Lessons from implementing Article 2.1(c)

Efforts towards operationalising the long-term finance goal

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Why is Article 2.1(c) important to discuss?

- It recognises the full effort needed to finance climate action – a focus on positive climate finance flows alone will be insufficient
- Article 2.1(c) has risen on the agenda as a result of:
  - Inclusion in the first Global Stocktake (Article 14) that concludes in Dubai (COP28)
  - The Sharm el Sheik Implementation plan from COP27, that mandated two workshops on the topic in 2023
  - It being discussed in the context of the NCQG

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Opportunities and Challenges of Article 2.1c

- Allows for a more holistic consideration of how to finance climate action
- Could reveal wider inequities in the financial system and create opportunities for reform
- Implementation of Article 2.1(c) could make climate finance more effective

- Lack of common understanding of scope
- It might be used as a distraction from the provision and mobilisation of climate finance
- Multilateral system cannot deliver formal mandates to the breadth of relevant actors and stakeholders

A framework for action on Article 2.1(c)

- Intended to be a tool supporting positive discourse and learning
- Recognises Article 2.1(c) is a collective goal reflecting the full scale of financing effort to support, and not undermine, the deep and rapid transitions to a low-emission, climate-resilient world
- Focus is on governments as Parties to the Paris Agreement and key to shaping public and private finance flows
- Suggests an array of tools to cost-effectively manage the transition with no single pathway towards achieving it, nor data point to capture the rate of progress

Framework proposed in 2018, by ODI, WRI, RMI and E3G

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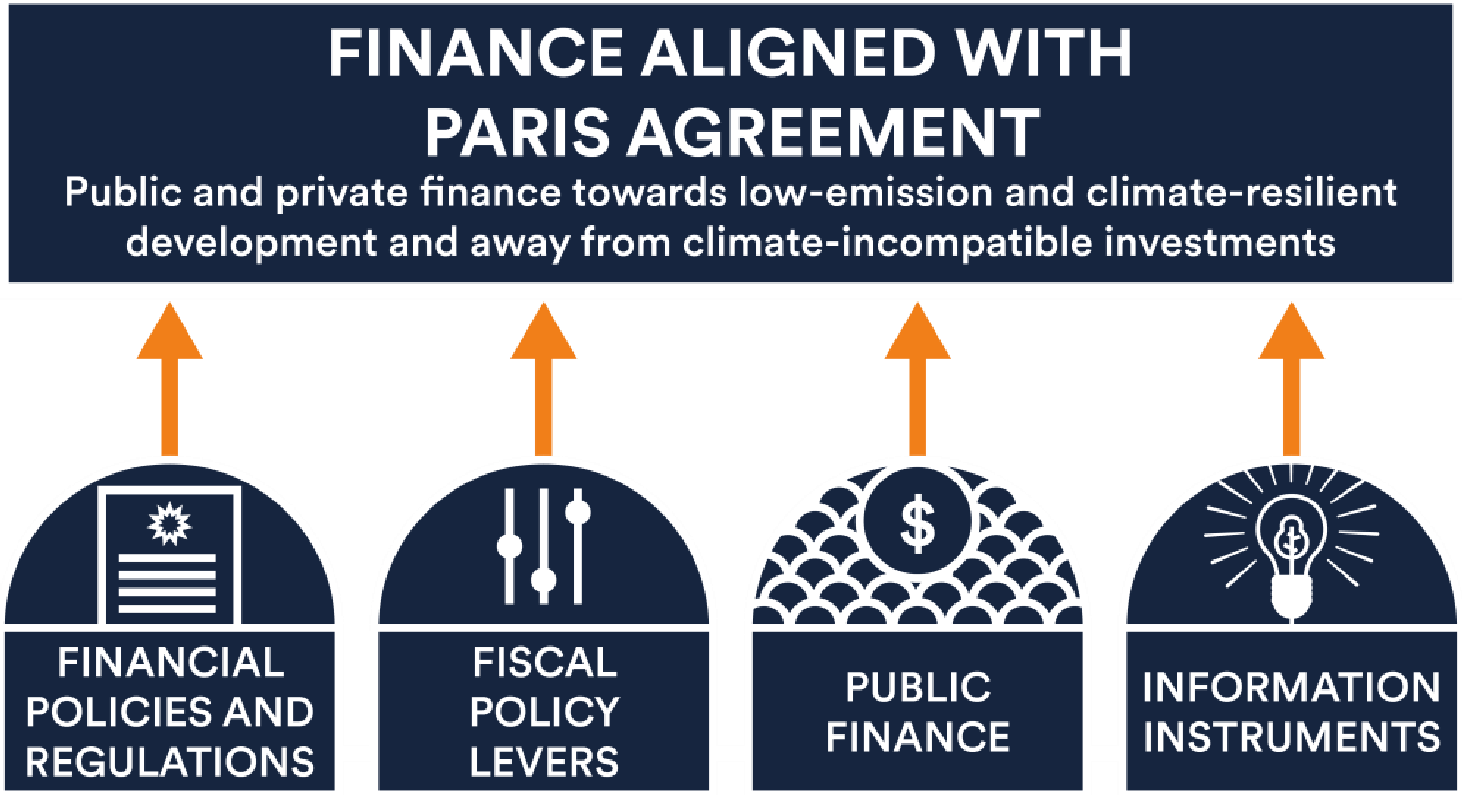
Article 2.1(c) framework of government-led action

