USD 782 billion), fossil fuel subsidies (USD 472 billion) and investments with deforestation risks (USD 38.3 billion) will need to shift towards climate-compatible alternatives (UNFCCC SCF, 2022).

This implies an urgent need to transform the structure and processes that underpin the financial system, and that govern both public and private flows, guided by multiple financial actors, including governments, central banks, commercial banks and institutional investors. Taking the necessary actions and implementing the policies required to transform global and national financial systems are being disrupted by health, economic and social poly-crises, including COVID-19, the outbreak and escalation of wars and conflicts, and increasing exposure and vulnerability to climate shocks caused by climate change.

Question for the Advisors:

Based on these emerging realities, this World Café station will reflect on four questions and thereby shed light on the practical actions and policies needed to achieve this transformation. The questions are intended to guide participants to offer advice to four different groups of financial actors, namely fiscal actors (governments and associated development banks), central banks, international finance institutions and private actors (institutional investors, commercial banks and corporates):

a) Amid rising debt, how can governments and development banks balance their domestic priorities with efforts to support the financing of mitigation and adaptation?
b) Amid rising inflation, how can central banks and financial supervisors adjust their monetary policy and prudential regulation to incentivize greater alignment of finance flows with the Paris Agreement?
c) Amid emerging polycrises and growing pressure to reform their post-war operations and principles, what can international financial institutions (IFIs) do finance countries' low-carbon, climate-resilient development pathways?

d) Amid a wave of voluntary and private-led pledges to meet net zero, how can institutional investors, commercial banks and corporates turn their policy commitments into action?