Article 2.1c of the Paris Agreement

Overview and interpretation

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"Climate resilient development is enabled by increased international cooperation including mobilizing and enhancing access to finance, particularly for developing countries, vulnerable regions, sectors and groups and aligning finance flows for climate action to be consistent with **ambition levels and funding needs**"

Overview of discussion

1. What principles, guiding frameworks or criteria are key to enable progress towards implementation of Article 2.1(c)?

2. What is the scope of Article 2.1(c) to support the Paris Agreement and what is its complementarity with Article 9?

3. How can the UNFCCC process reflect the coherent delivery of the two articles?

Guiding principles for the discussion

1

Article 2.1c must be in context of addressing **climate change**, in the context of **sustainable development** and efforts to **eradicate poverty**.

2

Article 2.1c should be implemented in a manner to reflect the principles of **equity** and **CBDR-RC**, in light of **different national circumstances**.

3

Interpreting Article 2.1c within the context of the **means of implementation and support obligations** of developed country Parties.

4

Discussions on Article 2.1c must proceed in line with a **bottom-up**, **non-prescriptive** and **nationally determined approach**.

5

Acknowledging the importance of making finance flows for climate action **consistent with the needs and priorities** of developing countries.

What principles, guiding frameworks or criteria are key to enable progress towards implementation of Article 2.1(c)?

Desired outcomes for 2.1c

For developing countries

Access to finance increases	Cost of capital decreases	Consistent with NDCs
Finance available to and accessible by developing countries should increase, allowing for more implementation.	Finance becomes less expensive for developing countries and debt is not exacerbated by market-rate loans.	Finance received from international support or investment, and finance provided domestically supports the achievement of a given NDC.

For developed countries

Funding provided increases	Strong signals & incentives	Transparency increases
Finance available to and accessible by developing countries should increase, allowing for more implementation.	Developed countries have a key role to play in incentivizing their private sector to invest in developing countries and by providing signals.	Backward and forward looking transparency from developed countries increases to enhance predictability and maintain trust in the process.

What principles, guiding frameworks or criteria are key to enable progress towards implementation of Article 2.1(c)?

Overview of Article 2 of the Paris Agreement

Article 2.1a: temperature goal	Article 2.1b: adaptation	Article 2.1c: climate finance

Article 2.2: the principles of equity and CBDR

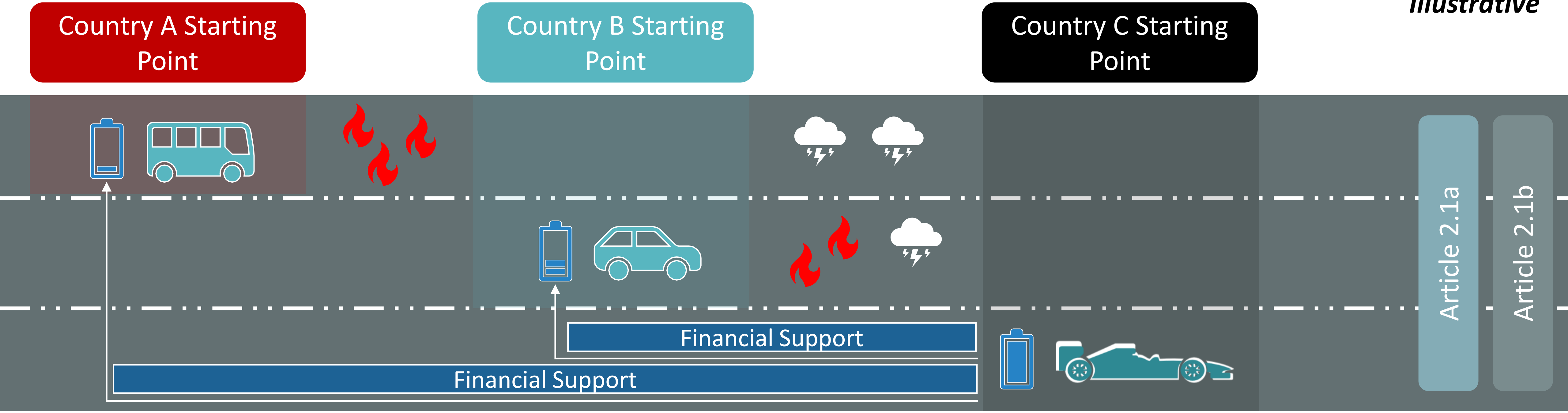
Article 3 of the Paris Agreement: Nationally Determined Contributions

As nationally determined contributions to the global response to climate change, all Parties are to **undertake and communicate ambitious efforts as defined in Articles 4, 7, 9, 10, 11 and 13 with the view to achieving the purpose of this Agreement as set out in Article 2.** The efforts of all Parties will represent a progression over time, while recognizing the need to support developing country Parties for the effective implementation of this Agreement.

