**Submission on Article 2.1.c of the Paris Agreement**

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) has requested 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 invited Parties and stakeholders in the financial sector to make further submissions thereon.

In continuation with the earlier submission (made in May 2022 and attached as Annexure), India would like to reiterate that Article 2.1.c has to be seen within the context set by Article 2 and Article 9 of the Paris Agreement. Article 2 mandates action to address climate change giving due regard to action required for sustainable development and poverty eradication. Such action is to be taken as provided in Article 2.2 in keeping with the principles of equity and common but differentiated responsibility and respective capabilities in the light of national circumstances. Further, Article 9 which relates to financing of climate action including mitigation and adaptation places the responsibility on the developed countries to provide financial resources to assist developing countries and to lead the mobilization of resources from various sources.

For the developing countries, it is the adaptation and resilience measures that take prominence, as the warming of the atmosphere is already a concern especially given that a substantial part of the carbon space has already been used up by the developed countries and considering the long lifespan of carbon. The UNFCCC and its Paris Agreement recognise that action needs to be taken in accordance with the principles of equity and common but differentiated responsibility and respective capabilities. Focus only on mitigation measures taken by the developing and the developed countries is inherently iniquitous as developed countries have already peaked with respect to carbon emissions-some as far back as in the 1970s while India and other developing countries have yet to reach their peak.

Discussion on carbon mitigation cannot be in isolation, a transition to low carbon economy will have macroeconomic impacts. With hardly any significant support on finance and technology so far, for a developing country, growth is imperative for generation of internal resources for otherwise external dependence increases vulnerabilities.

The Needs Determination Report (NDR) of the Standing Committee of Finance(SCF), places the requirement of developing countries to be in the range of USD 6 to USD 11 trillion till 2030. As mentioned above and also documented by several reports- such as from SCF or OECD or OXFAM, the existing resource flows from developed to developing countries are minuscule as compared to these requirements. Added to this, is the conundrum of access to technology and critical mineral resources, absence of which can choke any climate action while also adversely impacting sustainable development as a whole, thereby also affecting resilience of developing countries negatively. Optimum climate action will depend extensively on the action by the developed countries to facilitate resource flow that is timely, adequate and on grant and concessional basis and access to technology . Financing for adaptation and resilience must take precedence.

**Annexure**

**Submission on Article 2.1.c of the Paris Agreement**

1. Introduction

The Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) has invited 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. On the basis of the inputs, the Standing Committee on Finance would need 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).

1. Background

Article 2 of the Paris Agreement seeks to improve the implementation of the United Nations Framework Convention on Climate Change (UNFCCC) (hereinafter ‘the Convention’), with the view to strengthen the global response to climate change in the overall context of supporting sustainable development and eradication of poverty. It sets down three actions points, namely:

1. to hold 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.* This is proposed with a view to reduce risks and impacts of climate change.While there is no specific mention of mitigation strategy, reduction in greenhouse gas emissions that is essential for achieving the above-mentioned objective can mostly be achieved through a low greenhouse gas development pathway.
2. to enhance adaptation and foster resilience to the adverse impacts of climate change. The agreement also mentions the need to push for the low greenhouse gas emission pathway. The condition being placed is that the process should not threaten food production.
3. To make available finance flows consistent with low green house gas emissions and climate resilient development.

Article 2.1c addresses the flow of resources that are consistent with low greenhouse gas emissions and climate-resilient development. However, it is important to note that Article 2.1 c, rather all the action points set by Article 2, are preceded with the text that indicates that these actions are in the context of better implementation of the Convention and have to be undertaken in a manner that supports sustainable development and poverty alleviation. The action points are also qualified with Article 2.2, which establishes that the implementation has to reflect the principles of equity and common but differentiated responsibilities and respective capabilities in the light of different national circumstances. This brings home the point that the discussion on the action required to implement Article 2.1 c is incomplete and inappropriate without duly considering the other elements ensconced in Article 2.