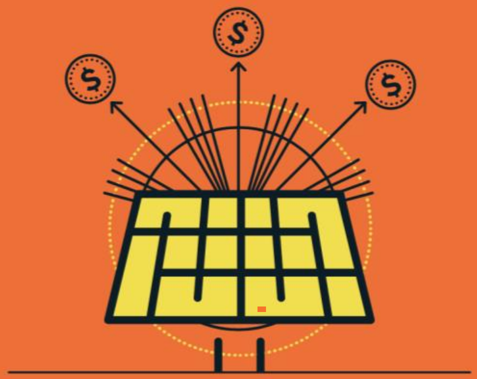


What have finance ministries done?

- Over six country case studies using the 2018 framework completed in developed and developing countries
- These show that actions are being taken by finance ministries

In the EU, the Sustainable Finance Disclosure Regulation and Corporate Sustainability Reporting Directive will enhance financial sector transparency on ESG issues and see more companies provide detailed reporting on sustainability.

As part of their Sustainable Finance Roadmap, Indonesia have designed a detailed green taxonomy aimed at classifying and guiding green investment.



The Rwandan government are encouraging the development of off-grid solar power systems with innovative tax exemptions.

In Colombia, the use of a carbon tax on fuels created a voluntary carbon market; boosting emissions reductions in the forest sector and creating revenues for other environmental objectives.[2]

In Belize, the innovative "debt for nature swap" scheme restructures sovereign debt in exchange for investment in nature and marine conservation.

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Image extracted from the independent GST finance working group GST TD1.3 poster submission

