EUROPEAN FINANCE FLOWS FUELLING THE CLIMATE CRISIS:

THE ROLE OF ARTICLE 2.1(C) UNDER THE UNFCCC

NOVEMBER 2023

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SUMMARY

- At COP28, the EU is calling on the world to meet its Paris Agreement objective of "aligning financial flows with low greenhouse gas emissions pathways" (Article 2.1c), which would require some fundamental shifts in how the global economy operates. But this is not matched by the EU's efforts at home, where efforts to regulate the financial industry have stopped a long way short of a requirement for banks and other institutions to stop funding fossil fuel and other high-emitting sectors.

- In the 7 years since the Paris Agreement was signed, European banks have continued to finance fossil fuels and industrial agriculture in the Global South to the tune of an average US$46.7 billion (€40.2 billion) per year, over 4 times the amount that the EU and its Member States have provided in the real value of climate finance.

- The expansion of fossil fuels and harmful industrial agriculture in the Global South is harming the communities that have done the least to cause the climate crisis, by driving deforestation, land grabs, water pollution and loss of livelihoods – all compounded by the injustice of disproportional climate change impacts.

- Even as the EU plays a helpful role in moving the 2.1c agenda forward to shift harmful finance flows, it is also problematically using the 2.1c agenda to try to avoid a meaningful scale up of real climate finance provision in the form of grants to countries on the front lines of the climate crisis.

- The EU and its Member States should significantly increase their public, grant-based finance to meet a fair share of their commitments under Article 9.1 of the Paris Agreement, and these contributions should not be conditional on Article 2.1c decisions.

- The EU should back a series of ambitious and urgent measures to genuinely advance the implementation of Article 2.1c to end harmful finance flows, including the rapid and equitable phase out of fossil fuel subsidies globally; the phase out fossil fuel lending by all EU-based public finance institutions, including development finance and export credit agencies of EU member states; debt cancellation and restructuring; and creation of an effective UN Tax Convention to prevent tax avoidance and evasion, and illicit financial flows.

- New regulations and policies are also needed to phase-out financing to fossil fuels, and steer away from harmful industrial agriculture and other high-emitting activities. This should include a requirement that banks and other financial institutions develop climate transition plans consistent with a 1.5°C climate goal, which should cover all financed emissions (including scope 3) with no offsets, and be subject to sanctions for non-compliance.

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SECTION 1. GLOBAL FINANCE FLOWS, THE CLIMATE CRISIS AND INTERNATIONAL UN POLICY FRAMEWORKS

As the climate crisis escalates, the global financial system continues to pump hundreds of billions of dollars into fossil fuels and industrial agriculture - the two largest contributors to climate change. Meanwhile, the solutions needed to address the climate crisis remain woefully underfunded. As the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6) concluded in 2023, far more money continues to flow to the causes of climate change than the solutions.[1]

When the Paris Agreement was finalised in 2015, the issue of global money flows was spotlighted as a critical area for action needed to give the planet a chance of averting runaway climate breakdown. Article 2.1c is one of three long-term goals included in the Paris Agreement. In it the world's governments agreed to respond to the threat of climate change by "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[2] This requires a fundamental realignment of the global economy and is a necessary condition for achieving the other long-term Paris Agreement goals of limiting the increase in global average temperature to 1.5°C (Article 2.1a) and increasing the ability to adapt to climate impacts (Article 2.1b). The Paris Agreement stresses that all three long-term goals "will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances" (Article 2.2), carrying over an equity framing that is central to the United Nations Framework Convention on Climate Change (UNFCCC) that it forms part of. Article 9 of the Paris Agreement, which specifies that developed countries are required to provide climate finance so that developing countries can undertake mitigation and adaptation, is also a key element in achieving this equitable approach.

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Providing adequate climate finance is an essential condition for implementing the Paris Agreement, but Article 2.1c implies wider changes still. A "global transformation to a low-carbon economy" would require "at least US$4-6 trillion per year," according to the Sharm el-Sheikh Implementation Plan agreed at COP27 in 2022, including around US$4 trillion per year of investments in renewable energy before 2030.[i] Other global estimates for decarbonizing energy range from US$1.7 to 7.3 trillion annually.[3]

Although these sums are vast, the issue is not a shortage of finance – in 2021, the assets of financial institutions worldwide amounted to US$486.6 trillion.[4] The IPCC's AR6 concluded with a high degree of confidence that "There is sufficient global capital and liquidity to close global investment gaps, given the size of the global financial system."[5] The problem is that finance continues to flow in the wrong direction, with fossil fuel financing at the core of this. As the EU acknowledges,

> Public and private finance flows towards the fossil-fuel based economic activities are still larger than those for global climate adaptation and mitigation actions. Although climate finance needs to increase many-fold, the issue is not the lack of global capital but the poor management and persistent misallocation of capital with respect to mitigation and adaptation objectives.[6]

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i. UNFCCC (2022) Decision -/CP.27. Sharm el-Sheikh Implementation Plan, https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf Another recent estimate suggests that investment and development spending to limit warming to 1.5C temperature goal would need to reach US$3.5 trillion per year by 2030 in "emerging markets and developing economies" excluding China. See Bhattacharya A et al. (2022) Financing a big investment push in emerging markets and developing economies for sustainable, resilient and inclusive recovery and growth, https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/05/Financing-the-big-investment-push-in-emerging-markets-and-developing-economies-for-sustainable-resilient-and-inclusive-recovery-and-growth-1.pdf

If the world is to succeed in limiting planetary warming and coping with rising impacts, **the successful implementation of Article 2.1c is vital to stop global finance flows from causing destruction, while scaled-up delivery of climate finance under Article 9 is urgently needed for the sake of those on the front lines of the climate crisis.**

