

# Options for embedding Article 2.1c in the New Collective Quantified Goal on climate finance

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## Key messages

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Article 2.1c, the third long-term goal of the Paris Agreement recognises the full effort needed to finance climate change adaptation and mitigation. However, a lack of a shared understanding of what this climate-consistent finance goal entails, how to measure it, or how responsibility for its achievement will fall on nation states or private actors has hindered discussions on how to turn this goal into practice.

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The nationally driven spirit of the Paris Agreement will likely mean that climate-consistent finance flows will be determined by countries based on their national circumstances and priorities.

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Developing countries have raised concerns that efforts to integrate Article 2.1c into the NCQG discussion risks distracting from the provision and mobilisation of climate finance in favour of domestic policy and finance flow shifts, or add conditionalities to climate finance that is provided. There is also a fear of double-standards in the pursuit of Article 2.1c as many high-income countries continue to support high-emitting sectors and activities, both domestically and internationally

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Despite challenges, there are options to embed Article 2.1c in the NCQG decisions where it includes reassurances on the continued provision and mobilisation of climate finance from developed to developing countries. Moreover, it offers support to engage in financial strategies, plans and taxonomies, but without making this a precondition for wider climate finance access. The roles of UNFCCC-linked climate funds and ecosystem of actors could also be signaled in the NCQG process, while official links to other processes that tackle Article 2.1c would reduce the requirement for the NCQG to serve the need for all countries and institutions to make finance flows consistent with climate objectives.

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## **About the author**

As part of the Climate and Sustainability Programme, Charlene Watson's work at ODI focuses on the flows, sources, modalities and instruments of climate finance access, provision and mobilisation at both the national and international level. Within this her work considers both the quantity and quality of climate finance and the incentives established that can help or hinder the climate-consistency of all finance flows.

# Contents

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Acknowledgements.....	4
Contents .....	5
Acronyms.....	6
Executive summary .....	7
1 Context .....	10
2 Challenges to operationalising 2.1c.....	12
Figure 1 Government tools to shift and mobilise finance towards climate objectives 14	
3 Supporting narratives towards operationalising Article 2.1c.....	18
4 Article 2.1c in the NCQG .....	21
5 Conclusion.....	26
References .....	27

# Acronyms

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AILAC – Independent Alliance of Latin America and the Caribbean

AGN – African Group of Negotiators

BA – Biennial Assessment and Overview of Climate Finance Flows

CMA – Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (i.e. Parties that have signed and ratified the Paris Agreement)

COP – Conference of the Parties (to the UNFCCC)

ETF – Enhanced Transparency Framework

GST – Global Stocktake

EU – European Union

ICAI – Independent Commission for Aid Impact

MDBs – Multilateral Development Banks

NDC – Nationally Determined Contributions

NCQG – New Collective Quantified Goal

NPS – Non-Party Stakeholders

ODA – Official Development Assistance

OECD – Organisation for Economic Co-operation and Development

SCF – Standing Committee on Finance

TED – Technical Expert Dialogue

UNFCCC – United Nations Framework Convention on Climate Change

# Executive summary

Article 2.1c, the third long-term goal of the Paris Agreement, recognises the full effort needed with respect to finance when it comes to addressing climate change adaptation and mitigation. It seeks to make finance flows consistent with low-emission, climate-resilient sustainable development pathways. Despite being established in 2015, the lack of a shared understanding of what this climate-consistent finance goal entails, how to measure it, or how responsibility for its achievement will fall on nation states or private actors has hindered discussions on how to turn this goal of the Paris Agreement into practice.

The topic of how climate finance mobilised and provided by developed countries can support developing countries to pursue Article 2.1c is gaining attention. Deliberations for a New Collective Quantified Goal (NCQG) on climate finance were set in motion at the end of 2021, with decision text to be agreed at the end of 2024. The nationally driven spirit of the Paris Agreement will likely mean that what climate-consistent finance flows are considered to be will be up to country-interpretation based on national circumstances and priorities, but so far developing countries have raised concerns that any effort to steer the NCQG discussion to integrate Article 2.1c will risk distracting from the provision and mobilisation of climate finance in favour of domestic policy and finance flow shifts, or add further conditionalities to climate finance provided. There is also a fear of double-standards in the pursuit of Article 2.1c, with many developed countries continuing to support high-emitting sectors and activities, both domestically and internationally.

Despite challenges, this working paper identifies five options for embedding Article 2.1c in the NCQG decision text:

- 1. Include reassurances on the continued provision and mobilisation of climate finance from developed to developing countries and clarity on the objective of the NCQG** – in light of the perceptions of double standards and the concerns that Article 2.1c will be used as a distraction from the provision of climate finance from developed to developing countries, any inclusion of Article 2.1c in the final NCQG decision text will rely on the presence of strong reassurances regarding climate finance provision to be made by developed countries. These could include reaffirmations that climate-consistency of finance flows are pursued in all countries, with developed countries taking the lead.
- 2. Offer support for developing countries to engage in financial strategies, plans and taxonomies, without making these a precondition for support** – the pursuit of Article 2.1c requires a range of levers to be employed simultaneously and in a coordinated fashion, and a broad consideration of the range of incentives that drive finance flows. These extend into the role of laws, how taxes and subsidies change prices, and how soft laws and information instruments affect

decision-making, all in recognition of the differences in national market structures and costs of capital. Decision text of the NCQG could refer to modalities by which developing countries are supported to develop financial strategies towards operationalising Article 2.1c that interact with economic growth, macroeconomic stability and other country-led priorities, but that do not introduce conditionalities on climate finance access.