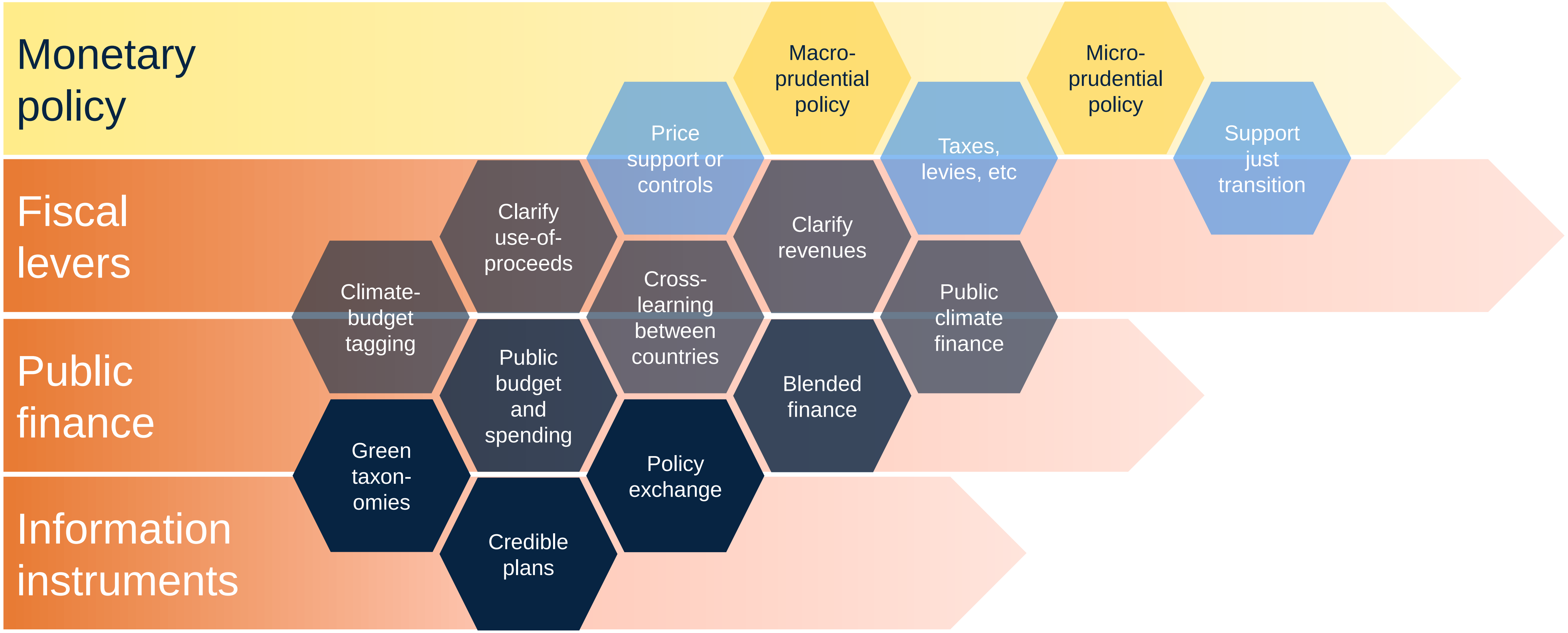
iGST Independent Global Stocktake

What does progress look like for finance ministers?

- Progress is mostly measured using climate-positive or –negative frameworks. Despite issues, these are useful for measuring the direction of progress for finance ministries
- However, real progress is about enabling real economy actors to make Paris-aligned investment decisions. Ministries of finance are one of the most important actors in creating such enabling environments
- “Actor-specific” approach requires qualitative assessments at country- or global level

Climate-positive frameworks	**Strengths:** Quantifiable **Weaknesses:** Bias against poorer countries and adaptation sectors. May not incentivise Paris alignment **Examples:** CPI
Climate-negative frameworks	**Strengths:** Quantifiable and help incentivise Paris alignment of finance flows by highlight laggards and raising awareness of Paris misalignment **Weaknesses:** May not recognise invisible barriers to mobilising Paris-aligned finance, such as high costs of capital **Examples:** Fossil fuel finance
Enabling frameworks	**Strengths:** Potential to have more transformative impact by identifying bottlenecks and regulatory barriers **Weaknesses:** May not capture real-economy investment decisions **Examples:** Whitley et al. (2018)

What can finance ministries do?



Takeaways

- Finance ministries shape the real-economy investment decisions of a range of actors, from individuals to multinationals
- However, they do not act in isolation. Policies, plans and actions need to be considered relative to other actors, particularly central banks and regulators
- Technical, non-political actions are also possible that help create enabling conditions for other stakeholders to incentivise Paris-alignment of finance flows

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