Bolivia on behalf of the Like-Minded Developing Countries Group (LMDC)

Submission in response to the request:

Requests the Standing Committee on Finance to continue its work regarding ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation, in accordance with decision 10/CMA.3, paragraph 2, for consideration by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement at its fifth session (November–December 2023) and invites Parties and stakeholders in the financial sector to make further submissions thereon

Introduction:

Any accurate interpretation of Article 2, paragraph 1(c), of the Paris Agreement must frame its implementation within the bounds, provisions and principles of the United Nations Framework Convention on Climate and its Paris Agreement and in the context of the entirety of Article 2, including Article 2, paragraph 2. The effective implementation of Article 2.1(c) must adhere to the various relevant provisions within the Convention and its Paris Agreement, especially those in Article 9 of the Paris Agreement that detail the finance obligations. As the Convention and its Paris Agreement have already been adopted, with the Rule Book agreed, any interpretation of Article 2.1(c) that falls outside the bounds and scope detailed in their provisions would be inaccurate and would place in question previous agreements.

To achieve this, discussions on the Article should be framed within the following guiding principles:

- Article 2.1c must be considered within the context of addressing climate change, in the context of sustainable development and efforts to eradicate poverty.
- Article 2.1c must be within the context of Article 2.1 of the Paris Agreement reflecting that achieving the temperature goal requires provision of means of implementation such as finance, transference of technology and capacity building, according with Article 4.7 of the Convention.
- Interpreting Article 2.1c within the context of and to reflect Article 2.2 of the Paris Agreement. Article 2.1c should be implemented in a manner to reflect the principles of equity and common but differentiated responsibilities and respective capabilities, in light of different national circumstances.
- Interpreting Article 2.1c within the context of the means of implementation and support obligations of developed country Parties (Annex 1 countries), including finance needs for capacity building and technologies in line with national circumstances and needs, in the context of implementation of Article 9 of the Paris Agreement, in particular 9.1. Noting that 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, in particular through public funds.
- In the spirit and provisions of the Convention and its Paris Agreement, discussions on Article 2.1c must proceed in line with a bottom-up, non-prescriptive and nationally determined approach.
- Acknowledging the importance of making finance flows for climate action consistent with the needs and priorities of developing countries.
- Noting that any discussion of Article 2.1c must be posterior to the fulfillment of financial commitments of developed countries in the context of UNFCCC negotiations, in particular the provision of UDS 100 billion per year, in the context of restoring the trust on financial negotiations between Parties.

- Noting also, that any discussion of Article 2.1c must be in tandem to the debt relief and debt cancellation contracted from developed countries by developing countries, as a way to move forward the payment of the climate debt.

In the absence of a currently accurate interpretation and understanding of Article 2, paragraph 1c, previously agreed provisions, particularly the following ones, should be relied upon:

- Article 2 of the Convention in relation to the stabilization of greenhouse gases while ensuring that food production is not threatened and to enable economic development to proceed in a sustainable manner
- Article 3 paragraph 2 of the Convention in relation to the full consideration of the needs of developing Parties that would have to bear a disproportionate or abnormal burden
- Article 3 paragraph 4 of the Convention on the right to sustainable development and the need to align climate action with national development programmes
- Article 3 paragraph 5 of the Convention in reference to restrictions on international trade
- Article 6 of the Convention on the historical responsibilities of developed Parties
- Article 4 paragraph 7 of the Convention on the role of finance and the priorities of developing countries
- Article 4 paragraphs 8 and 10 of the Convention in relation to national circumstances and response measures
- 1/CP.21 paragraph 52 on the provision of financial resources from developed countries to developing countries to enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions with respect to both mitigation and adaptation to contribute to the achievement of the purpose of the [Paris] Agreement as defined in its Article 2
- Articles 2, 3, 4, 7, 9, 10, 11 and 13 of the Paris Agreement on the objectives of the Paris Agreement and the manner of their achievement
- Article 2 paragraph 2 on the common but differentiated responsibilities of Parties
- Article 9 of the Paris Agreement on the role of developed Parties in providing and mobilizing climate finance to developing Parties.