- 3. Recognise and elaborate the role of the operating entities of the Financial Mechanism of the UNFCCC and other UNFCCC-linked funds in meeting Article 2.1c** – with interlinkages between the policy environment, the action of corporations and the flow of finance increasingly understood, the pursuit of Article 2.1c could reinforce emerging developing country needs determination, engaging capacity, technology *and* finance, as well as centralising enabling policy, legal and regulatory frameworks: ultimately making climate finance more efficient and effective at achieving climate change mitigation and adaptation outcomes. One option would therefore be for the NCQG to mandate one or more of the UNFCCC-linked funds to support efforts to operationalise Article 2.1c and orient results frameworks and operations to this end.
- 4. Recognise the role of wider actors and provide strong signals for them** – the range of actors that will need to be engaged to operationalise Article 2.1c is broad. Meeting the climate change mitigation and adaptation goals of the Paris Agreement requires fundamental transformation in the global economy, financial markets and investments. With the interlinkages between climate change action and structural inequities in the financial system increasingly being acknowledged, while the UNFCCC cannot deliver formal mandates to this breadth of actors, the NCQG decision text could provide strong and clear political signals and calls to action to specific stakeholder groups.
- 5. Make links in the NCQG and its dealings with 2.1c to other agenda items and UNFCCC processes** – the NCQG on climate finance is seen by many, though not all, to focus on the provision and mobilisation of climate finance from developed to developing countries. The NCQG process is therefore unlikely to serve the need to ensure all countries and their institutions need to make finance flows climate-consistent and how progress can be measured and accounted for. The NCQG decision text can, however, make reference to other processes that may emerge – such as a 2.1c agenda item and workplan – or to existing processes such as the Global Stocktake and Enhanced Transparency Framework that already have mandates to assess collective progress towards the long-term goals of the Paris Agreement or could include provisions to detail action taken and support provided and mobilised for Article 2.1c, respectively.

Article 2.1c speaks to using all means necessary to move faster and further than we are currently with mitigation and adaptation. No country or institution has yet achieved a complete system of climate-consistent finance flows and there remains space for both learning and guidance to ensure integrity of commitments and actions. Unlocking the discussion on exactly what Article 2.1c entails, and for whom and when, would likely go a long way to unlocking the options for Article 2.1c to appear in the NCQG. With two years remaining of the NCQG technical expert dialogues, this working



paper is intended to stimulate dialogue that will evolve as deliberations and wider guidance on the operationalisation of Article 2.1c evolve, seeking to accelerate this dialogue before an opportunity is missed.

# 1 Context

Article 2, paragraph 1(c) of the Paris Agreement – referred to in this paper as Article 2.1c – states that the Paris Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by ‘making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development’.

Article 2.1c, the third long-term goal of the Paris Agreement, broke new ground by reflecting the full effort needed with respect to finance when it comes to addressing climate change. It is integral to the achievement of Articles 2.1a and 2.1b: holding global average temperature to well below 2° Celsius and pursuing efforts to limit the temperature increase to 1.5° Celsius above preindustrial levels, and increasing the ability to adapt to the adverse impacts of climate change, respectively.

No shared understanding exists of what the third long-term goal of the Paris Agreement entails (UNFCCC, 2021; UNFCCC, *forthcoming*; Bodle and Noens, 2018). As a result, discussions are stuck in terms of:

- **The degree to which national action contributes towards collective progress towards the implementation of Article 2.1c** – climate consistency of finance flows is the third long-term goal of the Paris Agreement, and as such it is a goal that all Parties to the Paris Agreement have endorsed, but it is *not* established as a goal of individual Parties per se. As such, it remains unclear how Parties, and public and private actors at the national level, contribute to and are responsible for achieving Article 2.1c.
- **How progress towards Article 2.1c will be measured** – no clarity exists on what should be measured or how we will know when Article 2.1c is being implemented and maintained. While the Global Stocktake (GST) is an exercise to assess collective progress towards the purpose and long-term goals of the Paris Agreement every five years (the first of which will be completed at the end of 2023), both national and international metrics are lacking.
- **How climate finance mobilised by developed countries for developing countries<sup>1</sup> can support developing countries to pursue Article 2.1c** – the objective of the New Collective Quantified Goal (NCQG) for climate finance is to serve the objectives of the Convention and to work to implement the Paris Agreement, yet

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<sup>1</sup> And therein linkages to commitments of developed countries under Article 4.3 of the Convention and Article 9 of the Paris Agreement, noting that not all stakeholders assume that the NCQG is rooted in Article 9 and so focused on the provision and mobilisation of resources from developed to developing countries.

there are no options on the table for how climate finance can support this third long-term goal in developing countries.

This working paper addresses this third challenge by identifying concrete ways in which the objectives of Article 2.1c can be embedded in the NCQG on climate finance. It outlines the challenges to operationalising Article 2.1c (Section 2) before offering narratives that seek to allow deliberations despite these challenges (Section 3) and options for including climate consistency in the new climate finance goal deliberations and decisions (Section 4). The paper then briefly concludes. With two years remaining of the NCQG technical expert dialogues,<sup>2</sup> this working paper is intended to stimulate dialogue that will evolve as deliberations evolve.

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<sup>2</sup> Decision 3/CMA.3 in Glasgow established an ad hoc work programme on the NCQG for climate finance from 2022 to 2024 with four Technical Expert Dialogues (TEDs) per year: a total of 12.

