Third World Network

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SUBMISSION TO THE STANDING COMMITTEE ON FINANCE ON ITS WORK ON WAYS TO ACHIEVE ARTICLE 2.1(c) OF THE PARIS AGREEMENT

INTRODUCTION

TWN welcomes the extended call for submissions on the ongoing work of the SCF on ways to achieve Article 2.1(c) of the Paris Agreement (PA), including options for approaches and guidelines for implementation. This provides observers the opportunity to feed into a crucial process on the provision of climate finance which is an imperative means of implementation for climate action.

We would like to make the following relevant points and raise some overarching concerns in relation to differing views on the interpretation of Article 2.1(c) that are seen in the submissions received, also which have been emerging during negotiations across the board in relation to mitigation, adaptation, loss and damage, means of implementation (finance, technology transfer, capacity building) - and most recently at the first mandated workshop under the Sharm el-Sheikh dialogue, on the scope of Article 2.1(c) and its complementarity with Article 9 of the PA, organised on 19-20 July in Bangkok, Thailand. The workshop provided useful space to learn about the different understandings and positioning of Parties and non-Party stakeholders.

HISTORY AND CONTEXT FOR THE PROVISION OF CLIMATE FINANCE FROM DEVELOPED TO DEVELOPING COUNTRIES

The issue of the provision of climate finance as it relates to Articles 2.1(c) and 9 of the PA requires understanding the context and the negotiating history which provides the rationale for the commitments of Annex 2 Parties (under the UNFCCC)/ developed countries (under the PA) for the provision and mobilisation of climate finance to non-Annex 1 Parties/developing countries.

The rationale for such commitments of developed countries stems from the recognition of their historical responsibility for their emissions, as the Convention in its preamble notes "that the largest share of historical and current global emissions of greenhouse gases has originated in developed countries, that per capita emissions in developing countries are still relatively low and that the share of global emissions originating in developing countries will grow to meet their social and development needs."

This is the underpinning for the recognition of Article 3.1 of the UNFCCC of the principles of equity and common but differentiated responsibilities and respective capabilities (CBDR&RC) between developed and developing countries and the corresponding articles relating to the provision of climate finance. The CBDR&RC principle is also reflected in Article 2.2 of the PA.

Appreciating these foundational principles and rationale for developed countries to provide climate finance is critical for reaching a common understanding of Article 2.1(c) of the PA with its scope and operationalisation through Article 9.

This also requires a whole-of-Article 2 approach comprising both Article 2.1 and Article 2.2 and the resulting interlinkage and interdependency among them, and its complementarity and operationalisation through Article 9.

If this context is not appreciated and recognised, and Article 2.1(c) is viewed in isolation, including without its linkage to Article 9, it will then be seen as an attempt by developed countries to move away from their commitments to provide climate finance.

The provision of finance by Multilateral Development Banks or private sector actors and other financial institutions cannot be regarded as meeting any financial commitments, as these actors do not have any obligation to do so under the UNFCCC or the PA. It is the developed countries who have these obligations.

This is fundamental to understanding what are climate finance commitments under these multilateral climate agreements.

Therefore, the scope and operationalisation of Article 2.1(c) must be based on a whole-of-Article 2 approach while implementing both the Convention and its PA. It thus must be anchored on the principles of equity and CBDR&RC and in the context of sustainable development and poverty eradication in order to be achieved through the lens of climate justice, given the different circumstances of countries shaped by historical and current realities of an imbalanced, neocolonial global order, including of the developed countries overwhelming overuse of the carbon budget for limiting temperature rise under Article 2.1(a)[1].

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[1] According to IPCC AR6 SYR: Historical cumulative net CO2 emissions between 1850 and 2019 amount to about four-fifths of the total carbon budget for a 50% probability of limiting global warming ot 1.5C (central estimate about 2900GtCO2), and to about two-thirds of the total carbon budget for a 67% probability to limit global warming to 2C (central estimate about 3550 GtCO2)

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MAKING SENSE OF ARTICLE 2.1(c) OF THE PA

Article 2.1's opening paragraph reads: "*This 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:*

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and

(c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

Sub-paragraph 2 states that "*This Agreement will be implemented to reflect equity and the principle of CBDR & RC), in the light of different national circumstances*."

In the negotiations as recalled by TWN, Article 2 as a whole was understood as the "purpose" of the PA.