Further, the goals set in Article 2.1 itself derive legal force from the articles of the Convention and other articles of the Paris Agreement. Since, Article 2 is only aiming to enhance implementation of the Convention, it is the understanding that the commitments under the Convention have to hold and are not being reneged. Also, the other provisions of the Paris Agreement such as Article 9 that relate to flow of financial resources would affect the implementation of Article 2.1 and more specifically Article 2.1 c which is specific to financial flows. Article 9.1 mandates that the 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.

Since the obligations under the Convention are being sought to be continued, the commitments have to be read in line with Article 4 of the Convention which require the developed countries to take the most prominent share of the cuts in carbon emissions and provide new and additional resources that cover the full and incremental cost of the transition to low carbon pathways in the developing countries and to also facilitate technology transfer to aid the process. The Paris Agreement also foresees the need for mobilization of funds by the developed countries from a wide variety of sources, instruments and channels. It however, notes the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and by considering the needs and priorities of developing country Parties. This mobilization of climate finance needs to represent a progression beyond previous efforts. Article 9.4 also seeks that a balance be maintained between adaptation and mitigation including providing public and grant-based resources for adaptation to the vulnerable countries.

1. **Operationalizing Article 2.1c- Issues on which consensus is required**
2. Context and operationalization

Article 2.1(c) is read as “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. The phrase on its own does not provide clarity with respect to its operation. Its implementation will require that it be read in the context of the commitments taken under the Convention and the Paris Agreement. This aspect is also duly taken care of by the chapeau of Article 2 that sets the context and by Article 2.2 that lays down the extent of responsibility on countries, as being directly related to their level of development, respective capabilities and the national circumstances, captured well by the principles of equity and common but differentiated responsibility and respective capabilities in the light of national circumstances. It is, therefore, incongruous to only focus on Article 2.1 c, in fact the discussion has to be in the context as set by Article 2 as a whole.

One of the persistent challenges within the climate finance debate has been that developing country Parties lack the resources and the technology to adequately address climate change. The Paris Agreement does mention mobilization of resources from a variety of sources but also place emphasis on public finance (Article 9.3). The onus lies on the developed countries to provide resources (Article 9.1) and mobilize financial resources from a variety of sources for climate action (Article 9.3). It needs to be remembered that private organization remain non-parties to the climate regime set by the Convention and its Paris Agreement and as such have no obligations under it. Therefore, the obligation lies with the developed countries to make available resources for climate action.

The technical negotiations should focus on ensuring the quality, scale and scope of the flow of finance towards emissions reduction as per the global goal; build adaptive capacity and climate resilient economic infrastructure in developing countries including vulnerable countries, and preserve food security for all across the planet. Article 2 of the Paris Agreement in fact seeks to strengthen the global response in the context of equity, CBDR, Sustainable Development and poverty eradication.

1. Finance- Quantum and Quality of flows for Climate Action by Developing Countries

Article 2.1(c) only talks of ensuring consistency of finance flows with the pathway towards low greenhouse gas emissions and climate-resilient development. The target for the pathway has been determined by Article 2.1(a) and (b) and this has to read in the context weaved into Article 2 of sustainable development and poverty alleviation. The financial requirement for climate action by the developing countries has increased substantially and currently estimates for taking climate actions as brought out by Standing Committee of Finance are laying out a case for trillions in new and additional financing. The adequacy of fund remains an issue and scaling up of fund from the developed country Parties is an important requirement for climate resilient future. Developed country Parties need to enhance the contribution substantially and quickly in the form of grant, concessional loans and guarantees. Clearly, the finance flows need to have the scale, the scope and the speed to ensure translation of the objective of low carbon pathway and climate resilience and adaptation to reality. In this context, a collaborative approach is warranted to enable an ambitious collective quantified goal for ensuring effective climate actions by developing countries. Given the responsibility placed on the developed countries to take the lead in providing resources and in keeping with the commitment under the Convention and the Paris Agreement, climate finance should be a grant by the developed country or a concessional loan or guarantees provided by the developed countries to promote private companies to finance climate action in developing countries. This could also include the cost incurred by the developed countries in nudging their private companies to take adaptation action in a developing country. In the case of loans, it is important to ensure that the time horizon for loans and the rate of interest charged should be preferably similar to the International Development Association (IDA) loan.