## 2 Challenges to operationalising 2.1c

Four challenges to operationalising Article 2.1c are identified in this working paper. 'Operationalising' is taken to mean Parties actively taking steps to climate-align finance flows (and stocks) domestically and internationally, in corporate and multilateral processes, in the real economy and financial system, as well as producing and sharing best practice, towards the ultimate goal of making finance flows consistent with low-emission, climate-resilient development pathways.<sup>3</sup>

*Challenge 1: a lack of common understanding and guidance.*

At COP26, the Standing Committee on Finance (SCF), which assists the Conference of the Parties (COP) in meeting the objectives of the Financial Mechanism of the Convention, was given a mandate by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA)<sup>4</sup> to synthesise submissions from a diversity of actors on ways to achieve Article 2.1c of the Paris Agreement, including options for approaches and guidelines for implementation.<sup>5</sup> A total of 12 submissions are shown on the submission's portal, all but two from Parties and Constituencies. All noted the absence of a common understanding of the scope or definition of Article 2.1c, and reiterated the scale of flows to be addressed under this long-term goal to be substantial. While the submissions agree that domestic and international action is needed, with a variety of actors playing a role – particularly non-state actors – the submissions emphasise different responsibilities for groups of actors. The submissions all refer to or connect Article 2.1c and Article 9 of the Paris Agreement. Finally, the submissions widely call for a process or guiding framework in the United Nations Framework Convention on Climate Change (UNFCCC) context to operationalise Article 2.1c. At COP27, the SCF will further release a report on mapping available information relevant to Article 2.1c.

The SCF was also given a mandate by Decision 4/CP.24 to look at information relevant to Article 2.1c, every four years, in its Biennial Assessment and Overview of Climate Finance flows (BA). The 2020 BA, in

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<sup>3</sup> It is acknowledged that some Parties to the Paris Agreement consider Article 2.1c to be operationalised and therefore focus on its implementation. Here operationalised is used without prejudice to these views, intending to inform action or practice.

<sup>4</sup> While the COP refers to the Conference of the Parties and is the decision-making body for the UNFCCC, the CMA refers to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (those that have signed and ratified the Paris Agreement).

<sup>5</sup> FCCC/PA/CMA/2021/L.11, in paragraph 2, invites Parties, operating entities of the Financial Mechanism, international financial institutions and other stakeholders in the financial sector to submit views regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation, by 30 April 2022, and requests the Standing Committee on Finance to submit a synthesis for consideration by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fourth session (November 2022).

a separate chapter, mapped information relevant to Article 2.1c given the absence of a common vision. It highlighted the policies and measures relating to long-term strategies and domestic policy frameworks that held relevance to the goal, and outlined the actions of public and private sector institutions towards alignment with the Paris Agreement. It concluded that a number of practices, coalitions and initiatives that contribute to this goal predate the Paris Agreement; however, the Agreement has triggered a focusing of action towards Article 2.1c, though with a strong focus on low-emissions investments rather than alignment with climate resilience goals. An outstanding challenge was the poor ability to assess the real-economy impact of these practices, coalitions and initiatives and a related risk of greenwashing (UNFCCC, 2021).

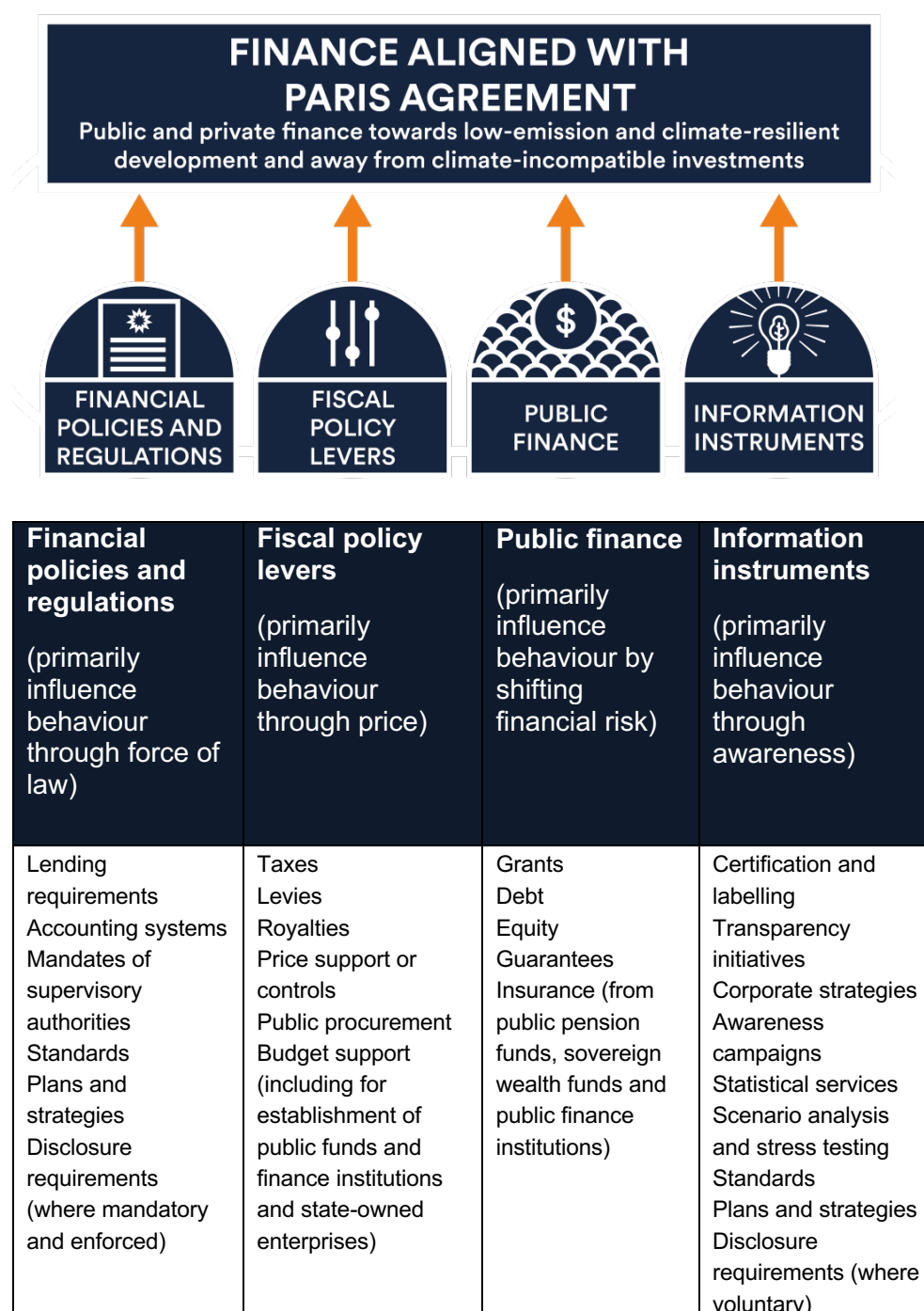
The wider literature on operationalising Article 2.1c has taken principle-based approaches. Cochran and Pauthier (2019) suggest that alignment with the Paris Agreement and its long-term goals is generally understood to involve a requirement to go beyond a 'do no harm' and mainstreaming of climate change approach. This means that the climate consistency of finance flows is not only about screening out activities that increase or lead to unnecessary emissions or higher risks of adverse impact of climate change, but also about making a positive contribution to the urgent system-wide transformations that are needed to achieve low-emission, climate-resilient pathways to development. This is echoed by the Organisation for Economic Co-operation and Development (OECD, 2019) in its call to align development cooperation with climate action, stressing that Paris alignment would require integrated action via finance, policy support and capacity-building.

