

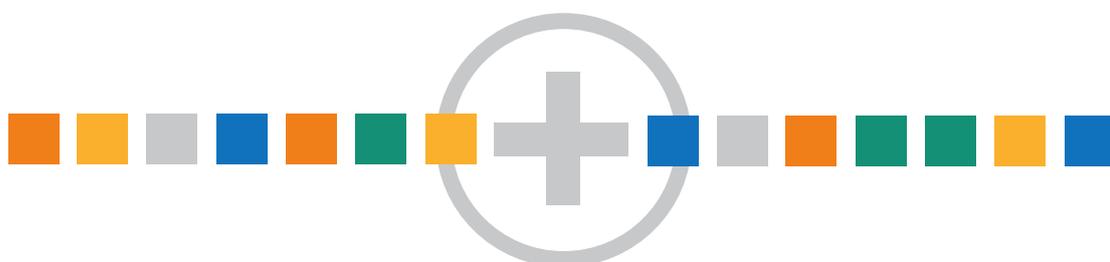
Exploring the intersection of equity and Article 2.1(c)

Towards an improved Global Stocktake

Chantal Naidoo, Patrick Lehmann-Grube, Ailly Sheehama,
Judy Beaumont, Charlene Watson, and Laetitia Pettinotti

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About the independent Global Stocktake (iGST) and Finance Working Group

The Independent Global Stocktake (iGST) is a consortium of civil society actors working together to support the Global Stocktake (GST), the formal process established under the Paris Agreement to periodically take stock of collective progress toward its long term goals.

The iGST aligns the independent community — from modelers and analysts, to campaigners and advocates — so we can push together for a robust GST that empowers countries to take greater climate action.

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The Finance Working Group (FWG) of the independent Global Stocktake (iGST) is an open partnership bringing together a range of expert perspectives from the global north and south on the progress made toward financing climate action, co-chaired by Charlene Watson of ODI and Raju Pandit Chhetri of Prakriti Resources Centre. The FWG aims to support the official UNFCCC Global Stocktake (GST) process and is organized around two complementary themes: the provision of support to developing countries to mitigate and adapt to climate change and the consistency of finance flows with low-emission, climate-resilient development, as outlined in Article 2.1(c) of the Paris Agreement.



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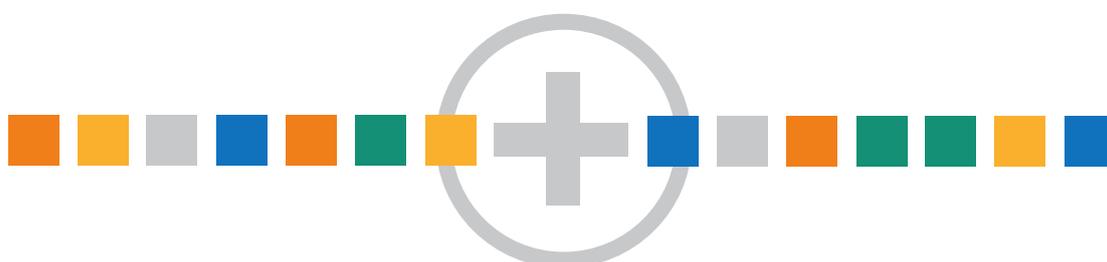


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The Paris Climate Agreement, adopted in 2015, has become the guiding multilateral agreement on the global response to climate change. The Global Stocktake (GST) was established under Article 14 of the Paris Agreement, to periodically ‘assess the collective progress towards achieving the purpose of [the Paris] Agreement and its long-term goals’ (UN, 2015a). The key question for the first GST relating to finance flows involves Article 2.1(c), which stipulates that the parties agree to ‘*making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development*’ (ibid.).

Within the United Nations Framework Convention on Climate Change (UNFCCC), the concept of Common But Differentiated Responsibility and Respective Contributions (CBDR-RC) is the dominant lens through which equity is understood. It encapsulates the disproportionate effects of climate change and historic and systemic imbalances, and the impact this has on countries’ ability to respond to the climate crisis. It is a principle that has been embedded in the Paris Agreement and so applies to Article 2.1(c).

Bringing together finance flows and equity, the first GST seeks to measure collective progress on Article 2.1(c) ‘in light of equity.’ The measurement challenge is particularly acute for several reasons.

One reason relates to the reticence to engage on Article 2.1(c) among the parties. Since the adoption of the Paris Agreement, Article 2.1(c) has not been incorporated into formal finance negotiations. Where informal engagements have ensued, the vastly heterogenous nature of the interpretations and applications of the article is evident. Therefore, Article 2.1(c) has remained largely contested, and an uncertain point of engagement among parties, since 2015. Some progress was evident at the 27th Conference of the Parties in 2022, at which parties agreed to advance work on Article 2.1(c).

Despite the lack of engagement, the UNFCCC’s Standing Committee on Finance (SCF) in its 2020 Biennial Assessment Technical Report applied a framing for mapping actions relevant to Article 2.1(c):

1. *Actions:* What voluntary or mandatory actions ‘make finance flows consistent’?
2. *Object:* What finance flows are impacted as a result of such actions?
3. *Effects:* Do such actions to make different finance flows consistent have particular effects/impacts, especially in support of Articles 2.1(a) and 2.1(b)? Are such effects consistent?
4. *Goal:* What is the goal of the actions, and are the actions consistent in light of such a goal?

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A further reason relates to the difficulties in measuring collective progress on a goal that is intimately linked to nationally determined and implemented actions towards low-greenhouse gas (GHG)-emission, climate-resilient development. The updated Nationally Determined Contributions (NDCs) are global statements of intent, often dependent in the case of developing countries on securing appropriate and adequate resources. Each country in turn has its own climate response strategy that reflects national climate vulnerabilities. For example, some fossil fuel-dependent or emission reduction-oriented countries focus on net zero. Other countries, especially small island developing states and least developed countries, focus on resilience, adaptation and disaster management (including loss and damage). Each of these response strategies will in turn have different financial response strategies, with their consistency context- and focus-dependent.

This paper offers a bridge to understanding equity and Article 2.1(c) through the lens of three examples: the Net Zero Commitments and the Race to Zero campaign; the Vulnerable Twenty (V20) and its Global Shield (GS); and the Just Energy Transition Partnerships (JETPs).