  Therefore, discussion of Article 2.1 must not be undertaken alone but interlinked to the following rationale. Any discussion on Article 2.1c must be contingent upon the implementation of articles 3 and 9 of the Paris Agreement, in the context of Article 4.7 of the Convention; the conclusion of NCQG negotiations and effective implementation; the full achievement of provision of financial provision and other means of implementation by developed countries, and must be undertaken in the context of equity, CBDR-RC and climate justice.

Context:

It is important that the interpretations of developed country Parties do not become the de-facto interpretation of the Article. Noting with concern that the developed countries proposal on Article 2.1c is shifting away their responsibilities under the UNFCCC and its Paris Agreement, for the provision of financial resources to developing countries, to the private sector financing and to the Multilateral Development Banks. Also, developed countries' proposal on Article 2.1c is attempting to link provision of financial resources to the fulfillment of the pathway of achieving net zero by 2050. This developed countries' proposal is against the UNFCCC and its Paris Agreement. The LMDC is not able to support any discussion of Article 2.1c in this direction.

In that regard, the synthesis of views report from the Standing Committee on Finance is an opportunity for framing the right track for the discussion developing country Parties in particular to add their voice to the discussion on Article 2.1c. The Sharm El Sheikh Dialogue on Article 2.1c is also another platform that allows developing country Parties to do so.

For the LMDC the Article 2.1c discussion is contingent upon the fulfillment of commitments under Article 9 of the Paris Agreement, taking into account the significant role of public funds, and must be applied taking into account Article 4.7 of the Convention, in the context of equity and CBDR-RC, and taking in to account that achieving sustainable development is the overarching goal for sustainable development in developing countries.

It is also important to note with serious concern, that the pre-existing interpretations of Article 2.1c by some developed country Parties have been adopted by several actors within the broader climate finance ecosystem to the detriment of developing country Parties, undermining the trust in multilateral negotiations under the UNFCCC. According to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, markets for green bonds, ESG (environmental, social and governance) and sustainable finance products have had limited applicability to many developing countries.[1] Also, this report highlights that climate justice and social justice are key factors to enable adaptation and ambitious mitigation actions and climate resilient development. It has been also recognized that public finance is an important enabler of adaptation and mitigation, and can also leverage private finance. Therefore, climate justice and public finance are interlinked and key elements for consideration in this discussion.

According to the Climate Policy Initiative (CPI), Western Europe and North America received USD 141 billion in private climate finance in 2019/2020 compared to USD 37 billion across South Asia, the Middle East, Africa and South America combined.[2] Furthermore, according to Morningstar Direct, ESG investment assets are concentrated in Europe (81%) and the United States (13%).[3] Currently, finance is not flowing to the countries that require finance the most to advance climate-related objectives.

According to CPI, the private sector provided an average of USD 1 billion to adaptation activities globally between 2019/2020 compared to USD 307 billion to mitigation activities in the same period. The reality is, the private sector is not interested in financing adaptation projects and will always prioritize financing projects that are profitable.

The current approach to interpreting and achieving Article 2.1c is currently a distraction used by developed countries to shift away the core of the central discussion on financial issues, which is the provision of finance from developed countries to developing countries, in the context of the UNFCCC and its Paris Agreement, therefore is not effective in driving climate action in developing countries, and is only a way to shift away responsibilities and strengthening more injustice, inequity and mistrust in the implementation of solutions to solve the climate crisis. A course correction is therefore necessary to ensure that the goals of the Paris Agreement are achieved to reflect the principles of equity and common but differentiated responsibilities as well as enabling implementation of climate action in developing countries.

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[1] https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SummaryForPolicymakers.pdf

[2] https://www.climatepolicyinitiative.org/wp-content/uploads/2021/10/Full-report-Global-Landscape-of-Climate-Finance-2021.pdf

[3] 30 ESG And Sustainable Investing Statistics (July 2022 Update) - SustainFi

Interpretation of Article 2.1c

The objective detailed in Article 2.1(c), namely, *making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development* should be accurately interpreted and understood before approaches to achieving it are discussed.