In February 2023 Loveness Chiwaya Chaponda's village in Malawi was destroyed by floods brought on by Cyclone Freddy, the longest-lasting cyclone on record.
CREDIT: Thoko Chikondi/ ActionAid

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THE IMPORTANCE OF CLIMATE FINANCE - AND DISTINGUISHING THIS FROM OTHER FINANCE FLOWS

It is a central premise of the UNFCCC that most developing countries have contributed relatively few of the greenhouse gas emissions that are causing the planet's atmospheric heating and chaotic weather conditions. These same countries, however, are the ones experiencing the most severe and destructive climate change impacts. Families, communities and countries are being pushed deeper into debt as a result of losses, damages and the cost of adapting to and repeatedly rebuilding in the aftermath of climate change impacts. Grant-based public climate finance from developed to developing countries is therefore just and essential to ensure that the majority of people globally can cope with the consequences of the climate crisis that they have not caused, and so that they can join the global transition to greener pathways.

The provision of "new and additional, predictable and adequate" climate finance from developed to developing countries is crucial to building trust and addressing climate change equitably. Yet the 2009 Copenhagen Accords set "a goal of mobilizing jointly US$100 billion dollars a year by 2020... from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."[7] This political figure was echoed in the 2010 Cancún Agreements and the Decision adopting the Paris Agreement, even though the actual scale of need is widely recognised to be far greater than US$100 billion per year.[8]

Developed countries have failed to meet the US$100 billion by 2020 target, however, with the OECD estimating that international climate finance (in which they include loans as well as grants provided) reached US$83.3 billion in 2020. In 2021, they had still failed to reach the target, recording provision of US$89.6 billion[9] Although the EU and its Member States are not the biggest laggards (a dubious honour that goes to the United States), only 3 of the 14 Member States required to make contributions have made notable contributions to the US$100 billion target - but even these numbers are disappointingly padded out with loans.[ii]

The true failure of EU and other developed countries to deliver on their climate finance commitments may be far greater, however, with Oxfam estimating the "real value" of climate finance provision in 2020 to be just US$21 – 24.5 billion.[iii] These figures differ greatly because Oxfam found that many countries over-state the "climate relevance" of reported actions to inflate their figures, and because a majority of climate finance reported by developed countries takes the form of loans, which risk pushing developing countries deeper into debt, thereby undermining their ability to invest in climate action.[10]

Consistent and adequate climate finance (Article 9.1), particularly in grant form, is an essential complement and prerequisite to 2.1c.[11] The failure of the EU and other developed countries to meet their climate finance obligations directly affects the willingness and ability of developing countries to address climate change. For example, in a joint submission to the Sharm el-Sheikh dialogue on Article 2.1(c), Argentina, Brazil and Uruguay highlight UNFCCC Article 4.7 in response to developed countries' failure to deliver on their climate finance pledges, which states that "The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology."[12]

Climate negotiators are now negotiating a post-2025 climate finance target, called the "New Collective Quantified Goal" (NCQG), which should greatly exceed the current US$100 billion goal if the needs of developing countries are to be met. Debates on this are highly contentious, with the success and implementation of climate negotiations stalled by developed countries' unwillingness to provide sufficient grant-based finance, and their efforts to inflate climate finance numbers with public and privately-provided loans.

It is therefore vital that a focus on Article 2.1c - and the need to reform the various forms and flows of the world's finance - does not distract attention from or undermine the climate finance obligations of developed countries. To build trust on this issue, a firewall between the negotiations on the NCQG (Article 9) and Article 2.1c activities is needed. It's important to recognise the distinction between finance that affects the climate, and climate finance.

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ii. Own calculation based on Colenbrander, S., Y. Cao, L. Pettinotti and A. Quevedo (2021) "A fair share of climate finance? Apportioning responsibility for the $100 billion climate finance goal", https://cdn.odi.org/media/documents/A_fair_share_of_climate_finance.pdf p.9 and ACT Alliance (2021) Setting the Standard: Climate Finance from EU and EFTA Member States https://actalliance.eu/wp-content/uploads/2021/01/ACT-Alliance_EU_SettingTheStandard.pdf, p.6. The 3 Member States that have contributed their so-called "fair share" of US$100 billion are Sweden, The Netherlands and Denmark. ActionAid disagrees with ODI's framing of these numbers as a "fair share", however. Not only do their figures include loans, but the insufficient US$100bn target does not reflect developing countries' need, or developed countries' responsibility. You can't have a "fair share" of an unfair target. The ACT Alliance figures also differ from ODI's figures: we have excluded France and Germany because, as ACT Alliance has pointed out, these countries considerably overstate their climate finance contribution because a large share of the funds provided takes the form of loans. 14 EU Member States are listed in Annex II of the UNFCCC (https://unfccc.int/cop3/fccc/climate/annex2.htm) and therefore directly required to provide climate finance contributions.

iii. Oxfam (2023) Climate Finance Shadow Report 2023: Assessing the delivery of the $100 billion commitment https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2023-621500/ Oxfam has suggested that the OECD figures rely on a methodology that significantly over-states how much climate finance is delivered (e.g. through countries over-stating the "climate relevance" of reported actions, and through an inflated count of the "grant-equivalence" of loans and other financial instruments.

BOX 1: A FEMINIST, EQUITABLE AND JUST TRANSITION

If we are to keep within a 1.5°C goal then coordinated action is needed to rapidly phase out financing for fossil fuels and emissions intensive activities, but this must be done in an equitable manner, with adequate compensation measures and social safety nets are in place, to ensure a just transition that does not impact negatively on poor and marginalized populations in developing countries.[13] This implies that, while Article 2.1c should be guided by the plans set out in Nationally Determined Contributions, transition plans should be embedded in a broad-based equitable, just and feminist approach.