These examples represent emerging climate responses from the vantage points of trade and finance flows and the unique financing needs of vulnerable countries and fossil fuel-dependent countries. These examples offer a useful lens to understand the potential direct and indirect implications various mechanisms, tools, and initiatives have on finance flows, and equity. The paper applies the SCF's 2020 Biennial Assessment framing questions and the CBDR-RC principles on equity to the examples, drawing insights on Article 2.1(c) 'in light of equity.'

Key takeaways from examples

Case study Key insights on the intersection of equity and Article 2.1(c)

Net Zero Commitments and *Race to Zero* not only are a race in a traditional sense but also require the application of a rights and equity lens. This implies ensuring that net zero plans do not create inequities amid climate responses. The potential 'side-effects' of a single-track Race to Zero on emissions highlight that Article 2.1(c) in the context of 2050 equity requires a systemic approach and lens, appreciating that climate policies have both positive and adverse effects on vulnerable communities. Therefore, consistency in light of equity has to focus on using finance flows to ameliorate such vulnerabilities.

The V20 and the GS – a dignified response strategy in recognition that the V20 countries have economic growth and prosperity objectives alongside climate objectives, and so focuses on the quality of



as social protection and finance flows. The financial contributions to the GS and the contingency finance, nature of the instruments may make it challenging to measure spearheaded by the V20 the predictability and consistency of the finance flows it finance ministers generates. The GS represents an important first step in shifting finance flows towards consistency, with clear objectives around which to change the financial architecture for adaptation and resilience financing. It is also a country-led approach by a vulnerable constituency that highlights existing high levels of indebtedness and the need for sustainable fiscal options.

Just Energy Transition Partnerships (JETPs) are platforms that recognise the transition-related finance needs of heavily fossil fuel-dependent countries. The partnerships between example draws specifically on South Africa's JETP and its developed and developing investment plan, which calls for needs- and principles-based countries to respond to finance flows to enable its just energy transition. It makes the financing challenges of argument that equity considerations should influence the countries heavily quality of finance flows provided to countries as expressed in dependent on fossil fuels appropriate funding terms and conditions, as well as the mainstreaming of equity (a justice lens) into proposed investments. Risk-sharing arrangements between international and national as well as public and private finance flows, provided through accessible distribution channels, are also elements of equitable finance flows.

The insights from these examples that may be relevant for the current and future GST are as follows:

Each of the examples focuses on multiple outcomes that in varying degrees reflect environmental, economic and social ambitions either directly or indirectly, as a basis for action towards Paris Agreement goals. The range in ambitions should influence how 'collective progress' is understood.

1. Environmental ambitions are relatively clear and focused on either Article 2.1(a) or Article 2.1(b) in terms of lowering emissions or building resilience to climate change.
2. Economic ambitions expressed either implicitly or explicitly across the three examples are wholly dependent on finance flows to deliver investment, growth and development.
3. Temporal differences in undertaking actions across and within countries create a spectrum of opportunities associated with Race to Zero and JETPs but also veil the side-effect sequencing-based equity considerations of emission reduction policies at sectoral and trade levels.
4. Social ambitions across the three examples also appear to be varied and veiled in some instances.

Assessing progress on Article 2.1(c) requires an equity-centred approach to finance flows and that the notion of ‘progress’ for finance has qualitative metrics. Such progress on the consistency of finance flows in the context of equity may entail the following:

1. Consistency of finance flows requires an approach that embeds rights-, principles-and needs-based and people-centred financing dimensions.
2. Consistency implies a particular profile of finance flows, which is beyond project-specific interventions, but also finance flows that support portfolios of investment and appropriate funding terms and conditions.
3. Finance flows targeting particular ‘pathway’ goals such as net zero or ambitious NDCs require metrics to make it possible to understand the systemic transformation and contributions.

The progress on equity in the context of shifting finance flows draws mainly on the issues discussed in the paper around CBDR-RC. Responding to this question within the GST and beyond should factor in the following:

1. Finance flows must explicitly adopt the principle of CBDR-RC as the basis for action.
2. Finance flows need to be needs-based and country-owned.
3. Finance flows need to mainstream just transition components within all interventions and actions.
4. Intra-regional, intra-governmental and community-level finance flows need to be included.
5. Finance flows need to prioritise inclusivity, gender sensitivity and the needs of vulnerable communities.

Transitioning to a sustainable, low-emission development path is a disruptive process with impacts on society and the economy, as well as an influence on the quantity and quality of finance flows. This shift will create transition-related side-effects that must be recognised from an equity perspective. This requires a new paradigm that acknowledges that:

1. New financing terms and conditions are necessary that reflect needs, rights and accounts for the side-effect equity considerations of climate policies.
2. Transformative and system-focused finance flows are essential to enable consistency in finance flows given that the nature of actions to be financed requires pathway shifts.
3. National circumstances will influence the ability to absorb or adjust to the additional costs of shifting to new pathways and also raise the need for additional finance flows.



The current GST, and future iterations and engagements on Article 2.1(c) in particular, needs to reconsider its baseline assumptions for assessing collective progress, so that the nuances of heterogenous responses are not diluted. These assumptions could include the following:

1. Different starting points are inevitable and necessary to factor into the pursuit of nationally driven pathways.
2. The roles of actors are different, and each has differential access to actions and capabilities.
3. Qualitative effects of finance flows are different across actions.
4. Different ways of assessing progress exist based on national and international perspectives.
5. Distinguishing what constitutes progress in the current GST is essential, as with the question of progress at what cost, and who bears such cost.
6. Financial systems are interconnected, and actions do not occur in a vacuum, which strengthens the emphasis on 'in light of equity' as a primary driver for understanding progress on Article 2.1(c).
7. The GST's technical annex could promote questions to help evaluate actions (or inaction).
8. The GST's political outcomes need also to interrogate and elevate an equity-centred approach into how finance flows are framed and assessed.