While the "purpose" of the PA is a global aspiration, it has to be implemented to reflect CBDR&RC – which means there are differentiated obligations which are then operationalized and spelt out in the various articles that follow, which embed differentiation in the respective obligations as provided for in the PA.

HOW IS THE "PURPOSE" OF THE PA OPERATIONALISED?

A reading of the PA makes clear that the purpose/purposes of the PA in Articles 2.1(a), (b) and (c) are operationalised or implemented in the following ways, *inter alia* –

- in respect of Article 2.1(a) – relating to the temperature goal, by Article 4.
- in respect of Article 2.1(b) – relating to the adaptation goal, by Article 7 and

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- in respect of Article 2.1(c) – relating to finance by Article 9. In addition, under Articles 4 and 7, references are also made to the provision of support for implementation.

Article 2.1(c) is therefore an enabler for 2.1(a) and 2.1(b) and not a stand-alone purpose.

The link between Article 2.1(c) and the Article 9 is therefore the centrality of Article 9 on the provision and mobilisation of climate finance by developed countries (which are mandatory commitments) while other Parties can do so voluntarily. The relevant articles are set out below -

Article 9 sub-para "1. Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention."

This paragraph continues to ensure that developed countries are not absolved from their existing financial commitments under Articles 4.3 and 4.4 under the UNFCCC.

Sub-paragraph 2 states that "*Other Parties are encouraged to provide or continue to provide such support voluntarily."*

Sub-paragraph 3 provides that "*As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts."*

These provisions make clear the role of developed countries in the provision and mobilisation of climate finance, which is what climate financing is about.

VEHICLE FOR ALIGNING FINANCIAL FLOWS IS VIA RESPECTIVE NDCS

Article 3 states that, *"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."

Article 3, which describes what NDCs are, is the crux of the PA as the vehicle to reflect each Party's response as part of their respective global effort **in meeting the purpose of the PA**. The NDCs are supposed to be comprehensive, covering not only mitigation and adaptation efforts, but also relate to finance, technology and capacity-building.

The NDCs of developing countries generally cover 2 components – the conditional component which indicate the international resources needed as climate finance, while the unconditional component covers resources mobilization domestically.

DIFFERENTIATED ROLES IN THE ALIGNING OF FINANCE FLOWS

Read together with Article 2.1(c), flowing from the above, this would mean that developed countries in their provision and mobilisation of climate finance to developing countries, will endeavor to make these finance flows align with a pathway towards low greenhouse gas emissions and climate-resilient development. This must also include financing the just transition in developing countries.

In addition, developed countries in their own climate actions are expected to enable finance flows to align with Article 2.1(c), including of their financial actors.

Developing countries on the other hand, in their domestic resource mobilisation (as represented by the unconditional component of their NDCs), will also make finance flows align with a pathway towards Article 2.1(c).

In addition, with the international support provided by developed countries as per Article 9, developing countries will also implement their NDCs which are meant to enable low greenhouse gas emissions and climate-resilient development, which means both mitigation and adaptation and can also address loss and damage. Where the NDC does not include adaptation, this can be included through an adaptation communication as per Article 7.

Hence, for all countries, financial flows as a response to climate change should be aligned with Article 2.1(c), as reflected in their NDCs, in response to Article 2.1(a) and Article 2.1(b).

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As stated above, for developing countries, there is an international component and a domestic component in terms of resource mobilisation. The international component reflects the climate finance needed from developed countries, as per Article 9.

This is how we understand the operational implementation of Article 2.1(c) in enabling the alignment of financial flows, and in ensuring complementarity with Article 9.

ALIGNING FINANCIAL FLOWS IS A NATIONAL RESPONSIBILITY

Given the above, enabling the alignment of financial flows is a responsibility of national governments.

In addition, for developing countries, this also means aligning with their climate change needs and priorities within the context of sustainable development and poverty eradication.

NO TO INTERNATIONAL STANDARD SETTING AND GUIDING FRAMEWORKS FOR ALIGNMENT OF FINANCIAL FLOWS

Since aligning financial flows as per Article 2.1(c) must be a national responsibility with appropriate policies and measures respecting the national circumstances of a country, there is a need to respect the equity and CBDR&RC principle as developed and developing countries are not at the same starting point, there should not be a role for a multilateral top-down setting and imposition of standards and frameworks.

Asymmetries in the governance of the global financial system predominantly set by developed countries mean that regulatory and policy design in the international financial architecture will not lead to equitable outcomes in developing countries in addressing their climate challenges.