Some specific institutions have moved forward on operationalisation. The multilateral development banks (MDBs) (World Bank 2018) have a 'building blocks' approach to Paris alignment, though it is focused on direct project financing and does not consider indirect investments channelled through financial intermediaries (Fuchs et al., 2021). The UK – following its 2019 commitment to Paris-align its Official Development Assistance (ODA), has developed four programme-level tools for Paris alignment: climate risk assessment, shadow carbon pricing, fossil fuel policy and alignment with country partners' own mitigation and adaptation plans. These tools are primarily screening out risk, however, and rest primarily in the Foreign, Commonwealth and Development Office rather than in other ODA-spending departments of the UK government (ICAI, 2021).

The European Union's (EU) 2022 submission to the SCF notes that 'Parties will have to find their preferred approach' to advancing Article 2.1c. In the country-driven spirit of Paris, any guidance on operationalising Article 2.1c will likely need to be sufficiently flexible to allow for country-specific contexts, thus helping countries to take ownership and determine how to finance their own low-carbon pathways. In this spirit, ODI, the Rocky Mountains Institute, E3G and the World Resources Institute developed a loose framework towards Article 2.1c that aims to be flexible to national interpretation and circumstances, but also well-structured enough to enable a level of comparability and lesson learning between countries and over time. It focuses on four common government levers to shift finance: financial policy and regulation, fiscal policy levers, public finance and information instruments (Whitley et al., 2018); see Figure 1).

No approaches have yet addressed head-on issues of equity and justice as to who moves first, by when. The Africa Group of Negotiators (AGN) do make clear in their 2022 submission, however, that ‘[i]t is unrealistic to expect developing countries to meet the exact timelines as developed countries to transition their economies and entirely shift and disinvest our economies away from fossil fuels’. The AGN therefore hope that attention will be given to the different national contexts of countries and regions. The AGN also make strong links in their submission to progressing finance for a just transition to low-emission, climate-resilient development pathways.

**Figure 1 Government tools to shift and mobilise finance towards climate objectives**



Adapted from Whitley et al. (2018).

*Challenge 2: concerns that Article 2.1c will be used by developed countries as a distraction from the provision and mobilisation of climate finance.*

The Independent Alliance of Latin America and the Caribbean (AILAC) submission in April 2022 opens by recalling that ‘the operationalization of Article 2.1c does not substitute developed country Parties’ obligations of provision and mobilization of finance to the developing world, as per Article 9 of the Paris Agreement, that give continuation and enhance developed countries financial obligations enshrined in the UNFCCC’; the Least Developed Countries’ Group submission is clear that Article 2.1c should not constrain or diminish access to climate finance under Article 9 of the Paris Agreement.<sup>6</sup>

These submissions highlight concern that the pursuit of climate-consistent finance flows will divert attention away from the collective failure of developed countries to fully meet the goal to jointly mobilise US\$100 billion a year for climate action in developing countries. It further pertains to challenges in the mobilisation and provision of, and access to, climate finance more broadly; that is, it is more than just the quantitative target.

The provision and mobilisation of good quality climate finance from developed to developing countries, considering a wide variety of sources, instruments and channels, is a key manifestation of the way that equity is operationalised under the UNFCCC and Paris Agreement. Recent consultations suggest that there is a growing distrust in the current climate finance architecture as a result of perceived inequity and unfairness (Pettinotti et al., 2022).

The challenge therefore exists that while developing countries advance the articulation of needs in order to meet their Nationally Determined Contributions (NDCs), a focus on Article 2.1c by developed countries risks these needs going unmet unless assurances are made, such as a reflection of such concerns in relevant decision texts.