The Sharm El Sheikh Implementation Plan calls for transformation of the financial system to advance renewable energy investment at scale. As work around the transformation of the financial system is burgeoning, insights can be drawn from the malaise and resistance to engaging on Article 2.1(c) to inform a more engaged and balanced transformation agenda. These points will have relevance for the multilateral development bank reform agenda as well:

1. A potentially flawed assumption of the current transformation agenda relates to its premise of scaling up finance for renewable energy investments only. Adaptation, resilience and recognition of loss and damage, as well as funding for immediate disaster relief, represent high physical risks to the financial system that should be factored into the reform agenda early in its formulation.
2. Outside of the UNFCCC's finance flows and financial system transformation agenda are stark economic and social vulnerabilities that COVID-19 has exposed, with polycrises and breakdowns escalating globally. These are elements to be considered in context of equity lens.
3. The financial sector's transformation agenda itself has temporal dimensions, with short-term measures that are useful for advancing particular outcomes in particular constituencies and medium- to longer-term actions needed in parallel. Initiatives such as the Bridgetown Agenda, the V20's Accra–Marrakesh Accord and the forthcoming 22–23 July 2023 Summit for a New Financial Pact recognise the need for systemic transformation across a spectrum of reform ambitions that target different urgencies. There is a place for heterogenous approaches, as this

paper shows, given the difficulties in measuring or assessing ‘collective progress.’

4. Equity perspectives highlight the detrimental economic effects, and further social vulnerabilities, of transformative policies. Thus, the financial system’s transformation in the absence of a rights- and principles-based approach would be harmful to society, especially given the negative equity side-effects of climate policies
5. Such negative consequences, if not accounted for through the provision of appropriate social safety nets, additional finance flows and related capabilities, will undermine any transformation agenda.
6. Interrogation of the baseline assumptions of risk, return, mandates and related ‘barriers to action’ underpins the proposals being put forward for transforming the financial system. This includes, for example, balancing the relationships of national and international and public and private actors, and ensuring complementary actions by all parts of the financial system.



+ 1. Focus of contribution



The global financial system is the driver of the climate response. It has the potential to effect immense shifts through its investment, incentive and risk management practices. At the same time, the financial system is capable of contributing towards climate risks through its actions or its inaction. Meanwhile, equity is an essential principle embedded in the 2015 Paris Climate Agreement. It fundamentally acknowledges the disproportionate effects of climate change and the historic and systemic imbalances that affect countries' ability to respond to the climate crises.

This paper introduces the interplay between equity and finance in the context of the Global Stocktake (GST), which aims to assess collective progress on Articles 2.1(a)–(c) of the 2015 Paris Agreement. Progress on lowering global temperatures (Article 2.1a) and building resilience to climate effects (Article 2.1b) is embedded in the United Nations Framework Convention on Climate Change (UNFCCC), through the Nationally Determined Contributions (NDCs) and related processes. However, progress on the finance-focused Article 2.1(c), which calls for parties to *make finance flows consistent with a pathway towards low emission and climate resilient development* is historically difficult to engage on (UN, 2015a).

Since 2015, Article 2.1(c) has not been incorporated into formal finance negotiation tracks, and its interpretation and application remain contested and uncertain. Despite the absence of engagement within formal UNFCCC processes, the global financial sector has nevertheless responded to the inherent vision of Article 2.1(c) through efforts to 'align' with the Paris Agreement. The 2020 Biennial Assessment of the Standing Committee on Finance (SCF) details actions and pledges by public and private financial institutions, including investment and corporate banks, finance ministries, central banks and others, to align their institutions with the goals of the Paris Agreement (SCF, 2021). New financial collaboratives proliferated after the Paris Agreement, including efforts such as the Glasgow Financial Alliance for Net Zero (GFANZ) to accelerate decarbonisation.

This paper considers three emergent examples of how finance and equity considerations are converging as considerations for the quality of finance flows to support climate action. The first example relates to the Race to Zero which aims for accelerating the transition, and introducing specific economic measures and targets to achieve its goals. The second example is that of the Vulnerable 20 (V20) proposition for a Global Shield (GS), to stem, and create insurance buffers against, climate events, specifically for small island development states and least developed countries (LDCs). Lastly, there is the Just Energy Transition Partnerships (JETPs), where the decarbonisation of fossil fuel-dependent countries motivates bespoke financial arrangements, underpinned by a focus on social justice and inclusivity.

The interplay of finance and equity through these examples triggers questions:

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1. What factors are at play in determining the consistency of finance flows in the context of equity?
2. What does progress on equity look like in the context of shifting finance flows?
3. At what cost is progress being made?
4. Who is bearing such costs?

Equity as an underlying principle for determining the qualitative impact of finance offers a useful lens for considering how to assess progress in relation to the alignment of finance flows with the Paris Agreement, an effort to which this paper aims to contribute. The following sections reflect responses to these questions.



+ 2. Status of Finance in the Global Stocktake

The GST is intended to ‘*inform Parties in updating and enhancing, in a nationally determined manner, their actions and support in accordance with the relevant provisions of this Agreement, as well as in enhancing international cooperation for climate action*’ (UN, 2015a). As such, the GST should inform 2025 NDCs in an upward cycle of ambition (Northrop et al., 2018) through regular stocktake and review. Scholars have also postulated that the GST should act as a pacemaker, an accountability and ambition enhancer and a provider of guidance and signals, to maximise its catalytic effect (Hermwille and Siemons, 2018).

At the 24th Conference of the Parties (COP24), in Katowice, Poland, in 2018, it was clarified that the GST would include assessment of progress towards Article 2, paragraph 1(a–c) and that, through the GST process, the opportunities and challenges for enhancing action and support in the light of equity and the best available science, as well as lessons learned and good practice, should be summarised (UNFCCC, 2018). In relation to the finance component of means of implementation and support,¹ it was further decided that the GST would consider information at a collective level on:

The finance flows, including the information referred to in Article 2, paragraph 1(c), and means of implementation and support and mobilization and provision of support, including the information referred to in Article 9, paragraphs 4 and 6, Article 10, paragraph 6, Article 11, paragraph 3, and Article 13, in particular paragraphs 9 and 10, of the Paris Agreement (UNFCCC, 2018).

The mention of these articles indicates that the GST finance theme will need to consider *collective* progress towards making finance flows consistent with low-emission, climate-resilient development, in addition to considering the absolute mobilisation and provision of climate finance from developed to developing countries, the balance between adaptation and mitigation finance and the prioritisation of the most vulnerable countries, including the LDCs and SIDs. It will further need to take into account if such provision and mobilisation meet the finance needs articulated by recipient countries, as well as understanding the ultimate impact of finance flows (Watson and Roberts, 2019).

2.1 Current progress in the GST

The first period of the GST started in 2021, at COP26 in Glasgow, and will end at COP28 in the United Arab Emirates. A GST is characterised as a two-year process, repeating

¹ It is well noted that means of implementation and support also include capacity-building and technology transfer; however, this paper focuses on the finance component of means of implementation and support.