At the most basic level, as pointed out by the G20 Sustainable Finance Working Group, a just transition must avoid or mitigate "possible negative impacts on employment and affected households, communities, and other SDGs (including environment protection and biodiversity)."[14] For example, energy transitions can affect "intra-household power dynamics and the division of labour", with the possibility to reduce inequalities but also the risk that new challenges emerge, or even the potential to increase gender-based violence and discrimination.[15] For this reason, it is vital to understand gendered impacts as part of a just transition, and to incorporate gender equality as a goal of transition plans.

Shifting financial flows should be designed to contribute to the transformation of the economy away from the existing model where women face gender-based inequality and marginalisation, and are disproportionately affected by climate impacts.[16] Article 2.1c should aim for "a pathway towards low greenhouse gas emissions and climate-resilient development" that simultaneously increases women's participation and decision-making in how finance flows. This should "scaled up, long-term and consistent public investments in the care economy", ensuring that women are employed in newly created green jobs, as well as fully supported in non-market care work through more effective social safety nets and welfare systems.[17]

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Martha Onisoru is a fisherwoman in Nigeria's Niger Delta, where water sources and fishing livelihoods have been destroyed by the pollution from Shell's oil extraction operations.
CREDIT: TNora Awololo/ ActionAid

MEASURES TO ALIGN FINANCE FLOWS WITH CLIMATE ACTION

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If we are to keep within a 1.5°C goal then coordinated action is needed to rapidly phase out financing for fossil fuels and emissions intensive activities. Common actions at international level, such as by setting deadlines for public financial institutions to remove support for activities not consistent with the Paris Agreement, must be an essential part of the way forward to achieving a climate-safe planet.[18] This must be done in an equitable manner, with adequate compensation measures and social safety nets in place, to ensure a just transition that does not impact negatively on poor and marginalised populations in developing countries.[19]

Article 2.1c is addressed to the financing of the whole economy, including public and private, domestic and international finance. If the world is to have a chance of limiting average global warming to 1.5°C, then this requires a broad range of both public and private financing measures.

- Significant new steps must be taken to *transform the financial sector and regulate private finance flows.* As noted in the Sharm el-Sheikh Implementation Plan (SHIP), achieving the 2.1c goal requires "a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors."[20] Private sector financial flows – in particular, those passing through banks - are the focus of the remainder of this briefing. In addition:

- *Fossil fuel subsidies* and other climate-damaging activities should be rapidly phased out in an equitable manner. Global subsidies for fossil fuel consumption alone reached USD 1.1 trillion in 2022, according to preliminary estimates, while renewable energy subsidies only amount to an estimated US$167 million.[21] Agriculture subsidies (including the EU Common Agricultural Policy) should be reformed to encourage an equitable transition to agroecology.

- *International public finance* institutions, including multilateral and national development banks, development finance institutions, and export credit agencies, should exclude fossil fuel financing and phase out support for other climate-damaging activities. Some progress has already been made, with 34 countries (including several EU member states) and five public finance institutions (including the European Investment Bank) signed up to the Clean Energy Transition Partnership to "end new direct public support for the international unabated fossil fuel energy sector" by the end of 2022. However, some of the signatories to this pledge (including Italy, Germany and The Netherlands) have not met this commitment.[22] Progress towards the goal of phasing out public funding for fossil fuels should be reported annually to the UNFCCC.[23]

- *State-owned enterprises* should redirect investments from fossil fuels to clean energy aligned with climate goals.

- *Debt cancellation and restructuring*. High debt levels reduce the fiscal space for public spending, meaning that countries cannot adequately invest in mitigation or prepare for and protect against climate impacts.[24] Yet 54 countries that are home to more than half of the world's poorest people current face a debt crisis, including 28 of the world's most climate-vulnerable countries.[25] The failure to act has even pushed some countries into pursuing extracting policies to repay their debt, undermining efforts to transition away from fossil fuels.[26] There should be ambitious and immediate debt cancellation for all countries in need, reinforced by the creation a multilateral debt workout mechanism.[27] Beyond this,

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iv. Klusak, P. et al. (2021). Rising Temperatures, Falling Ratings: The Effect of Climate Change on Sovereign Creditworthiness https://www.bennettinstitute.cam.ac.uk/wp-content/uploads/2020/12/Rising_Climate_Falling_Ratings_Working_Paper.pdf . Research commissioned by UN Environment found that climate risks have cost V20 countries over US$40 billion in higher interest payments over a decade (to 2018). This figure is projected to increase to between US$136 and US$168 billion over the next decade. – see Buhr, B. and Volz, U. (2018), "Climate Change and the Cost of Capital in Developing Countries", UN Environment, https://unepinquiry.org/publication/climate-change-and-the-cost-of-capital-in-developing-countries/ p.25

further measures are needed to counteract the root causes of debt distress, including the fact that the most climate vulnerable countries have to pay considerably more to access finance.[iv] The prevalence of loans in climate finance, including from major donors such as France and Germany, has further increased the debts of recipient countries.

- *Tax reform*. New measures are needed "to prevent tax avoidance, tax evasion and illicit financial flows that limit developing countries' ability to collect revenue and make finance flows consistent with climate and development goals."[28] These should be embedded within a new UN Tax Convention, as proposed by African states and supported by other developing countries.[29] Unfortunately, the European Union continues to undermine efforts to create such a body.[30] The EU should respect the landmark UNGA vote on November 22nd 2023 and put their efforts behind ensuring an effective UN Tax Convention is agreed, which empowers and resources the UN to set and enforce fairer global tax rules.