*Challenge 3: there are perceived and real double standards in operationalising Article 2.1c.*

While Article 2.1c as a long-term goal of the Paris Agreement is a collective goal which is shared by all Parties, the pursuit of the mobilisation of climate finance differentiates the roles of developed and developing countries. There is a fear, therefore, that developed countries hold the power to seek climate consistency of finance flows in developing countries through climate finance provision, without actions to operationalise Article 2.1c being undertaken at home.

A commonly cited example of this is the ongoing subsidising of fossil fuels and other high-emitting domestic sectors – in some cases, at a rate much higher than the provision of climate finance in most developed countries. The Climate Policy Initiative estimated total climate finance flows (including domestic and international primary investment globally) at US\$632 billion annually, between 2019 and 2020 (Climate Policy Initiative, 2021), while the

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<sup>6</sup> All submissions can be found at: [www4.unfccc.int/sites/submissionsstaging/Pages/Home.aspx](http://www4.unfccc.int/sites/submissionsstaging/Pages/Home.aspx).



estimated G20 budgetary transfers and tax expenditures, price supports, public finance and state-owned enterprise investments to fossil fuels was estimated to amount to US\$584 billion annually, between 2017 and 2019 (IISD et al., 2020). The AILAC 2022 submission reiterates the concept of 'net climate finance', whereby a metric is established by taking the value of climate finance flows minus finance flows to high-emission and maladaptive activities in order to gradually eliminate financing and investments to high-emission activities as well as sustaining increases in climate finance and just transition policies.

The review of the UK's approach to Paris-aligning its aid also picked up on the need to avoid climate consistency of finance flows being interpreted as adding conditionalities to aid. More specifically, it was discussed as potentially limiting the development options available to developing country partners should, for example, a fossil fuel policy rule out the development of gas infrastructure. Conditional assessments – that can better allow for country and policy context – have emerged, such as considering whether gas is a transition fuel; however, it falls short of assurances that the pursuit of Article 2.1c will have a development perspective 'rather than hectoring developing country governments' when more could be done domestically in developed countries in the pursuit of Article 2.1c (ICAI, 2021). Vanuatu's 2022 submission equally calls for the 'developmental' pathway to hold similar attention to the consideration of the finance flows as we operationalise Article 2.1c.

*Challenge 4: the UNFCCC cannot deliver formal mandates to the breadth of actors and stakeholders required to deliver Article 2.1c implementation.*

The 2022 submissions to the SCF on options for approaches and guidelines for implementation of Article 2.1c were broad in the range of actors that will need to be engaged in operationalisation. They range from households, through operating entities of the Financial Mechanism of the UNFCCC and the Paris Agreement,<sup>7</sup> to institutional investors (such as pension funds). The pursuit of Article 2.1c of the Paris Agreement therefore truly embeds a 'near-formal' role for non-state actors in implementing commitments, as evidenced by the Non-State Actor Zone for Climate Action, the existence of the Marrakech Partnership and the Global Climate Action agenda within the UNFCCC, as well as the High-Level Champions and campaigns such as Race to Zero and the Glasgow Financial Alliance for Net Zero, in which corporations, financial institutions, cities and regions, among others, commit to achieving net zero by 2050 by cutting their emissions (Mackenzie, 2021).

More substantively, however, shifting finance flows towards climate consistency requires shifts in the structural features of the global financial system if real-economy climate action at the pace and scale necessary is to be delivered. The current financial system is shaped by limited fiscal space, high interest rates and US dollar-denominated sovereign debt markets, and leaves little room for green investment in developing countries and emerging economies. The interlinkages between climate change action and structural inequities in the financial system are increasingly being raised,

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<sup>7</sup> In the case of the Convention, the Financial Mechanism includes the Green Climate Fund and the Global Environment Fund. The Adaptation Fund was set up under the Kyoto Protocol but now also serves the Paris Agreement and so is intended to be included as an option here.



including, for example, addressing how climate risk impacts on sovereign borrowing costs (Buhr et al., 2018).

Without a formal mandate over this wide set of non-state actors, the role of the UNFCCC lies in providing strong and clear political signals and calls to action regarding the direction of travel, as the only levelled playing field to determine climate action, as well as supporting citizens in demanding change that is just (in particular, distributional justice to ensure that the most disadvantaged do not end up paying the highest costs). The AGN submission, for example, is clear that there can be unwanted co-consequences of the pursuit of Article 2.1c; for example, an abrupt devaluation of assets then leads to the creation of stranded assets.<sup>8</sup> The official Children and Youth constituency submission notes that countries with high climate risks, which are increasingly disclosed, will bear the burden of mitigating these risks. Therefore, the signal from the UNFCCC has to be thoughtful in terms of who bears the burden of increased transparency of climate risks and supportive of actions that are not just a screening out of climate risk but also pursuant of solutions that 'screen in' resilience building and climate risk-mitigating solutions.

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<sup>8</sup> Referring to assets that are prematurely written down, devalued or converted into liabilities as a result of changes in patterns of supply and demand, pro-green regulation and policy, or regulatory processes.