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every five years. However, the three-year period between GST periods remains important as the momentum for raising ambition needs to be maintained and integrated into subsequent NDCs.

The Katowice decisions in Poland in 2018 laid out the modalities of the GST. These allowed for forward momentum but also left flexibility from parties, the chairs of the subsidiary bodies and facilitators, as well as the UNFCCC (Obergassel et al., 2019). Katowice decisions clarified that the GST was a three-stage process of *information collection and preparation, technical assessment and consideration of outputs* (UNFCCC, 2018). Figure 1 presents the timing of these phases.

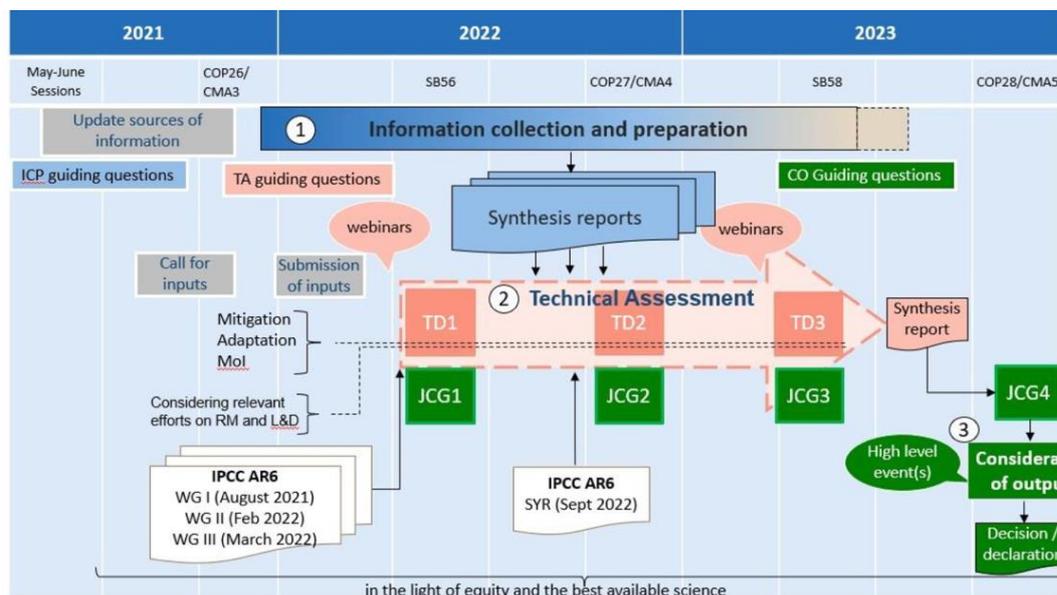
In the information phase, the Katowice decisions also noted that a wide variety of information sources would be eligible for inclusion in the GST, including from parties, non-party stakeholders, specialised UN agencies and more. The Biennial Assessment and Overview of Climate Finance Flows was identified as a formal input into the finance discussions of the GST, covering a breadth of topics related to the financing of climate action, from global total flows to south–south flows, as well as issues of climate finance access and effectiveness (SCF, 2022a). The Secretariat has also produced synthesis reports to guide the technical dialogue, including one on finance flows that pulls heavily on information included in the Biennial Assessment and Overview of Climate Finance Flows of the Standing Committee on Finance (UNFCCC, 2022a).

Two GST co-facilitators, one each from South Africa and the US, were tasked with facilitating three technical dialogues as part of the broader GST, in June 2022, November 2022 and June 2023. They will produce a technical synthesis report in the lead up to COP28. The co-facilitators have also published non-papers and information notes, seeking to ‘provide clarity and guidance’ for parties and stakeholders to prepare inputs and engage in the technical dialogues,² including a list of guiding questions. The technical dialogues have been undertaken via plenaries, roundtables, a world café and creative spaces. The co-facilitators have adopted a learning-by-doing approach throughout the process.

The end phase of the GST is less certain. In early 2023, submissions were invited on the approach to its outputs. Outcomes are likely to include a declaration and may include a decision at COP28, with or without a technical annex reflective of the technical report. Many submissions are seeking to generate political consensus for this end phase of the GST among parties of the UNFCCC, as well as externally, by linking to external events such as the United Nations Secretary-General’s Summit of the future 2024.

² These can be found at <https://unfccc.int/topics/global-stocktake>.

Figure 1 Timeline of the first Global Stocktake



Source: UNFCCC (2021a).

2.2. Expectations for the outcomes of the first GST

Northrop et al. (2018) articulated that the GST would need to be simple yet effective, providing signals to a diversity of actors and engaging across multiple stakeholders. The co-facilitators have made strong efforts to engage a variety of stakeholders in the technical phase. The variety of formats and instances through which non-parties can engage in and contribute to the GST have been recognised (CDP, 2022;).³ Anecdotally, some parties found the busy agenda at COP27 limited their engagement in the GST technical dialogues.

The remaining months of 2023 will focus on a consideration of outputs phase. The challenge of the output phase is to create a collective picture of progress in the face of differing country and country grouping circumstances and obligations. It will further be challenging for the GST to create high-level messaging with sufficient depth and detail to stimulate climate ambition that resonates across actors. However, the outcomes are anticipated to be important and influential. Srouji et al. (2022) suggest that the GST should influence not only NDCs but also broader climate action outside the UNFCCC process.

From a finance theme perspective, the GST outcomes will be very important for the transparency and accountability of agreed principles around means of implementation and support – specifically the provision and mobilisation of finance from developed to developing countries. The findings of the GST will interact with other ongoing processes, including the New Collective Quantified Goal on climate finance to be agreed by 2025. They could also further influence discussions on Article 2.1(c) and on arrangements for

³ <https://climatechampions.unfccc.int/un-climate-change-high-level-champions/>

financing loss and damage. As such, both the technical annex as an outcome of the technical phase and the outcome will need to accommodate multiple viewpoints in understanding the amount, speed, source and instruments of finance, as well as the balance between mitigation and adaptation finance.

The key questions for the 2021–2023 GST on the alignment of finance flows with low-emission, climate-resilient development in the context of equity will include how to measure collective progress towards Article 2.1(c) when action towards low-emission, climate-resilient development is nationally determined and implemented? In addition, how will global progress on shifts in finance flows consider the varying responsibilities for historical climate change and capacities of countries and actors to access and influence finance flows? An essential and enduring question will be, what does progress in the context of the impact or shifts in finance flows ‘look like’ at the international and national level, bearing in mind the financial architecture reforms that are being called for.