What is the scope of Article 2.1(c) to support the Paris Agreement and what is its complementarity with Article 9?

How can we conceptualize that? *Scope*

Illustrative



Article 2.1c is the energy powering the vehicle

Article 3 of the Paris Agreement is the vehicle through which a country can achieve their pathway

Article 9 of the Paris Agreement sets the rules of engagement for financial support

What is the scope of Article 2.1(c) to support the Paris Agreement and what is its complementarity with Article 9?

Scope of Article 2.1c and complementarity with Article 9

Scope of Article 2.1c

Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development

Finance flows	Climate finance to developing countries primarily
Pathway	All NDCs of developing countries
Consistency	Incoming flows consistent with needs
Development	Climate finance that enables development

How this is applied around the world will differ due to different national circumstances

Parameters set by Article 9

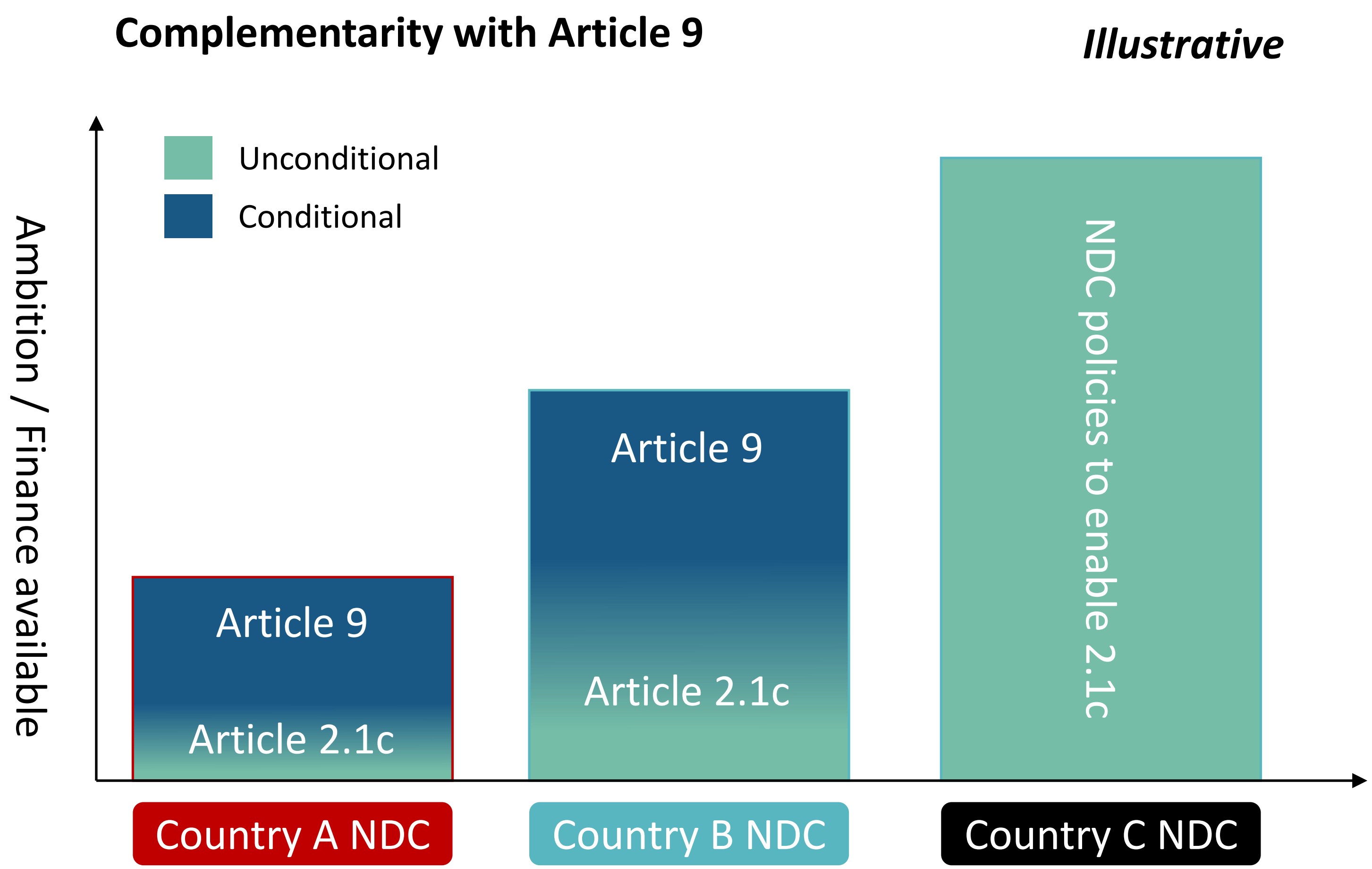
Article 9 defines the rules of engagement for the financial support element, detailing the following in relation to **developed countries:**