# 3 Supporting narratives towards operationalising Article 2.1c

A number of narratives may support the pursuit of Article 2.1c in all countries, regardless of whether the country is considered developed or developing under the UNFCCC. These are required given the breadth of the challenge and its possible solutions, as well as to bring constituencies to the table to even begin a conversation on implementation. They are the following:

- *Implementing 2.1c is in all countries' interests given the urgency and necessary ambition of climate action* – more climate ambition necessarily entails more, and more rapid, investment in mitigation and adaptation action. While the upfront costs of this transition to low-emission, climate-resilient development pathways are substantial,<sup>9</sup> studies highlight how a transition can support economic growth, innovation, public health and employment, and avoid locking economies into high-polluting, low-productivity and deeply unequal pathways (NCE, 2018). Article 2.1c speaks to using all means necessary to move faster and further than we have currently with mitigation and adaptation. The pursuit of Article 2.1c requires a range of levers to be employed simultaneously and in a coordinated fashion. AILAC, in their 2022 submission, noted that Article 2.1c can act as an enabler and an amplifier for efforts to realise Articles 2.1a and 2.1b, reflecting the interconnectedness of finance flows and climate ambition. Cases can be and are being made for the climate consistency of finance flows on a thematic or sectoral basis.<sup>10</sup> However, it is clear that there are winners and losers from reform, as well as vested interests, which means that the operationalisation of Article 2.1c is not straightforward.
- *Article 2.1c implementation is already under way and there are few front-runners* – the 4th Biennial Assessment and Overview of

<sup>9</sup> The IPCC AR6 WGIII estimates annual investment needs by sector reaching US\$0.7–1.6 trillion for energy, US\$0.6–1.8 trillion in energy efficiency, US\$1.0–1.2 trillion in transport, US\$0.75–1.7 trillion on electrification and US\$0.1–0.3 trillion in the agriculture, forestry and other land use sector to reach emissions reduction targets until 2030; the IPCC AR6 WGII estimates adaptation investment needs for developing countries alone at a median of US\$127 billion per year to 2030 and US\$295 billion per year to 2050.

<sup>10</sup> For example, see the application of the framework to the Agriculture, Forest and Other Land Use Sector in Watson (2021) and opportunities to progress fiscal policy and financial policy and regulation for adaptation in Watson and McNally (2021).

Climate Finance Flows noted a number of practices, coalitions and initiatives contributing to Article 2.1c, covering a breadth of actors. It equally noted the need to ensure that such actions lead to change and are not merely greenwashing. No country, however, has yet achieved a complete system of climate-consistent finance flows. The independent GST Finance Working Group has been applying the Whitley et al. (2018) framework on Article 2.1c at the country level, documenting where country actors are already taking actions that could be considered as moving towards climate consistency of finance flows, while also highlighting the importance of country context and that climate consistency will not look the same in all countries (Bingler et al., 2021; Lopez Carbajal et al., 2021; Samo et al., 2021). The German Agency for International Cooperation – Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) – 2022 submission also emphasises how development cooperation is playing a role in shifting finance flows; for example, in supporting green budgeting and reform of climate and environmentally harmful subsidies and the introduction of carbon-pricing instruments.

- *Including actions that can be interpreted to fall under the pursuit of Article 2.1c could increase the effectiveness of climate finance* – climate finance mobilised under Article 9 is largely used on a project basis towards the implementation of priority actions in developing countries. Yet, it has been long understood that there are interlinkages between the policy environment, the action of corporations and the flow of finance: this reflects a need for an enabling environment for climate action. Winkler et al. (2021) frame Article 2 as presenting the purpose of the Paris Agreement, including for financial flows, whereas Article 9 is the operational article on how finance is to be provided and mobilised for developing countries. It is possible, therefore, that mobilising all channels and sources of finance to accelerate climate action through the pursuit of Article 2.1c will reinforce emerging needs determination, engaging capacity, technology *and* finance, as well as centralising enabling policy, legal and regulatory frameworks.
- *The pursuit of Article 2.1c reveals market failures and wider inequities in the financial system that create opportunities for reform* – in its 2022 submission to the SCF, the EU notes that meeting the climate change mitigation and adaptation goals of the Paris Agreement requires fundamental transformation in the global economy, financial markets and investments. It concentrates attention on the market failures that have led to climate change and on the global structure of power in the financial system that cannot be overcome with diplomacy (Mackenzie, 2021). As highlighted in Section 2, the UNFCCC does not govern the financial system. However, attention on climate finance challenges – particularly for developing countries on accessing capital outside of the multilateral climate change

funds and climate finance architecture, narrowly defined – is leading to a wave of action calling for a closer look at debt suspension, restructuring and swaps, as well as the reallocation of special drawing rights (the reserve asset of the International Monetary Fund), for example.

## 4 Article 2.1c in the NCQG

Recalling Decision 1/CP.21 paragraph 53 and Decision 14/CMA.1, and in response to Decision 9/CMA.3 paragraph 17, the objective of the new climate finance goal must be to serve the objectives of the Convention and work to implement the Paris Agreement. Decision 14/CMA.1 paragraph 2 is clear that in deliberations of the new climate finance goal, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development will be considered.

At the time of writing, three technical expert dialogues (TEDs) of the ad hoc work programme on the NCQG have been completed. At each, Article 2.1c has been directly raised and the co-chairs' background and reflections notes have also included discussion of climate consistency of finance flows.<sup>11</sup> The 2022 submissions all refer to or connect Article 2.1c and Article 9 of the Paris Agreement. They note complementarity and the fact that the two are not mutually exclusive, while – as noted above – others are clear that Article 2.1c does not diminish, constrain or substitute existing obligations under Article 9 or the Convention (Article 4.3).

This working paper identifies five options for embedding Article 2.1c in the NCQG.