+ 3. The Evolution of Finance and Equity within the Paris Agreement

The work leading up to the adoption of the Paris Agreement at COP21 involved deep engagements on what equity means in the context of common global goals on climate change. The goals for lowering the global temperature to 1.5°C and no more than 2°C and building resilience to better respond to the effects of climate change recognised the vulnerabilities of parties, particularly SIDS and LDCs. The Paris Agreement also brought into sharp focus the role of the financial system in achieving these goals through the introduction of Article 2.1(c) as one of its key objectives. This section explores the positioning of Article 2.1(c) in the context of equity from a historical perspective. The section concludes with questions emerging through the confluence of finance with equity in the context of this historical perspective.

3.1 The evolution of Finance and Equity within the Paris Agreement

The distinction between quality and quantity of finance established by the 1987 Brundtland Report and inferred by subsequent UN-related processes was affirmed in 2015 through two multilateral processes that forged the Paris Agreement and the Addis Ababa Action Agenda on Financing for Development (Addis Agenda). These processes contained finance-related objectives that reflected the need for a qualitative, needs- and values-based view of finance, by introducing the language of ‘consistency’ and ‘integration,’ respectively.

The first finance objective relates to the Addis Agenda calling for an ambitious and sound financial environment to facilitate implementation of the Sustainable Development Goals (SDGs). Specifically, the Addis Agenda promotes ‘*cohesive nationally owned sustainable development strategies, supported by **integrated** national financing frameworks*’ (UN, 2015b) as central feature of member states’ efforts to finance sustainable development. The Addis Agenda draws attention to the need to integrate and create coherent and supportive trade, finance, monetary and economic systems to deliver on the SDGs (ibid.).

The second finance objective relates to Article 2.1(c) of the Paris Agreement: ‘*make finance flows **consistent** with a pathway towards low greenhouse gas emissions and climate-resilient development*’ (UN, 2015a). An implicit acknowledgement of the Paris Agreement is that finance flows are inconsistent with its long-term goals for development and that consistency is essential for meeting global climate goals. Article 2.1(c) is unique compared with prior UN finance decisions on climate change in that it specifically magnifies the full scale of what is required from a finance perspective to achieve the emission and resilience goals of the Paris Agreement (Whitley et al., 2018). That is, the

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pathway to low-emission and climate-resilient development is dependent on finance flows being consistent.

The Addis Agenda and Article 2.1(c) of the Paris Agreement are significant in that they signal a commitment among countries that places finance and financial systems at the forefront of the SDG Agenda and the global climate response. Implementation and interpretation, however, depend on national contexts.

The UN's 2019 Financing for Sustainable Development report encourages countries to develop financing frameworks to integrate sustainable development in accordance with the Addis Agenda. The report makes the important point that financing policies cannot be isolated, and any response to financing challenges must consider the broad development landscape. It suggests that countries align their labour market policies, social protection systems, competition policies, financial sector regulation and strategies, and trade policies with the new realities of development (especially levels of social inequality).

The UN has begun developing guidance for countries to respond to these finance-related objectives. For example, the 2018 Biennial Assessment Technical Report of the SCF of the UNFCCC presents datasets that could be used to track the consistency of finance flows (SCF, 2018). The data includes quantitative and qualitative measures classified by type of finance flows – that is, bank lending, bond markets, listed equity, private equity, insurance and reinsurance, assets under management and financial services. Guidance on how countries may implement Article 2.1(c) was a key priority for the 2020 Biennial Assessment Technical Report, which focused on mapping the range of activities being taken by the financial sector. Over 115 new initiatives since 2015 reflect commitments by different financial actors to advance climate action within their mandates (SCF, 2021). However, the report also raised the need to develop metrics to measure the impact of these commitments, specifically how they contribute towards achieving consistency of finance flows. This requires a relativity factor, rather than the general focus of alignment (which, in practice, appeared as a conflated issue), which is the predominant view of responding to Article 2.1(c) and broader finance initiatives in practice.

A key challenge in mapping progress relative to Article 2.1(c) is the lack of consensus among the parties on how to advance the article either collectively or according to country circumstances. The SCF technical work between 2018 and 2022 reiterates the position that understandings vary among different parties and non-parties (SCF, 2022b; 2022c). These fundamental differences create challenges in understanding the basis for common reporting and tracking, to assess collective progress on Article 2.1(c) (SCF, 2022c).

This was a particular challenge for the 2020 Biennial Assessment Technical Report, which would map for the first time information relevant to Article 2.1(c). The framing used in that report deconstructs Article 2.1(c)'s wording into action, object, effects and its primary goal, as Table 1 shows. Working back from the common goal of low-emission and climate-resilient development, the potential scope and heterogeneous responses implicit in Article



2.1(c) then become apparent. At the same time, international and national responses towards financing low-emission and climate-resilient development should support the qualitative goal of ‘consistency.’

Table 1 Deconstructing Article 2.1(c) for mapping relevant information

	Paris Agreement	Relevance for mapping purposes
Action	<i>‘Make’</i>	Actions (voluntary and involuntary) implemented through different mechanisms (e.g. policy, regulation, new financial instruments, principles, actor-led coalitions, forms of development cooperation)
Object	<i>‘finance flows’</i>	Flows in any form to aid the purpose of Article 2.1(c)
Effects	<i>‘consistent towards pathway’</i>	Actions that support low-GHG/carbon and climate-resilient development, and actions that support shifts in finance flows away from unsustainable high-GHG emission and low-resilience development
Goal	<i>‘low greenhouse gas emissions and climate resilient development’</i>	Relates to Article 2, including 2.1(a) and 2.1(b), in the context of equity and poverty eradication

Source: SCF (2021).

Engagement on Article 2.1(c) is not yet formally part of the UNFCCC’s negotiation agenda items. However, the SCF 2022 report acknowledges party and non-party proposals to dedicate a specific space in the negotiations to develop a workplan, including a global reporting framework to support assessment and transparency linking to the real economy impact of the pursuit of Article 2.1(c) (SCF, 2022c).

An interesting progression on finance within the UNFCCC negotiations more broadly is evident in a COP27 decision that shows the parties acknowledge the critical systemic role of the financial system, the required scale of its contribution and the degree of change required for such contribution, as stated in Article IX, paragraph 34 (UNFCCC, 2022c):

“Also highlights that delivering such funding will require a transformation of the financial system, and its structures and processes, engaging governments, central banks, commercial banks, institutional investors, and other financial actors”.