Making finance flows consistent

It is important for Parties to reach an agreed view on what is meant by finance flows. With an absence of an agreed view on the matter, previously agreed text and principles need to be relied upon.

In accordance with the references and principles mentioned in the document, finance should flow from developed Parties, whether provided, mobilized or incentivized to developing Parties in view of achieving Article 2 of the Paris Agreement. The considerations of achieving article 2.1(c), should then take into account how to make finance flows from developed countries to developing countries consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Additionally, Article 2.1c implies the adjustment of financial flows, without socio-economic or geographic specification. Adjusting finance flows should be interpreted as incentivizing finance through policies that apply at the national level in accordance with Article 3 of the Paris Agreement as part of Nationally Determined Contributions (NDCs) and in line with national development plans (Article 3 paragraph 4 of the Convention). This interpretation is also consistent with the latest findings of the IPCC, which states that "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 [both of which are defined within national climate action plans such as NDCs].**"[4]

Making finance flows consistent implies the alignment of financial flows, namely, to regulate financial flows or to dictate the direction of such flows towards an end when disbursing finance. Financial flows are rightly directed and regulated by government supervisory bodies, agencies, and ministries in accordance with a given government's sovereignty to undertake policy decisions. Developed country Parties can also align financial flows to developing countries with country needs by adopting a country-driven approach to climate finance that is guided by the needs and priorities of developing countries.

As such, **financial flows can be directed through the implementation of initiatives, policies and regulations at the national level by the relevant government entities, as appropriate and in line with the principle of common but differentiated responsibilities and respective capabilities.** This interpretation is also consistent with the latest findings from the IPCC that underscore the importance of economic and regulatory measures taking place at the national level. According to the Summary for Policymakers of the Synthesis Report of the Sixth Assessment Cycle, "effective policy packages would be comprehensive, consistent, balanced across objectives, and **tailored to national circumstances**."[5] Such approaches at the national level can take many forms, including but not limited to economic diversification plans and direct public financing of projects that support the achievement of NDCs.

Pathway towards low greenhouse gas emissions and climate-resilient development

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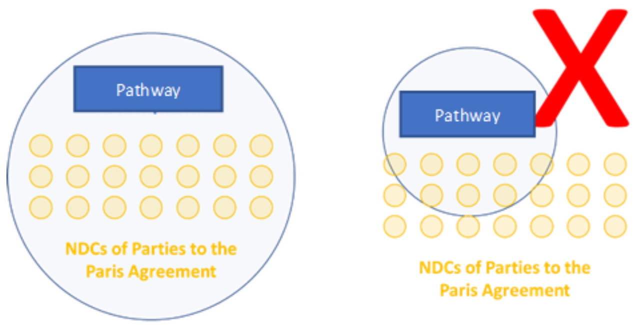
[4] https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf

[5] https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_SPM.pdf

Low greenhouse gas emissions and climate-resilient development relate directly with objectives 2.1(a) and 2.1(b), commonly understood as the mitigation and adaptation objectives of the Paris Agreement. The objectives are common, however in view of Article 2.2 and in line with the provisions and principles of the Paris Agreement and the Convention, the responsibilities are differentiated and the contributions are nationally determined.

Article 3 of the Paris Agreement, outlines how its objectives will be achieved; *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.*

As NDCs represent each Party's contribution to the achievement of the common objectives of the Paris Agreement, it should therefore be understood that **the pathway towards low greenhouse gas emissions and climate-resilient development must encompass all the pathways identified by Parties in their NDCs to reach the objectives of the Paris Agreement, and in that manner, it represents an aggregation of all NDCs.**



This interpretation is in line with 1/CP.21 paragraph 52 which states that *financial resources provided to developing country Parties should enhance the implementation of their policies, strategies, regulations and action plans and their climate change actions with respect to both mitigation and adaptation to* ***contribute to the achievement of the purpose of the Agreement as defined in its Article 2*****.**