- *Trade and technology transfer.* The current trade system deepens global economic inequalities and should be reformed to ensure that fair salaries and labour standards are protected, gender equity is increased, and environmental integrity is upheld, with supply chain controls preserving production that is sustainable and human-rights based.[31] Access to technology is another key pillar in ensuring financial flows are consistent with the Paris Agreement goals. Technology transfer, including for the urgent shift to renewable energy, is essential.

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KEY POLITICAL DEBATES ARISING FROM ARTICLE 2.1C

While effective implementation of Article 2.1c is needed to prevent the world breaching the threshold of 1.5°C warming, two key disputes threaten to derail this opportunity at COP28.

Firstly, the lack of implementation of the 2.1c goal so far demonstrates that countries will need to engage in common internationally-agreed actions at a sufficient scale to transform the financing of a global economy, such as by setting deadlines for public financial institutions to remove support for activities not consistent with the Paris Agreement.[32]

The Like Minded Developing Group of countries (LMDC) however hold that Article 2.1(c) should only be implemented via a "a bottom-up, non-prescriptive and nationally determined approach."[33] As such, they claim that "instituting global policies, strategies, regulations and actions plans to direct global financial flows in a manner that prejudices nationally determined policies is incompatible with and reciprocal to the decisions and principles of the Convention and its Paris Agreement."[34] Under this reading, "Article 2.1c is an aspirational goal that cannot be achieved with a one- size-fits-all solution or by entertaining policy-prescriptive discussions at the international level."[35] However it is difficult to see how a transformation of the world's financial flows to align with a low greenhouse gas emissions pathway might be achieved without common actions at international level.

The second point of tension around Article 2.1c is the EU's efforts under the NCQG negotiations to muddy the waters between the two distinct tasks of ending finance flows to the industries that are driving the climate crisis (Article 2.1c), and the EU's own obligations to provide climate finance (Article 9). While the regulation of global finance to stop the expansion of fossil fuels and industrial agriculture is necessary, any achievement in this area must not be treated as a substitute for developed countries' provision of grant-based finance to countries on the front lines of the climate crisis. We need to fix the harmful finance flows under Article 2.1c, and scale up climate finance for solutions under Article 9.

BOX 2: THE ROLE OF AGRICULTURE IN 2.1C

Industrial agriculture is the second-largest contributor to climate change, and industrialised approaches marketed and controlled by giant agribusiness corporations are responsible for the bulk of emissions in the sector.[36] These industrialised agriculture approaches drive deforestation, aggressively market agrochemicals that lead to large amounts of greenhouse gas (GHG) emissions and expand factory farming. Indeed, the industrialised food system is estimated to use at least 15% of the world's fossil fuels.[37] They also undermine billions of smallholder farmers and their agroecological farming systems which could otherwise feed the world while cooling the planet.

While there is considerable discussion of using Article 2.1c to shift harmful fossil fuel subsidies, the damaging role of subsidies to industrial agriculture should also be considered. Domestically, the EU should reform its Common Agricultural Policy to link subsidies more strictly to sustainable agricultural practices.[38] Internationally, it should encourage subsidy shifts and public funding that encourages an equitable transition to agroecology, and at the same time increase financing for greater resilience in the face of climate change impacts, which are already contributing to greater food insecurity.[39]

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SECTION 2. EU FINANCE FLOWS AND THE ROLE OF BANKS

Despite the EU's apparent efforts to strengthen Article 2.1c implementation and align the world's financial flows with climate action instead of climate destruction, these calls are not matched with the EU's own efforts at home. European financial institutions are fuelling the climate crisis by providing hundreds of billions of dollars to activities fuelling the climate crisis.

The expansion of fossil fuels and harmful industrial agriculture in the Global South is harming the communities that have done the least to cause the climate crisis, by driving deforestation, land grabs, water pollution and loss of livelihoods – all compounded by the injustice of disproportional climate change impacts.

New ActionAid data finds **that banks headquartered in the EU provided US$327.15 billion in loans and underwriting for fossil fuel and industrial agriculture activities in the Global South in the seven years since the Paris Agreement was signed.** This included **US$239.63 billion in fossil fuel** financing and **US$87.42 billion in financing for industrial agriculture** in the Global South between 2016 and 2022. The largest EU-based banks financing fossil fuels and industrial agriculture in the Global South in the 7 years since the Paris Agreement were BNP Paribas (US$49.55 billion), Société Générale (US$41.7 billion) and Crédit Agricole (US$37.57 billion), all of which are headquartered in France. Table 3 shows the top 10 EU financiers of fossil fuels and industrial agriculture in the Global South since the Paris Agreement. BNP Paribas and Crédit Agricole are also the largest EU banks.[40] However, the figures on financing for fossil fuel and industrial agriculture do not simply correspond to the size of the banks, with Société Générale, Deutsche Bank and ING Group all ranking higher for financing these climate-damaging activities than their relative size compared to other EU banks.

Since the Paris Agreement, **EU banks have provided an annual average of US$46.74 billion** (€40.2 billion) **in fossil fuel and industrial agriculture financing in the Global South.**

Over the same time period, the According to the EU's own figures, based on official reporting that includes non-concessional loans, the EU contributed on average US$20.62 billion (€18.2 billion) in climate finance per year.[v]

However, if the **EU's climate finance contribution is considered in grant equivalent terms, this averages as just US$11.26 billion (€9.7 billion) per year.[41]**

Put simply, since the Paris Agreement, **EU banks have provided over 4 times more financing to fossil fuels and industrial agriculture activities in the Global South than the EU and its Member States have provided in real value climate finance to countries on the front lines of the climate crisis.**