The construction of Article 2.1(c) within the Paris Agreement is very precise, in that it references consistency of *finance flows* for both low GHG-emission and climate-resilient development as per Articles 2.1(a) and 2.1(b). On the other hand, the language of the COP27 Sharm El Sheikh Implementation Plan references the *financial system* as an object of focus. These nuances beg the question whether progress on Article 2.1(c) may

indeed be superseded by a renewed focus on transforming the financial system in order to deliver the estimated \$4–6 trillion per year for decarbonization (UNFCCC, 2022c). It is interesting that the language in the Sharm El Sheikh Implementation Plan forged at COP27 does not explicitly reference the growing scale of climate-related vulnerabilities, and how a transformed financial system should provide for such needs. This is also consistent with the feedback from the First Technical Dialogue of the GST held during March 2023, at which calls for greater attention to adaptation and resilience financing issues were raised, as well as the need for more systemic approaches (UNFCCC, 2023c).

The negotiation process around finance (flows and system) as a common goal is evolving and interwoven. The growing focus on the systemic elements and contribution of finance is evident in Article 2.1(c) on consistency of finance flows, which is further advanced through the broader focus on the transformation of the financial system at COP27. The progressive positions on finance flows should also be considered in light of Article 9 of the Paris Agreement, which focuses specifically on the provision of finance and other forms of support from developed to developing countries to advance their climate actions. Indeed, these two Articles (2.1(c) and 9) have the potential to be complementary, mobilising both national and international finance flows – provided that consistency under Article 2.1(c) is engaged with in an equitable manner and not as conditionalities or barriers to accessing finance flows under Article 9 that developed countries have committed to provide.

The economic and social challenges following the COVID-19 pandemic lockdowns also gave rise to a spectrum of financial sector reform agendas that are presently unfolding. The Bridgetown Initiative promoted by Prime Minister Motley in 2022 appears to represent a shorter-term focus on expanding the lending capabilities of multilateral development banks (MDBs) and reducing the costs of capital particularly for vulnerable countries. The V20's Accra–Marrakesh Agenda, launched in April 2023, represents a medium-to longer-term reform programme that focuses on the Common Framework on enabling debt relief for vulnerable countries. The Accra–Marrakesh Agenda calls for deep reforms of the international and development finance system, more precision around carbon financing and the provision of finance for inevitable climate shocks and their spillover effects. The spectrum offers a useful insight into the heterogeneity and perspectives on what constitutes 'financial sector reform' – with healthy tensions to ensure that ambitions towards deep, systemic reforms are ultimately achieved. Article 2.1(c), though a fundamental trigger in the Paris Agreement, would need to be situated within the broader calls for systemic reform and more specifically the integration of social justice.

Progress on Article 2.1(c) 'in light of equity' thus raises an essential question around the individual needs of countries, their capability in making finance flows consistent and what consistency implies for different countries relative to their national circumstances, vulnerabilities, dependencies and capabilities. Given that the Paris Agreement is underpinned by an urgent temporal reality, 'in light of equity' also begs the questions of consistent by whom, by when and at what cost?



3.2 Equity considerations

Equity has been a central consideration and principle guiding multilateral environmental negotiations since the Stockholm Conference in 1972, 50 years ago, which placed environmental issues at the forefront of the international agenda (UN, 1972). At the time, negotiations were infused with tensions between the developed and the developing world about their relative negative effects on the environment, and therefore relative responsibilities to act. Fifty years later, the debate continues. In summary, equity is about fairness, justice and therefore differentiation in responsibility for taking action to address climate change impacts.

In 1992, at the United Nations Conference on Environment and Development (the Earth Summit), the concept of common but differentiated responsibility was formalised in Principle 7 of the Rio Declaration:

States shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit to sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command (UN, 1992a: 2).

The principle has two clear dimensions. First, there is common responsibility, arising from the concept of common heritage and common concern for humankind, reflecting the duty of states to share the burden of environmental protection for common resources. Second, this responsibility is differentiated, on the basis of (i) differing historical contributions to global environmental problems; (ii) differing vulnerability to the impacts of environmental degradation associated with deeply unequal material, social and economic situations across countries of the world; and (iii) differing financial, technological and structural capacity to respond and take action to address these problems. In essence, equity and differentiation are two sides of the same coin.

In the climate change negotiations, equity, in both concept and principle, has evolved. The UNFCCC was agreed in 1992 and entered into force in 1994. It contains several specific references to equity in its substantive provisions. Article 3 paragraph 1 states that:

The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof (UN, 1992b: 4).

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Other equity-related principles emphasised in Article 3 include (i) the need to take into account the specific needs and special circumstances of developing country and vulnerable parties, (ii) the right to promote sustainable development and (iii) the commitment to promote a supportive and open international economic system (UN, 1992b).

Article 4 of the Convention elaborates on the differentiation of commitments between developed and developing country parties. While protecting the climate system is a 'common concern of humankind,' developed countries (included in Annex I of the Convention) are expected to take the lead and assume a greater share of the burden (UN, 1992b: 1). Equity is also mentioned in the context of financial governance, to emphasise the importance of including procedural elements that guarantee distributive outcomes that are perceived to be equitable. This is embedded in Article 11, paragraph 2, which requires the financial mechanism of the Convention to 'have an equitable and balanced representation of all Parties within a transparent system of governance' (ibid.: 14).

In the negotiation processes leading up to the Paris Agreement, key areas of contestation included the relationship with the UNFCCC; the articulation of the principle of Common But Differentiated Responsibility and Respective Capabilities (CBDR-RC); and the operationalisation of this principle across the different pillars of the negotiation (in particular mitigation, adaptation and means of implementation). A proposal that gained traction in the build-up to COP21, particularly among the Africa Group and the LDCs, was the Equity Reference Framework (ERF). This sought to determine the required global emission reduction target, define the relative contribution to meet such a target and develop an assessment 'process for adequacy of commitments by Parties relative to their fair effort' (Ngwadla and Rajamani, 2014: 4). However, despite attempts to introduce an ERF, it never made it into the Paris Agreement (Northrop et al., 2018). Why?