In accordance with the above, **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.**

Furthermore, **the alignment of domestic financial flows must occur at the national level to ensure just transitions and to ensure that climate action plans outlined in NDCs and other national reports receive financial support to enable the achievement of the Paris Agreement's objectives.**

Making financial flows consistent with the needs and priorities of developing countries should not only refer to where the finance must go, but also how it is dispersed, namely its quality. For finance to be consistent with climate resilient **development**, it must be disbursed in a manner that is concessional and without exacerbating developmental issues in developing countries, particularly issues relating to debt. It must also be disbursed in a manner that considers sustainable development priorities and efforts to eradicate poverty. Currently, there are many misalignments in climate finance related to scale (failure to deliver on USD 100 billion), thematic distribution (mitigation vs adaptation) and quality (concessional vs non-concessional).

Relationship with Article 9:

Article 9 defines how developed countries' differentiated responsibilities towards the achievement of Article 2.1c can be met and reported on.

Article 9.1 would clarify that financial flows are related to finance that developed country parties shall provide to assist developing countries with respect to both mitigation and adaptation.

By consistency with a pathway, Article 9.3 would respond, that these resources need to take into account the needs and priorities of developing countries.

Article 9.4 would add that that flows should have a balance between mitigation and adaptation, consider, again, the needs and priorities of developing countries, and that resources for adaptation should be grant-based and from public sources.

Article 9.7 would finalize by saying that this provision should be transparent, information should be consistent and that a distinction between resources provided and mobilized be made.

Relationship with Article 3:

Article 3 is a vehicle through which Article 2.1c can be implemented, as Nationally Determined Contributions to the achievement of the Paris Agreement. National policies, such as public funding to climate action or economic diversification, to shape financial flows are integrated within a given Nationally Determined Contribution and the impacts of such policies enable the implementation of other objectives and priorities within the Nationally Determined Contribution.

Ways to achieve Article 2.1c:

There is no single set of policy tools and approaches that can be utilized by all countries to achieve Article 2.1c. Approaches and policy tools will naturally differ from country to country based on respective capabilities, differentiated responsibilities, equity consideration and different national circumstances. In that sense, **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, it is contingent upon the implementation of previous referred articles, in particular 3 and 9, therefore cannot be discussed alone, and it is dependent upon the final conclusion on the NCQG negotiations An isolated discussion of Article 2.1, as it was forced by developed countries, distorts completely the meaning of Article 2.1. Noting also, that any significant discussion on Article 2.1c must be posterior to the real and effective fulfillment of provision of financial resources from developed countries to developing countries in the context of UNFCCC negotiations. Finally, any reflection on Article 2.1c must be undergone in the context of equity, CBDR-RC and climate justice.**

In accordance with the previous sections, Article 2.1c should be understood as making finance flows from developed country Parties to developing country Parties consistent with the needs and priorities of developing countries, as well as pursuing efforts to make financial flows at the domestic level consistent with a given jurisdiction's climate action plans in line with its national circumstances and respective capabilities and to address the unconditional elements of its Nationally Determined Contribution. More simply, at the international level developed countries should aim to finance the implementation of climate action as per the recipient's needs and priorities. At the domestic level, finance should be availed to enable the implementation of climate action. Both of which correspond with the conditional and unconditional elements of an NDC for example.

As such, **to align finance flows, such approaches may be adopted to achieve the objective as set out in Article 2.1(c)**:

- **Developed countries:**
  - Policies in developed countries to incentivize investments in, contributions and finance to developing countries' NDCs and other national plans and policies to ensure consistent financial flows provided to developing countries to meet NDC requirements, needs, and priorities;
  - Increasing the scale of climate finance support to developing countries, while ensuring that such finance responds to their needs and priorities.
- **All countries:**
  - Policies to attract investments in NDCs and other national plans;
  - Policies to align domestic finance flows with respective NDCs and other national plans;
  - Financing projects that support the implementation of NDCs and other national plans.