Article 9.1	Obligation to provide finance
Article 9.3	Take into account needs and priorities
Article 9.4	Balance between mitigation & adaptation
Article 9.7	Transparency and consistency

There are no obligations on developing countries

What is the scope of Article 2.1(c) to support the Paris Agreement and what is its complementarity with Article 9?

How can we conceptualize that? *Complementarity*



Conditional elements

Conditional elements of an NDC are funded by developed countries as per Article 9 of the Paris Agreement through:

- Provision of finance
- Mobilization of finance

Unconditional elements

Countries finance NDCs through:

- Attracting FDI and local private sector investment
- Public funding, guarantees and use of appropriate economic/regulatory policy

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What can be done through the UNFCCC? (2/2)

Conditional elements of the NDCs	Unconditional elements of the NDCs
Developed Countries	**All Countries**

Developed Countries

1. Policies to incentivize investments and contributions to developing countries' NDCs

- Tax breaks and credits for companies to invest in developing countries
- Guarantees and de-risking instruments to allow for investments in developing countries

2. Increasing scale of climate finance support

- Increasing public grant-based support to developing countries and mobilizing additional finance from a variety of sources
- Reforming budgetary cycles and government approval processes to enable more funding

All Countries

1. Policies to attract investments in NDCs examples:

- Providing incentives for foreign investments
- Providing guarantees to de-risk foreign investments
- Improving business environment and regulations

2. Policies to direct domestic finance to NDCs examples:

- Partnerships with the private sector and communication campaigns on NDCs
- Mainstreaming climate in development plans

3. Financing projects that support NDCs

- Issue sovereign green bonds in line with NDCs
- Direct public funding

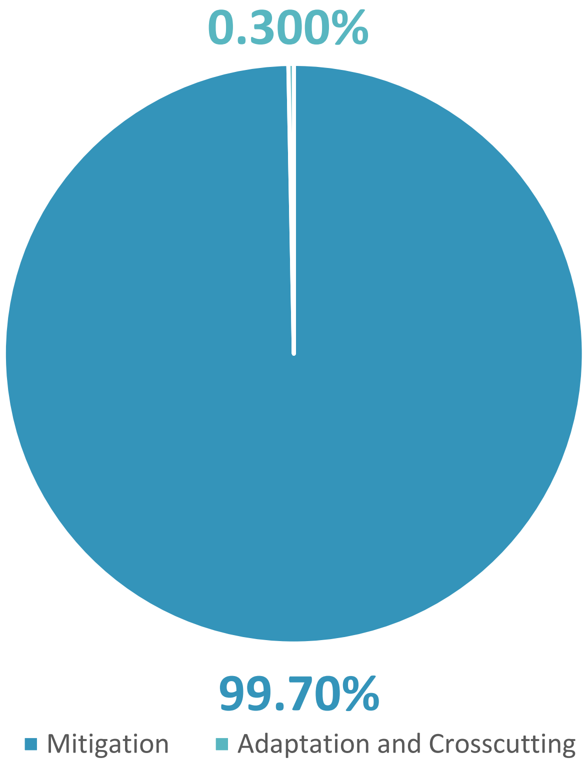
Dose of the real world #1: climate investments in developing countries need to increase

Between 2019-2020 private climate finance (Climate Policy Initiative)

Geographic distribution of finance

USD 37 billion to Africa, South Asia, South America and the Middle East

Thematic distribution of finance



Misalignment with Paris

Private investors do not consider differentiation between developed and developing countries, assuming net-zero will occur everywhere by 2050, in a manner inconsistent with the Paris Agreement.

What is the scope of Article 2.1(c) to support the Paris Agreement and what is its complementarity with Article 9?

Dose of the real world #2: financing projects that support NDCs can be effective

Uruguay
Sovereign Sustainability-linked bonds

The SSLB Framework links Uruguay's sovereign bond financing strategy to its climate and nature targets as established under the Paris Agreement. The Framework describes Uruguay's sustainable strategic priorities and sets out goals with respect to two Key Performance Indicators (KPIs), tied to the evolution of the intensity of Greenhouse Gas (GHG) emissions and the area of native forests in the country. **The Sustainability Performance Targets (SPTs) are based on quantitative goals set for 2025 as established in the Nationally Determined Contribution (NDC).**

Lesson learned: when financing is aligned with implementation of national goals, it can attract finance.