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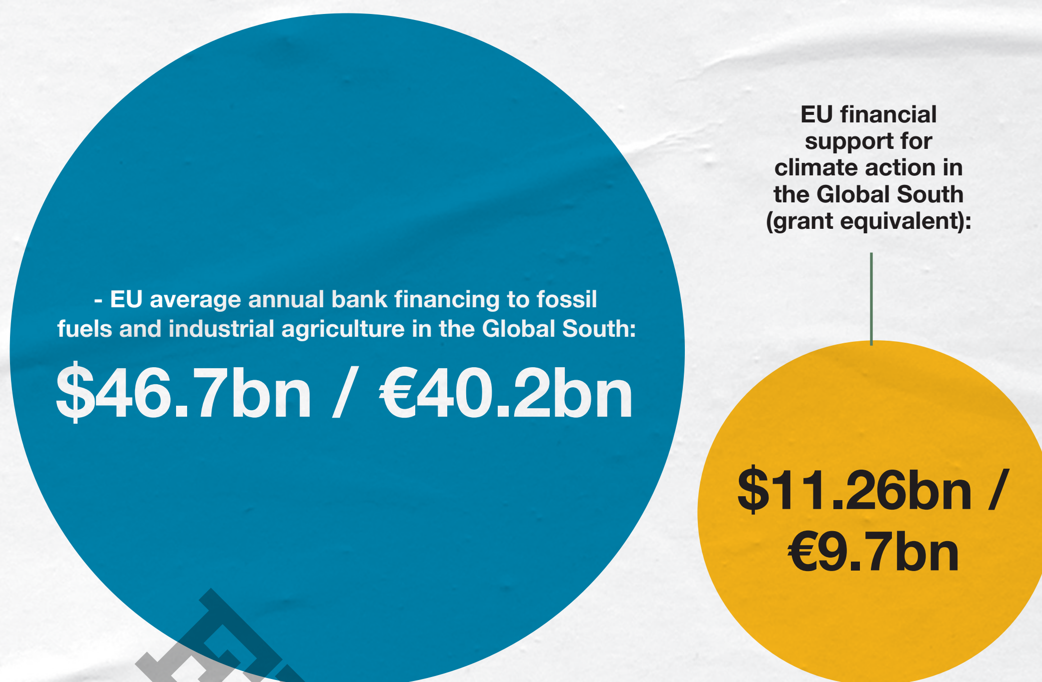
v. European Council (2022) "Europe's contribution to climate finance (€bn)", https://www.consilium.europa.eu/en/infographics/climate-finance/ 2016-2021. At the time of publication, the 2022 figure was not available. These figures have been adjusted to remove the UK contribution. As discussed above, these official EU figures include a considerable proportion of loan financing means the actual benefit accrued by developing countries is lower. See ACT Alliance (2021).



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Although our data is focused only on fossil fuels and industrial agriculture, research in Sweden suggests that banks are failing to promote a just transition across all economic sectors. The Stockholm Environment Institute (SEI) mapped the lending, underwriting and asset portfolios of five leading Swedish banks, finding that financing to highly emitting sectors had increased since 2016. While the scale of lending and bond issuance for "green" sectors also increased, this remained small compared to the scale of the financing to high-emitting sectors.

By any measure, the EU's finance institutions are failing to deliver on the Paris Agreement's 2.1c goal of realigning finance flows – and the planet is paying the price.

Table 1. Top EU banks financing fossil fuels and industrial agriculture in the Global South, 2016-2022

Bank	Country	Fossil fuels	Industrial agriculture	Total (US$ billions)
BNP Paribas	France	36.530	13.018	**49.55**
Société Générale	France	36.305	5.396	**41.70**
Crédit Agricole	France	31.279	6.288	**37.57**
Deutsche Bank	Germany	23.908	8.073	**31.98**
Santander	Spain	19.609	6.040	**25.65**
ING Group	Netherlands	13.386	7.750	**21.14**
UniCredit	Italy	11.914	6.484	**18.40**
Groupe BPCE	France	13.729	4.238	**17.97**
Rabobank	Netherlands	3.601	9.961	**13.56**
Intesa Sanpaolo	Italy	9.178	2.768	**11.95**

Lurking behind these numbers are billions in financing to some of the world's biggest climate polluters, and some of the world's biggest fossil fuel expansion projects ("carbon bombs"). Deutsche Bank directly or indirectly finances 83 carbon bombs with an estimated potential emissions of 272.3 GtCO2, while BNP Paribas directly or indirectly provides financing for 59 carbon bombs, with an estimated emissions potential of 216.9 GtCO2.[43] The following are some of the many examples of EU banks investing in these destructive projects and companies.

CARGILL

BNP Paribas is the largest financier (US$3 billion) of Cargill's activities in the Global South, and the company also received considerable financing (US$2.25 billion) from Deutsche Bank since 2016. Cargill is Brazil's second largest soy exporter and has been repeatedly linked with deforestation in the Amazon and Cerrado in Brazil, and has been accused of trading soy produced on conflicted territories.[44]

ENI

Italian oil and gas major Eni receives most of the financing for its activities in the Global South from European banks. From 2016 to 2022, this includes UniCredit (US$4.01bn), Intesa Sanpaolo (US$3.45 bn), BNP Paribas (US$3.19 bn) and Crédit Agricole (US$3.03 bn).

Although Eni claims that it will transform its business to reach "carbon neutrality by 2050", the reality is that the company is continuing to prioritise oil and gas investments.[45] Eni ranks as one of the world's largest expanders of oil and gas in 2023.[46] Eni is already the second largest oil and gas producer in Africa and it is driving a further "dash for gas" across the continent, which African civil society leaders have denounced as "dangerous and short sighted."[47]

Eni's activities in Africa include considerable investments in Egypt (despite human rights concerns), Mozambique, Angola and Libya.[48] It is also partnering with ADNOC in the development of two large fields in the United Arab Emirates, the host of the 2023 UN climate conference.[49]

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MARFRIG

Spain's Banco Santander is the largest international financier of Brazilian meat producer Marfrig, providing it with just over US$1 billion in loans and underwriting since 2016. BNP Paribas, which underwrites several bonds issued by Marfrig, is also facing a legal challenge for providing financial services to the company.[50] Marfrig has been accused of failing to remove vast swathes of deforested Amazon land from its supply chain, as well as Indigenous land rights violations and slave labour.[51]

TOTALENERGIES

TotalEnergies receives much of the financing for its activities in the Global South from French banks, including Société Générale (US$2 billion since 2016), Crédit Agricole (US$1.99 billion) and BNP Paribas (US$1.87 billion).