Tracking finance delivery, especially with “consistent with a pathway”, is very difficult without a clear understanding of the taxonomy of the financial flows. As part of deliberations, it will be important to agree on what will qualify as finance. These discussions should allow making progress towards convergence on issues like treatment of ODA, new and additional resources and climate specificity of the flows, need for predominantly unencumbered financial support. Such detailed classification is the foremost step towards the achievement of the long-term goal of the Paris Agreement. We must, therefore, move towards more robust methodologies to prevent ambiguity and double counting.

Article 9.5 and Article 9.7 of the Paris Agreement address predictability and transparency of financial flows. If the objective of Article 2, including article 2.1(c), has to be met in letter and spirit, it is pertinent that it should be possible to assess the extent of finance flow to adaptation and mitigation action and their alignment with the NDCs. The discussion should move on to the quality of finance flows in addition to the deliberation on the quantum. In implementing the Paris Agreement, it will be critical to determine how progress towards Article 2.1c can be defined, reported on and collectively assessed in the near and medium term.

Alongside increased flows of finance, the developing world have repeatedly stressed the need to improve access to finance. Mechanisms for accessing resources are often slow, complex, effort intensive, uncertain, project-based and ambiguous. Deliberations on Article 2.1c should address how access to flows could be enhanced, including ways to simplify and streamline procedures.

1. **Way Forward on Article 2.1c**

* Article 2.1(c) reads as “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”. The phrase on its own does not does not provide clarity with respect to its operation. Its implementation will require that it be read in the context of the commitments taken under the Convention and the Paris Agreement. This aspect is also duly taken care of by the chapeau of Article 2 that sets the context and by Article 2.2 that lays down the extent of responsibility on countries, as being directly related to their level of development, respective capabilities and the national circumstances, captured well by the principles of equity and common but differentiated responsibility and respective capabilities in the light of national circumstances. It is, therefore, incongruous to only focus on Article 2.1 c, in fact, the discussion has to be in the context as set by Article 2 as a whole.
* There is a need to not only speed up financial allocations but also improve the finance quality, scope and accessibility and sources of funding to fit the needs of developing countries. Ultimately, we must ensure the provision of funds to all developing country Parties through existing Financial Mechanisms of the Convention, allotting funds through a direct access modality that bears into play a fixed and reliable annual quota of financial support for developing countries for their implementation needs as reflected in their NDCs, their Adaptation Communications, the Biennial Transparency Reports, and the needs determination report that the SCF has put forward and will continue to update.
* There should also be data on how these flows have managed to calculate adaptation and mitigation impacts or made reference to specific climate actions and how the flows have aligned to NDCs and National climate actions/policies. Several inferences can be made because at the end of the day, the discussion should not be only on the amount of finance quantified but, on its quality, and impact.
* Resources for climate action may originate and be channelised through public or private sector sources. Given the responsibility placed on the developed countries to take the lead in providing resources and in keeping with the commitment under the Convention and the Paris Agreement, climate finance should be a grant by the developed country or a concessional loan or guarantees provided by the developed countries and multilateral financial institutions to promote private companies to finance climate action in developing countries. This could also include the cost incurred by the developed countries in nudging their private companies to take adaptation action in a developing country. In the case of loans, it is important to ensure that the time horizon for loans and the rate of interest charged should be preferably similar to the International Development Association (IDA) loan. If loans for climate are at non-concessional rates, it should still be cheaper than market rates.