There are currently many standards and initiatives such as the International Sustainability Standards Board's (ISSB) corporate sustainability disclosure standards that are being drawn up at the global level by non-inclusive, un-transparent and opaque processes which are dominated by northern institutions.

Such global standards do not take into account equity and CBDR&RC principles and fail to incorporate differences between developed and developing country entities, including those that are small- and medium-sized.

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Hence, the adoption of such global standards by developed countries on their financial actors disadvantage developing countries, especially for the much needed transition finance to move from high-carbon to low carbon economies and enable climate resilient development, as illustrated below.

Further, in relation to Article 2.1(c) and aligning financial flows to enabling climate resilient development, it is clear from the various biennial assessments of the SCF that level of adaptation finance is not in balance with funds going to mitigation.

With the lack of public resources to address adaptation challenges, and impacts of rising loss and damage, climate risk assessments by northern financial sector actors and credit-rating agencies will rate these vulnerable countries as high risk who are not climate resilient, including those who have mounting debts.

Hence, the cost of borrowing for them will be higher, making it hugely problematic for those developing countries who are most in need of financial resources. Therefore, this is why public resources from developed countries and not reliance on the market or the private sector is needed to address these challenges of developing countries.

ALIGNING FINANCE FLOWS MUST NOT IMPOSE 'GREEN CONDITIONALITIES'

In aligning financial flows consistent with Article 2.1(c), there must not be the imposition of 'green conditionalities' which make it difficult for developing countries to access finance.

The alignment with Article 2.1(c) must necessarily include financing for the just transition, as it involves "a pathway", and demonstrates the operationalisation of the principle of equity and CBDR&RC.

TWN has heard of anecdotes that in the name of the need for "Paris alignment", western banks in developing countries are not lending even loans to sectors like steel or coal, even though these sectors are seeking resources to transition away from being carbon intensive or are phasing down from coal. Such cases illustrate the problem of green conditionalities, that make adjustments and transitions difficult for developing countries.

Further, the imposition of conditions such as developing countries needing to have in place carbon pricing measures such as emissions trading schemes before they are allowed access to finance smack of conditionalities that are unjust and unfair on developing

countries, whose policy space is impeded upon, as they may prefer other policy options that may be more appropriate in their national circumstances.

Such signals to financial actors are contrary to the country-driven strategies as embodied in Article 9.3.

MUCH HYPE ABOUT PRIVATE FINANCE AND INVESTMENT FLOWS TO DEVELOPING COUNTRIES

There is much hype about private finance and investment flows into developing countries and the constant refrain that there is much opportunity to shift the billions to the trillions!

According to the SCF's technical report on the USD 100 billion mobilisation, the expectation for private finance mobilisation has been severely an underperformance.

The World Bank's own 'Scaling Solar' project to try and leverage private finance for renewable energy projects only managed to leverage 28 cents of private finance for every $1 of public finance, and only with the support of generous guarantees, tax breaks and subsidies by the governments.

Furthermore, access to low-cost finance is uneven as the cost of capital differs substantially between regions, with developing countries often paying an interest rate many times more to private creditors than other official creditors.[2]

From recent International Energy Agency report on energy, the high cost of capital and rising borrowing costs threaten to undercut the economic attractiveness for investments in clean energy in developing countries, and that most of the positive trends in clean energy investments are leaving developing countries behind.

There are also studies which show that while international financial institutions (IFIs) have made progress, for example with increased climate financing and coordination, IFIs have also been slow to release their financial firepower to meet the demonstrated need,[3] and continue to prioritise de-risking modalities which have little evidence of success.

[2] Eurodad, 2021. Sleep now in the fire: Sovereign Bonds and the Covid-19 Debt Crisis. https://www.eurodad.org/sovereign_bonds_covid19;

[3] An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks, 2022. Boosting MDBs' investing capacity. https://g20.org/wp-content/uploads/2022/07/CAF-Review-Report.pdf

CONCLUSION

Viewed in the above context, there are genuine concerns over use of Article 2.1(c) as a way to impose new conditionalities for accessing finance in the name of enabling environments and to shift the burden and responsibility onto developing countries, contrary to article 9 of the PA.

Hence, the current stress on Article 2.1(c) by the developed countries must not go in the wrong direction, which will make it difficult for developing countries to access the much needed climate finance for meeting their NDC implementation and for contributing to the achievement of the purpose of the PA.

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