Linked to delivery on NDC targets

The bond introduces an innovative step-up/step-down interest rate structure, reducing the interest rate paid if Uruguay overperforms its NDC targets, or increasing the borrowing cost if the country does not deliver on its targets.

Hot on the market

The SLB saw strong investor demand on the primary market at 4x oversubscribed and priced at favorable terms, despite the possibility of a coupon step-down. The bond was able to attract USD 3.96 billion with a BBB credit-rating, but with interest rates being adjustable based on performance on targets.

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Dose of the real world #3: incentivizing private sector investments creates growth

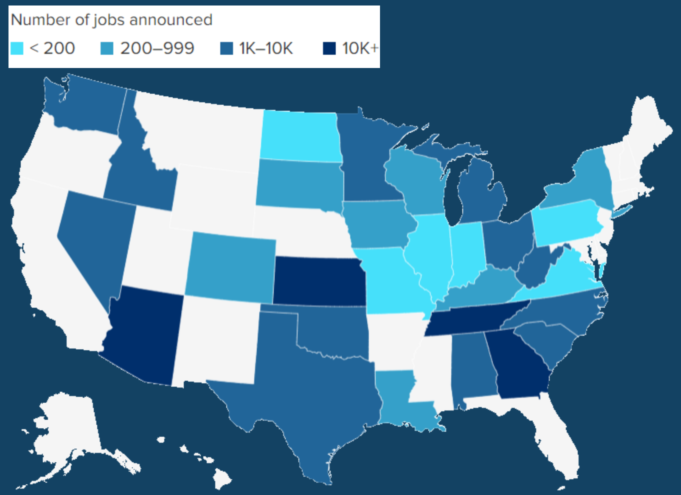
United States
Inflation Reduction Act (IRA)

The IRA directs nearly $400 billion in federal funding to clean energy, with the goal of substantially lowering the nation's carbon emissions by the end of this decade. The funds will be delivered through a mix of tax incentives, grants, and loan guarantees. **The majority of the $394 billion in energy and climate funding is in the form of tax credits.** Corporations are the biggest recipient, with an estimated $216 billion worth of tax credits. These are designed to catalyze private investment in clean energy, transport, and manufacturing.

Lessons learned: private sector can be incentivized, and an incentive-based approach works for countries

Pro-growth approach, creating jobs

From the time the IRA was signed into law to February 2023, 100,000 new jobs have been created as a result of the bill. Up until January 2023, companies have announced 90 projects totaling USD 89.5 billion. (CNBC)



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Dose of the real world #4: mainstreaming climate into national development plans enables development

Saudi Arabia
Saudi Green Initiative (SGI)

Launched in 2021 the Saudi Green Initiative (SGI) is an ambitious national initiative for the Kingdom of Saudi Arabia that aims to combat climate change, improve quality of life and protect the planet. SGI activates all engines of society to deliver against three overarching targets - emissions reduction, afforestation, and land and sea protection. At present, 77 initiatives are being implemented, all representing a huge investment in the green economy. Since SGI's inauguration in 2021, the Kingdom's global commitments have been turned into tangible action and Saudi's climate action is on track.

Lessons learned: development, energy security and climate efforts can be managed together

VISION رؤية 2030 المملكة العربية السعودية KINGDOM OF SAUDI ARABIA

Aligned with diversification plan

The Saudi Green Initiative leverages the Circular Carbon Economy approach to achieve climate objectives and is fully aligned with the Kingdom's economic transformation plan Vision 2030.

Progress and co-benefits

700MW of renewable energy online 10 new projects in development with 11.4 GW capacity

Launched a voluntary carbon market and planted 18 million trees in 2022, 60k hectares restored

Largest CCS hub in the world under development, will be operational in 2027 capturing 9 mtpa CO_2

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Key takeaways and current inconsistencies in climate finance

Key takeaways

1. All pathways need to be financed in line with national circumstances
2. The goal is to address emissions, regardless of their source and to enable development
3. Developed countries need to increase the scale of finance provided and mobilized to developing countries
4. There are different approaches that developing countries can take to enhance climate finance, depending on national circumstances

Inconsistencies

1. Public and private climate finance flows from north to south are inconsistent with finance needs
2. The thematic distribution of climate finance is inconsistent with developing countries' needs
3. Current levels of transparency and predictability of finance are inconsistent with needs
4. Current top-down interpretations and policy approaches are inconsistent with the different national circumstances of countries