In general, developed countries insisted that the Paris Agreement would be 'applicable to all,' while developing countries insisted it would be 'under the Convention,' and therefore the principles of the Convention, in particular the principle of CBDR-RC, would be directly applicable. For developing countries, giving effect to equity as a principle for engagement and action should be seen as the gateway for greater levels of international cooperation, leading to greater levels of ambition by all parties, in light of different circumstances (Al-Zahrani et al., 2019). The expectation was that developed countries would take the lead in scaling up their mitigation efforts, and providing means of implementation to enable developing countries to scale up their own mitigation and adaptation actions, as part of the common pursuit of sustainable development and the eradication of poverty. The definition of a global goal for emission reductions therefore had to be preceded by the definition of a paradigm for equitable burden-sharing (Hallding et al., 2011). Framed as equitable access to sustainable development, developing countries advanced the need for access to carbon space for development and poverty eradication, as well as sufficient time and support to make the transition to sustainable development (ibid.).



Box 1 The unintended consequences of mitigation efforts

The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) (2023) and other authors (Haldar et al., 2023) have drawn the link between mitigation efforts and the potential this has to further magnify social and financial exclusion of women and vulnerable groups. They have illustrated not only the need to account for this but also that any attempt to integrate equity and justice into mitigation efforts, and realise sustainable development, needs to address both the historical, and the potential for further, exclusion of these groups.

The compromise finally reached in the Paris Agreement reflects a nuanced and evolutionary form of differentiation, using a modified principle of CBDR-RC, *in the 'light of different national circumstances'* (UN, 2015a: 1). Differentiation in mitigation is reflected as evolutionary, and specifying differing types of mitigation action. While developed countries should undertake *'economy-wide absolute emission reduction targets,'* developing countries should *'continue enhancing their mitigation efforts'*, but *"are encouraged to move over time towards economy-wide emission reduction or limitation targets in the light of different national circumstances"* (ibid.: 4).

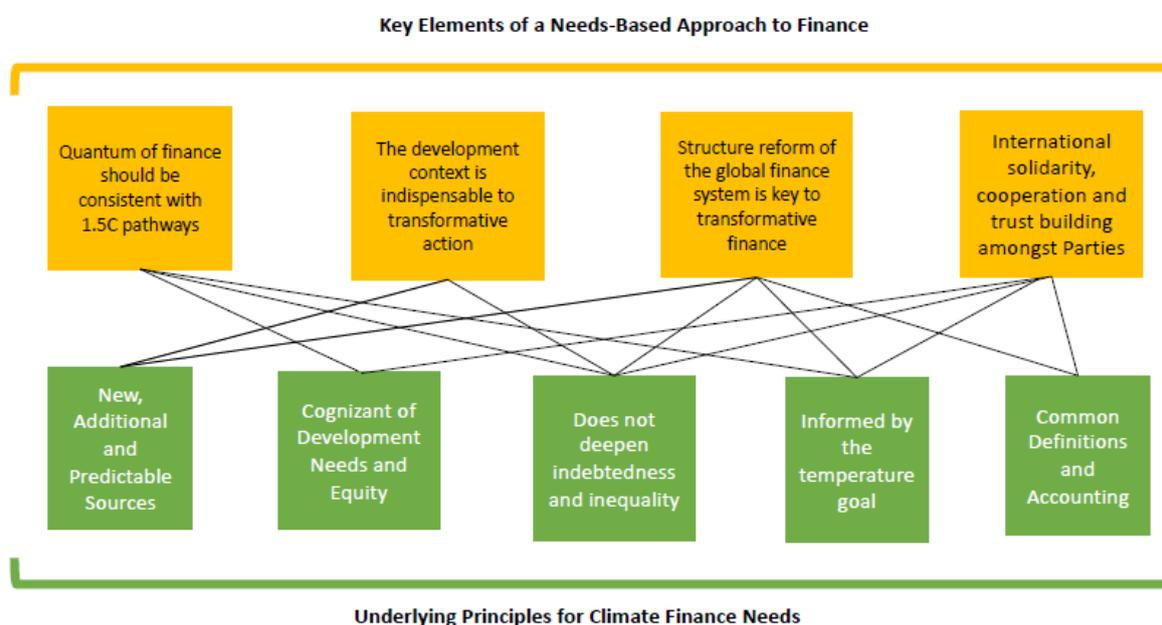
In the context of transparency, it was agreed for the first time that all countries would use the same reporting guidelines – but differentiation would be operationalised through flexibility for developing country parties *'that need it in light of their capacities'* (UN, 2015a: 16). Flexibility is also provided for LDCs and SIDS in recognition of their special circumstances. This concept was raised through the development of the Paris Agreement, and not only for transparency reporting. Article 9 in particular embeds the principles of transparency and flexibility to country circumstances, and it is important to reflect on such principles also in the context of equity.

In the context of finance, it was agreed that developed countries *'shall'* provide financial resources to assist developing countries with respect to both mitigation and adaptation – and the nuance was introduced with provisions encouraging *'other Parties'* to also provide such support voluntarily.

The Paris Agreement is therefore both anchored in the principle of CBDR-RC and captures a nuanced form of differentiation in favour of developing countries, also extending financial, technological and capacity-building support to these countries. It was the compromise on differentiation and support that finally made it possible for the Paris Agreement to be adopted (Rajamani, 2016).

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Figure 2 Key elements and underlying assessment principles for a needs-based approach to finance



Source: Ngwadla et al. (2023).

Building on this, and in the context of the upcoming GST (2023) and the need to measure progress around equity in climate, Ngwadla et al. (2023: 4) have identified four areas of consideration when considering equity in the context of finance: 'The quantum of finance, the development context, reforms to global finance systems and the indispensability of international cooperation and trust building for meaningful outcomes of the process.' All of these are significant in that they are underpinned by a needs-based lens, which is based on five key principles (see Figure 2) (Ngwadla et al., 2023):

1. new, additional and predictable sources of finance
2. cognizant of development needs and equity
3. does not deepen indebtedness and inequality
4. informed by the temperature goal and
5. common definitions and accounting.

These principles and the focus on a needs-based approach represent a further articulation and development in understanding equity within the context of climate finance and could allow for a more precise framework through which equity can be understood and gauged. The principles put forward by Ngwadla et al. (2023) do, however, need to bring a greater emphasis to Article 2.1(b) on building resilience and addressing impending vulnerabilities and the challenges of climate events.



The key question is what this evolution of the principles of equity and common but differentiated responsibility means for assessing progress towards the goal of Article 2.1(c).