TotalEnergies ranks third globally in terms of oil and gas expansion, having approved new oil and gas fields containing more than 1.2 billion BOE of reserves, including 13 massive 'carbon bomb' projects.[52] It is developing more new oil and gas resources in Africa than any other company, and also has major new projects under development in Argentina, Brazil, Qatar and Papua New Guinea.[53]

TotalEnergies is the lead shareholder in the controversial East African Crude Oil Pipeline from Uganda to Tanzania. TotalEnergies is also leading the development of Mozambique LNG, which has displaced hundreds of families without adequate compensation.[54]

SECTION 3. EU POLICY FRAMEWORKS

WHAT IS THE EU DOING TO SHIFT PRIVATE FINANCIAL FLOWS?

The EU has correctly recognised that achieving the goals set out in Article 2.1(c) requires "a reform of the economy and the financial sector placing consistency with the Paris Agreement at its core."[55] Yet its own domestic policies and actions, and those of EU member states, fall a long way short of meeting this goal.

European banks are a long way short of meeting even their existing commitments to report on climate-related and environmental risks, let alone shifting their portfolio away from high emitters, as reflected in the fact that billions of euros per year are still flowing to fossil fuel and industrial agriculture expansion in the global South.[56] The underlying issue here is a lack of regulation that seeks to directly rein in lending to fossil fuels, industrial agriculture and other high-emitting sectors – such as a requirement that banks publish and follow credible transition plans consistent with the Paris Agreement.[57]

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MARKET AND 'DE-RISKING' MEASURES NOT WORKING

The EU's focus has been on market-driven and 'de-risking' measures that assume private actors will be the beneficent drivers of an enlightened climate transition, just as long as they simply have the right information and can follow appropriate price signals. This naïve approach is not working within the EU and other industrialised countries, where a market-driven approach has "not succeeded in materially shifting financial flows away from transition-incompatible activities and towards green investment."[58]

And it is not working for the Global South either. While banks based in the EU and other countries continue to finance fossil fuel expansion in the Global South and other extractive industries, they have done little to invest in the climate transition. As noted by the IPCC in its Sixth Assessment Report, although "markets for green bonds, ESG (environmental, social and governance) and sustainable finance products have expanded significantly" in recent years, there remains "limited applicability of these markets to many developing countries."[59] For example, the Climate Bonds Initiative reports that two-thirds (67%) of green bonds issued in 2022 were issued in developed markets, compared to 23% in "emerging markets", with this latter figure is dominated by China.[60] Only US$4.7 billion in green bonds were issued in Africa in 2022, and US$37.5 billion in Latin America, representing <1% and 7.5% respectively of the US$487.1 billion in green bonds issued globally that year.[61] According to HLEG, although "green, social, sustainable, and sustainability-linked (GSSS) bonds in LMICs [Low and middle income countries] have experienced growth in recent years" these still represent "a small fraction, approximately 3% of the global market for thematic bonds."[62] Likewise, the private sector does very little to finance adaptation.[63]

STRATEGY FOR FINANCING THE TRANSITION TO A SUSTAINABLE ECONOMY

In July 2021, the European Commission published its Strategy for Financing the Transition to a Sustainable Economy, which builds on the 2018 Action Plan for Financing Sustainable Growth.[64] The three central

elements of this strategy are the EU Taxonomy for Sustainable Activities, which classifies what counts as "sustainable" and requires banks and larger companies to disclose how many of their assets fit this description; a mandatory disclosure framework, enacted through the Sustainable Finance Disclosure Regulation (SFDR) and Corporate Sustainability Reporting Directive (CSRD); and investment tools and benchmarks, notably the green bond standard.[65] In addition, a proposed directive on Corporate Sustainability Due Diligence could complement these measures by establishing a duty for companies to prevent adverse human rights and environmental impacts in their own operations [and across their value chains], although EU member states are currently disputing the extent to which this will include financial institutions.[66]

Although it is too soon to fully assess the impact of the EU Taxonomy, SFDR and CSRD, as all were adopted only recently, early indications show that they have failed to make a meaningful impact. There remain very few investment funds with a clearly defined sustainable investment objective (Article 9 funds, which account for just 3.5% of the whole market), and a majority of these funds (71%) have no Taxonomy-aligned investments at all, which implies that there may be significant 'greenwashing' in this sector, as well as issues with how sustainability is defined.[67] There also remain considerable failings in how banks identify risks, with the ECB finding that "almost all banks (96%) have blind spots in identifying [climate risks]".[68] As such, the EU should avoid simply exporting its market-driven approach to changing the financial sector into discussions on Article 2.1c.