### **1. Include reassurances on the continued provision and mobilisation of climate finance from developed to developing countries and clarity on the objective of the NCQG.**

In light of the perceptions of double standards and concerns that Article 2.1c will be used as a distraction from the provision of climate finance from developed to developing countries, any inclusion of Article 2.1c in the final decision text will rely on strong reassurances regarding climate finance provision to be made by developed countries. These reassurances will refer to:

- developed countries confirming a delivery plan and reaffirming they will meet their climate finance commitments (including, but not limited to, the joint provision and mobilisation of US\$100 billion until 2025 and associated qualitative elements)
- all countries ensuring that Article 2.1c is progressed domestically, with developed countries taking the lead
- clarity on the linkage between Article 2.1c as an overarching objective, which is critical to meeting Articles 2.1a and 2.1b, while climate finance provision from developed countries to developing

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<sup>11</sup> See the first technical expert dialogue under the ad hoc work programme on the new collective quantified goal on climate finance. Reflections note by co-chairs at: [https://unfccc.int/sites/default/files/resource/CC\\_Reflections\\_Note\\_TED2.pdf](https://unfccc.int/sites/default/files/resource/CC_Reflections_Note_TED2.pdf); background note by co-chairs at: [https://unfccc.int/sites/default/files/resource/Background%20note%20for%20TED3\\_0.pdf](https://unfccc.int/sites/default/files/resource/Background%20note%20for%20TED3_0.pdf).

countries (in addition to capacity-building and technology) is a means of support to help developing countries to achieve Article 2.1 overall.

It is also possible to ensure that the objective and basic elements of the NCQG will be advanced prior to final decision text at the end of 2024. This would also provide more room for dialogue on the meaningful inclusion of Article 2.1c in the NCQG dialogues.

## **2. Offer support for developing countries to engage in financial strategies, plans and taxonomies, without making these a precondition for support.**

Operationalising Article 2.1c requires a broad consideration of a range of incentives that drive finance flows. These extend into the role of laws, how taxes and subsidies change prices, and how soft laws and information instruments affect decision-making, while recognising differences in market structure and costs of capital. Understanding the role that shifting incentives will have in delivering on a country's NDC goes further than many planning processes either supported by the UNFCCC or developed separately (at the domestic or international level). Developing countries could be supported through the NCQG to develop financial strategies towards operationalising Article 2.1c that appropriately engage their development and economic growth priorities and consider the market maturity and country context simultaneously. At this point, it is worth acknowledging that there is value in such strategies being prepared in developed countries too, as any efforts to distil progress and share best practice in this regard should include all countries.

The outputs of such planning processes are likely to look different between countries. Some may prefer an approach that pursues taxonomies for climate-consistent activities for adaptation and mitigation, others may adopt existing taxonomies and focus on fiscal policy reform, such as fossil fuel subsidies, and others will not use taxonomies at all. Many are likely to be non-binding guidance documents that engage and communicate to relevant actors regarding future direction, priorities and ambitions.

There are two factors that will be important to recognise if such an approach is pursued through the NCQG:

- Climate-consistent finance planning will be difficult to separate from development objectives – any attempt to operationalise Article 2.1c will need to interact with economic growth, macroeconomic stability objectives and many other country-led priorities (e.g. business environment reform and financial inclusion).
- Planning documents should not introduce any conditionalities on climate finance access under the NCQG.

An advantage of such a high-level planning approach is that countries may be afforded the resources to consider a wider breadth of needs for implementing their NDCs than previously captured, including a move away from project-based actions towards a programmatic approach.

### **3. Recognise and elaborate the role of the operating entities of the Financial Mechanism of the UNFCCC and other UNFCCC-linked funds in meeting Article 2.1c.**

There is a danger that, without linking the provision and mobilisation of finance from developed to developing countries with Article 2.1c in the current climate finance architecture, developing country Parties could be left without a robust financing stream to support them to make finance flows consistent with low-emission, climate-resilient development pathways. This then poses a political risk for those who have developed NDCs and the associated ambition, and will similarly pose risks for those that develop any form of high-level planning for the implementation of Article 2.1c.

An option in the NCQG to embed a stronger link between the developed country provision and mobilisation of finance to developing countries and Article 2.1c will be to mandate one or more of the multilateral climate change funds of the Financial Mechanism of the Convention, special funds of the UNFCCC and those serving the Paris Agreement (the Green Climate Fund, the Adaptation Fund and the Global Environment Facility, including its climate change focal area, the Special Climate Change Fund and the Least Developed Countries' Fund) to support efforts to operationalise Article 2.1c. It may not be necessary for these institutions to support the breadth of actions that will be needed; however, there may well be a role for specific actions, such as supporting an inefficient fossil fuel phase-out or building contingency funding into public budgeting.

Should the multilateral climate funds of the financial mechanism, as well as those more broadly targeted (such as the Climate Investment Funds of the World Bank), support the implementation of Article 2.1c directly (and indirectly through the climate consistency of their accredited and implementing entities), it could provide an opportunity to build more programmatic approaches to climate change action and NDC implementation in countries.

### **4. Recognise the role of wider actors and provide strong signals for them.**

As outlined above, the achievement of Article 2.1c will require a shift in the structural features of the global financial system. This is particularly true if real-economy climate action at the pace and scale necessary to meet the objectives of the Convention is to be delivered. Decisions in the NCQG will not be able to deliver formal mandates to the breadth of actors – from regulatory authorities, through ministries of finance and treasuries, including development finance institutions, through households, all the way to commercial banks – needed to operationalise Article 2.1c. The UNFCCC, however, plays a strong signalling role, and under the NCQG could clearly articulate what each actor's role could be and urge them to act.

Within the NCQG, therefore, the CMA can call on all providers and intermediaries of climate finance to pursue the alignment with the Paris Agreement in their direct and indirect lending as well as in their delivery of finance through other instruments. Through the remaining NCQG TEDs, it may also be possible to develop more nuanced calls for particular groupings of actors so that it is better received and taken up than a broad ask.