All approaches are nationally determined and there is no one-size-fits-all solution that can apply to all countries, particularly when considering their different national circumstances.

With regards to the provision and mobilization of climate finance, developed country Parties shall fulfill their legal obligation in accordance with Article 9 of the Paris Agreement and do so in a manner that responds to the needs and priorities of developing country Parties.

Any other policies made by Parties shall apply unilaterally without impacting international trade in accordance with Article 3 paragraph 5 of the Convention.

Developed country Parties should set in place policies that incentivize investments in, contributions and finance to developing country Party NDCs without prejudicing any areas of the NDCs, in accordance with priorities defined by a given recipient and in a manner that does not negatively impact development prospects. In addition to policies to ensure consistent financial flows provided to developing countries NDCs to meet needs, priorities and requirements.

Developing country Parties may set policies that attract foreign direct investment in projects that serve their NDCs and other national plans. All Parties may set local policies that align domestic financial flows with their NDCs and other national plans (Article 3 paragraph 4 of the Convention).

Differentiated Responsibilities within Article 2.1c

	Developed Countries	Developing Countries
Aligning provided finance to recipients' needs	Yes	X
Aligning mobilized finance to recipients' needs	Yes	X
Directing domestic flows to activities that align with national climate action plans in accordance with national circumstances and capabilities	Yes	Yes

Current inconsistencies within finance flows

In line with the accurate and comprehensive interpretation of Article 2, paragraph 1(c), presented in this document, we have developed a preliminary and non-exhaustive list of inconsistencies within financial flows, particularly in relation to developed countries' financial obligations as outlined in the Convention and its Paris Agreement. When considering the need to achieve the goals of the Paris Agreement listed in 2.1 of the Paris Agreement in the context of Article 2.2, current inconsistencies in financial flows from developed countries represent a barrier to ambition and implementation in developing countries. Such, core and persistent, inconsistencies must be addressed within the outcome of the New Collective Quantified Goal on Climate Finance as an overriding priority. Without a course correction in financial flows from developed countries, there cannot be a basis for further discussions on Article 2.1.

Developed countries' obligations

1. **Commitment gap:** There is an inconsistency between amount of finance mobilized by developed countries (in USD) compared to the USD 100 billion goal commitment.
2. **Quantum gap (needs):** There is an inconsistency between the USD 100 billion goal amount and the USD amount needed by developing countries to implement their NDCs (5.6-11 trillion by 2030), in line with their needs and priorities.
3. **Quantum gap (ambition):** There is an inconsistency between the amount of finance provided and mobilized by developed countries compared to the level of ambition of developing countries.
4. **Thematic distribution gap:** There is an inconsistency in the thematic distribution of climate finance compared to needs and priorities of developing countries. More finance is provided and mobilized for mitigation compared to adaptation, while more needs are listed for adaptation than mitigation in developing countries' NDCs.
5. **Development gap:** The lack of consideration of development priorities within the provision and mobilization of climate finance is inconsistent with need for climate resilient development.
6. **Quality gap:** There is an inconsistency in the quality of climate finance provided and mobilized versus the quality needed by developing countries with regards to the need for concessional and grant-based support.
7. **Access gap:** There is an inconsistency with the access features of the operating entities of the financial mechanism compared to developing country capacities. There is a gap in coverage of developing countries that have accredited direct access entities within operating entities of the financial mechanism.
8. **Predictability gap:** There is an inconsistency between the level of predictability of finance required by developing countries to effectively design medium to long-term climate action plans, and the current level of predictability.
9. **Transparency gap:** There is an inconsistency between the transparency needed to enhance trust and enable implementation and the current state of transparency, where progress on commitments is disputed and unclear.
10. **Additionality gap:** Within the context of transparency issues, there is an inconsistency between the needed demonstration of additionality versus the current state.
11. **Alignment gap:** There is an inconsistency between the priorities and eligibility criteria of different climate finance channels and the priorities, plans and projects across different developing countries.