The roll out of the EU Taxonomy, which provides a classification system for "sustainable" economic activities, has been particularly problematic. The Taxonomy is intended to provide investors with a standardized and simplified framework for disclosures, but it has been fatally undermined by the inclusion of gas and nuclear (at the insistence of Germany and France respectively). The claim that gas might be considered a "transition" fuel has been widely debunked, while it is also clear that nuclear energy fails to meet the Taxonomy's environmental objectives.[69] The EU Commission's own expert panel on sustainable finance called for gas and nuclear to be excluded from the taxonomy, but it was ignored.[70]

The inclusion of fossil gas and nuclear energy in the Taxonomy has undermined its international relevance. With at least 29 taxonomies initiated globally, and a diversity of standards and disclosure requirements, the EU's High-Level Expert Group on Scaling Up Sustainable Finance in Low- and Middle-income Countries has warned of an "increasing risk of fragmentation and unnecessary complexity."[71] Beyond this lack of clarity, the EU has set a standard that falls a long way short of compatibility with the Paris Agreement, reducing the chance that common requirements or inter-operable taxonomies defining "sustainable" investments would be compatible with achieving a 1.5C temperature goal.

Complementing the Taxonomy, the CSRD (which entered into force in January 2023) and the SFDR (in force since March 2021) create a sustainable basic framework for the financial sector. While these measures are contributing to improvements in disclosure, it remains the case that "few companies have yet succeeded in implementing climate reporting effectively across the entire spectrum of their activities."[72] In particular, the limited scope of the CSRD is problematic, since it applies only to larger companies and offers no means "to lift SMEs…onto a Paris-compatible path."[73]

Making finance "sustainable" involves more than just addressing direct climate impacts and should also contribute to positive social outcomes – including gender equity – within a human rights-based framework. Although financial institutions do not directly commit environmental or human rights violations, they nevertheless facilitate and fund business activities that do.[74] For this reason, *the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises* make clear that human rights due diligence obligations should apply to the financial sector. It is equally **vital that the EU's proposed Corporate Sustainability Due Diligence Directive (CSDDD), which would require company**

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to engage in mandatory human rights and environmental due diligence, explicitly includes all financial institutions that operate within the EU.[75] As currently proposed, this is not the case, with the European Council suggesting that it should be up to individual member states to decide whether to include financial institutions – even though this could result in no countries opting into this measure.[76] Some countries have also proposed to include only some financial institutions but exclude asset managers. There are also concerns that the CSDDD may require financial institutions to conduct only pre-investment due diligence (rather than assessments through the lifetime of an investment), and may exclude their full value chain, both of which positions fall short of existing international standards such as those set out by the UN Guiding Principles.

The CSDDD proposal also needs strengthening in critical areas, providing a comprehensive list of environmental impact categories that it would cover (as proposed by the European Parliament, and as incorporated in the latest OECD Guidelines for Multinational Enterprises).[77] The proposed Directive should also clearly define climate due diligence within the overall approach to environmental due diligence, with a requirement for companies to set out time-bound targets (including interim goals) that are consistent with the goal of limiting global warming to 1.5C.[78] Such plans should be required of all companies covered by the Directive, not just large firms.

As part of its *Strategy for Financing the Transition to a Sustainable Economy*, the European Commission is also committed to developing a "comprehensive strategy" to help Low- and Middle-Income Countries (LMICs) scale up access to sustainable finance.[79] However, progress has been slow, and so far amounts to little more than establishing a High Level Expert Group (HLEG) in September 2022 to examine the matter, comprised mostly of financial sector representatives. Some of the HLEG's *Preliminary Findings and Recommendations*, published in June 2023, are welcome. For example, the HLEG notes the importance of "meaningful debt restructuring and debt relief", a step in the direction of the debt cancellation that would be far more effective, and has stressed the importance of support for lending in local currencies, such as through the "creation of a sizeable EU-led sustainable finance local currency facility."[80] The aim of such measures is to ensure that LMIC countries do not carry most of the "currency risk" associated with exchange rate fluctuations, as is currently the case, a situation that can lead to spiralling costs of loan repayments that amplify the most vulnerable countries' debts.

For the most part, however, the HLEG recommendations are underwhelming, and sometimes problematic. For example, it promotes privatization ("existing public infrastructure can be sold or leased to private parties, monetizing the value of those assets for the government") which, amongst other issues, can result in significant price hikes and/or cut of accessibility by the poorest consumers of basic services, including electricity and water supplies.[81] The HLEG also places considerable emphasis on the role that "de-risked public private funds" could play to encourage EU institutional investors into LMICs, but the scale of such arrangements so far (coordinated through MDBs/DFIs) is modest, and tends to be concentrated in a handful of well-established markets in "middle income" countries.

Ultimately, for all the talk of private finance being at the heart of "shifting the trillions", clean and low-carbon investments in large parts of the Global South do not happen without the involvement of public finance. Banks and other private investors have shown themselves interested only in extractive industries in much of the world, funding precious little in the way of clean energy or other activities that contribute to a climate transition, and providing almost no financing for adaptation. As Joseph Feyertag and Nick Robins of the Grantham Institute note, "it is not possible to realign finance flows where they hardly exist in the first place."[82] As such, there must be a step change in the scale of public climate finance provided by the EU and other developed countries, in accordance with the latest science and the needs identified by developing countries in their NDCs.

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#FundOurFuture activists in Denmark calling for finance flows to stop fuelling the climate crisis.
CREDIT: ActionAid Denmark

SECTION 4. CONCLUSIONS AND RECOMMENDATIONS

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European banks continue to fuel the climate crisis, channelling hundreds of billions of dollars to fossil fuels and harmful industrial agriculture. This bank financing is 4 times the amount of grant-equivalent climate finance that the EU and its Member States provide to the Global South.

A range of ambitious and urgent measures are needed if the world is to have a chance of limiting average global warming to 1.5°C, as noted above (see "Measures to align finance flows with climate action").