## **5. Make links in the NCQG and its dealings with 2.1c to other agenda items and UNFCCC processes.**

The 2022 submissions to the SCF all stressed the need to establish a process or guiding framework for Article 2.1c in the UNFCCC context. As the NCQG, for many, refers predominantly to the finance provided and mobilised from developed to developing countries, it is unlikely to also serve the need to ensure that all countries (developed and developing alike) and their institutions need to make their finance flows (and stocks) climate consistent.

The NCQG process, therefore, has the option to make beneficial, official linkages with other processes in the UNFCCC. Namely:

- The GST (Article 14) periodically assesses collective progress towards the Paris Agreement's long-term goals. It is intended to contribute to a cycle of increasing national ambition.<sup>12</sup> The Katowice decisions on the GST are clear that both the provision and mobilisation of climate finance from developed to developing countries and the climate consistency of finance flows will be collectively assessed in the GST process. This is, to date, the primary process within the UNFCCC for assessing collective progress towards Article 2.1c. While the GST does not have a framework through which to measure collective progress to Article 2.1c, with the process intended – and designed – to engage Non-Party Stakeholders (NPS), including the diversity of private sector actors, an official link to the NCQG can serve as a mechanism to document NPS operationalisation of Article 2.1c. The data gathered may also guide a taxonomy of support for Article 2.1c actions in developing countries and/or to improve its effectiveness through assessment and review.
- The NCQG may seek linkages with the Enhanced Transparency Framework (ETF) (Article 13). The ETF is the primary means for sharing learning and progress towards the objectives set in each country's NDC. In this context, reporting on both actions and support could include information relevant to Article 2.1c. AILAC's 2022 submission proposed, for example, that an additional column in the Common Tabular Formats could detail the support provided and mobilised for Article 2.1c. While such biennial reporting may commence as the voluntary documentation of activities by state, it could further form an important basis in the technical phases of the GST, and such reporting and use of the ETF in that regard extends to both developed and developing countries.
- The NCQG could further encourage the provision of structured information on Article 2.1c to be included in Article 9.5

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<sup>12</sup> Decision 19/CMA.1 (matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21), paragraph 36(d), states that the GST will consider information at a collective level on: 'The finance flows, including the information referred to in Article 2, paragraph 1(c), and means of implementation and support and mobilization and provision of support, including the information referred to in Article 9, paragraphs 4 and 6, Article 10, paragraph 6, Article 11, paragraph 3, and Article 13, in particular paragraphs 9 and 10, of the Paris Agreement.'



communications. Within these, developed country Parties biennially communicate information on the projected levels of public financial resources that will be mobilised for developing countries. Many 9.5 communications have already included information on Article 2.1c, particularly with respect to support for the implementation of Article 2.1c, as well as in some cases actions taken domestically (see, for example, the EU 2020 and Canada's 2021 Article 9.5 submissions). These communications are, however, forward looking rather than backward looking, and so form a reassurance to face some of the identified challenges to operationalising Article 2.1c noted above, rather than providing a sufficient place for developed country actions towards Article 2.1c to be measured and assessed.

- It is possible that the end-2024 decision on the NCQG will be linked to a new agenda item under the CMA on Article 2.1c. The NCQG is unlikely to be the sole place to advance global progress on the climate consistency of finance flows. The challenge of creating a separate CMA agenda item on Article 2.1.c, however, relates to the above-noted perceptions of diversion and double standards. Should developed country commitments to Article 2.1c not fall under the NCQG, it is likely to be harder to reassure developing countries that domestic actions are being taken.

Iterative guidance from the UNFCCC and CMA on Article 2.1c may be an option to encourage broader action on Article 2.1c, as noted in the 2022 submissions to the SCF in operationalising Article 2.1c (e.g. AILAC, Canada). This could also benefit the NCQG process without official links to other processes. In achieving the third long-term goal of the Paris Agreement, it will be important to consider if Article 2.1c is adequately addressed across multiple agenda items – with respect to guidance, measurement, learning and enhanced ambition – regardless of what happens in the NCQG process.

## 5 Conclusion

Deliberations on the inclusion of Article 2.1c in the provision and mobilisation of climate finance from developed to developing countries are ongoing, but remain at a high level. In part, this is a result of a lack of guidance that introduces uncertainty about whether actors are talking about the same topics, actions and stakeholders. As India noted in its 2022 submission, '[i]n implementing the Paris Agreement, it will be critical to determine how progress towards Article 2.1 (c) can be defined, reported on and collectively assessed in the near and medium term'.

Unlocking the discussion on exactly what Article 2.1c entails, and for whom, would likely go a long way to unlocking the options for Article 2.1c to appear in the NCQG. While on the one hand, this is likely to require some political steering at CMA and forthcoming intersessional meetings, on the other hand, there may also be merit in advancing process-based and outcome indicators for all countries in the context of implementing Article 2.1c: recognising that the implementation of Article 2.1c. will not look the same in different country Parties, nor between NPS. For example, some least developed countries remain highly reliant on grant-based aid funding, and many have a private sector of informal small and medium-sized retail enterprises. Such process-based outcome indicators could be universally applied to all countries, but would recognise that the different contexts and capabilities of countries will influence the speed at which they take action domestically, as well as identify which countries have an obligation to move faster and further and, in pursuit of climate justice, can seek to ensure no vulnerable groups have their welfare reduced. Information delivered at either level will likely ensure that, however Article 2.1c is embedded in the NCQG, it is embedded in a way that progresses the achievement of the entirety of Article 2.

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