In order to advance the implementation of Article 2.1c at UN COP28 climate negotiations and other UN-led and international initiatives, the EU should:

- Back the rapid, equitable, just and fully-financed phase out of fossil fuels and fossil fuel subsidies globally
- Provide significantly higher levels of grant-based climate finance, and greater transparency in accounting. The EU and its Member States should contribute their fair share of public, grant-based finance as commitments under Article 9.1 of the Paris Agreement, and these contributions should not be conditional on Article 2.1c decisions.
- Avoid instrumentalising the debate on 2.1c to evade its own responsibilities to meaningfully scale up public climate finance provision as part of the negotiation on post-2025 climate finance. To this end, there should be a 'firewall' between negotiations on the New Collective Quantified Goal (NCQG) on climate finance and Article 2.1c activities.
- Before seeking an agenda item on 21c, the EU should use current opportunities both to clarify its ambition in terms of future public climate finance provision and its approach specifically on 2.1c as part of the Sharm El Sheikh Dialogue and the Global Stocktake.
- Take a lead in debt cancellation and restructuring, and provide support for a permanent international debt workout mechanism.
- Support the creation of a UN Tax Convention that could take a lead in preventing tax avoidance and evasion, and illicit financial flows.

- The EU should use its voting rights to exclude financial support to fossil fuel from MDBs.
- Use spaces like the Coalition of Ministers for Finance Action to further progress on implementation in national policies through e.g. best practice sharing/knowledge/capacity building

The EU's own domestic focus on risk disclosures, classification and loose guidance falls way short of the regulatory agenda that is actually needed to phase out financing to fossil fuels and industrial agriculture, and set private finance on a course consistent with 2.1c. Experience has shown that financial institutions will not voluntarily clean up their act. While public pressure has forced some policy changes and divestment, many of the changes needed to ensure that banks act consistently with Article 2.1c will require new and binding financial regulations (not voluntary guidance) as well as ambitious climate goals on the part of the EU and its member states. The EU's domestic regulatory agenda should support efforts to Immediately end bank lending and underwriting for corporations involved in fossil fuel expansion, and to end lending and underwriting to industrial agribusiness corporations proven to be driving deforestation and land grabs. These measures should include an end to both general corporate financing and project financing, and should be applied to the whole corporate group.

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The EU's own regulations, policies and measures, and those of Member States, should therefore:
- Take action to stop all remaining fossil fuel subsidies in the EU by 2025, as well as reforming agriculture subsidies (under the Common Agriculture Policy) to be linked strictly to sustainable agricultural practices.[83]
- Phase out lending to fossil fuels and harmful industrial agriculture by all EU-based public finance institutions, including development finance and export credit agencies of EU member states, with immediate steps to end lending to fossil fuel expansion and deforestation.
- Rapidly phase out private finance lending that supports fossil fuel expansion. This could be achieved by increasing the capital requirements on banks for existing and new fossil-fuel or industrial agriculture exposure, to reflect the very real risks of holding onto "stranded assets."[vi]
- Require banks and other financial institutions to develop climate transition plans consistent with a 1.5°C climate goal.[vii] Although some EU laws (CSRD, Solvency II and CRD/CRR) have already introduced transition plans to a limited extent, these are not binding and they are not standardized. The CSDDD should introduce ambitious transition plans that are mandatory, meaning they should be monitored and subject to sanctions for non-compliance. These should cover scope 1, 2 and 3 of a financial institution and its clients' emissions – scope 3 being particularly important as it refers to the greenhouse gases emitted by the businesses or projects that a bank or other financial institution finances, invests in, or underwrites.[viii] Transition plans should include science-based short, medium and long-term absolute emissions reduction targets, and sector-specific and time-bound measures for the phase out of harmful agribusiness and fossil fuel financing. They should exclude unproven carbon removals technologies, tree plantations, and carbon offsets.
- Fully include banks and other financial institutions in the Corporate Sustainability Due Diligence Directive (CSDDD), requiring them to implement mandatory human rights and environmental due diligence both prior to financing decisions and at regular intervals during the financing period. Due diligence checks should extend to financial institutions' full value chains, and should include a requirement for companies to implement climate transition plans consistent with a 1.5C climate goal.
- Revise the EU Taxonomy to exclude gas and nuclear energy.
- Support the creation of a of a significant sustainable finance local currency facility, to ensure that countries in the Global South do not carry most of the currency risk associated with exchange rate fluctuations, which can lead to spiralling costs of loan repayments.

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ANNEX

Scandanavia

Bank	Country	Fossil fuels	Industrial agriculture	Total (US$ billions)
DNB	Norway	1,426	319	**1,745**
Skandinaviska Enskilda Banken	Sweden	157	754	**911**
Danske Bank	Denmark	38	404	**441**
Sparebank 1 SR Bank	Norway	165		**165**
ABG Sundal Collier Holding	Norway	128		**128**
Pareto	Norway	128		**128**
Carnegie Holding	Sweden	128		**128**
Svenska Handelsbanken	Sweden	0	107	**107**
Nordea	Finland	77		**77**
Jyske Bank	Denmark	30		**30**
LEAP	Sweden	8		**8**
Total		2,284	1,584	**3,868**

Italy

Investor Parent	Fossil fuels	Industrial agriculture	Total (US$ billions)
UniCredit	11,914	6,484	**18,398**
Intesa Sanpaolo	9,178	2,768	**11,946**
Mediobanca Banca di Credito Finanziario	1,036		**1,036**
Cassa Depositi e Prestiti	653		**653**
Banco BPM	178		**178**
BPER Banca	178		**178**
Total	23,138	9,252	**32,390**

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ADDITIONAL DATA INPUTS: OXFAM AND INKA
ACKNOWLEDGEMENTS AND THANKS: DAVID ARCHER, JAVIER GARCIA, KATRINE ENHUUS, MAGNUS JENSEN NIELSEN, PAULA CASTRO (ACTIONAID), RACHEL SIMON (CAN-EUROPE), MARIANA PAOLI (CHRISTIAN AID)

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September 2023