3.3 Synthesis and approach for this paper

Considering Article 2.1(c) ‘*in the context of equity*’ requires appreciating both the quantity and the quality of finance flows. The recent First Technical Dialogue of the GST in March 2023 affirmed the need for a needs- and principles-based and people-centred approach to finance flows in particular. The expression of such needs reflects a growing focus on the qualitative elements of finance, even as the quantity of finance flows remains inadequate to meet climate response needs globally.

There is a paucity of empirical evidence and no lens through which to explore the consistency of finance flow goals in Article 2.1(c) in the context of equity. However, emerging innovations and country platforms and initiatives offer a useful basis for analysis as these require consistent finance flows that also deliver particular qualitative outcomes. Equity represents one such qualitative outcome underpinning the Paris Agreement. The just transition represents another such qualitative outcome. Both equity and just transitions are attempts to account and “hold at the centre” implications on affected livelihoods and people as climate policies are implemented, or not, among trading partners and country-led approaches.

Sections 4–6 explore emergent examples in which finance flows and equity are converging as key drivers of and determinants in low-emission and climate-resilient development. Section 4 looks at the Race to Zero, Section 5 the Vulnerable 20’s Global Shield and Section 6 the Just Energy Transition Partnerships. These examples represent climate responses from the vantage points of trade and finance flows, vulnerable states and fossil fuel-dependent countries to advance climate action. Each of these has potential direct and indirect effects on finance flows and implications for equity.

We highlight certain key features of these three examples, how they relate to Article 2.1(c) and equity in the context of their original positioning in the Paris Agreement. Though debates and perspectives on both equity, and consistency of finance flows are fluid, the Paris Agreement still represents an important reference point for understanding how equity and Article 2.1(c) apply.



+ 4. Net Zero Commitments and the Race to Zero

Most global emissions can be attributed to between 7 and 20 countries. For example, China, the US, India, the EU, Indonesia, Russia and Brazil accounted for 50% of 2020's global GHG emissions, and 75% to these plus a further 13 countries, including Argentina, France, Japan, South Africa and Saudi Arabia (UNEP, 2022). According to the NDC synthesis report (2022a), there needs to be a reduction by 45% of global emissions by 2030 to keep global warming within 1.5°C. By all accounts, the collective national plans are currently falling significantly short of this target – and instead show that a 10% increase in global GHG emissions is likely by 2030. With this in mind, the concept of a net zero goal has emerged for countries to aspire to.

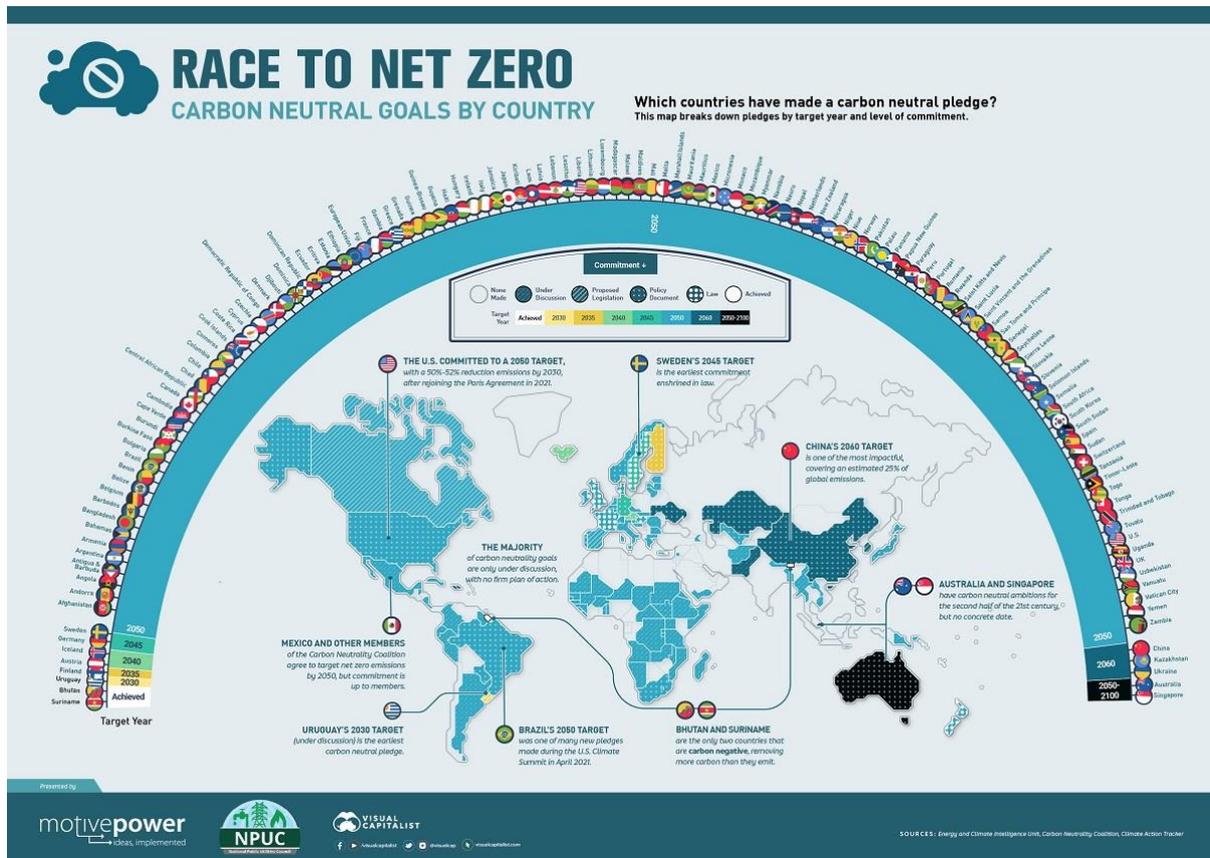
The idea of net zero is to cut GHG emissions to close to zero as quickly as possible but no later than 2050 in order to limit the global average temperature rise to 1.5°C above pre-industrial levels. The concept emerged out of and is connected to an earlier focus on stabilising atmospheric GHG concentrations, which is also linked to ideas of carbon budgets and peak emission levels per year (Allen et al., 2009; 2022). Net zero does not mean no emissions, but that there is an overall balance between GHGs produced and those taken out of the atmosphere. The net zero goal calls for a fast and complete transformation of many sectors of the real economy based on a sustainable strategy that endures over multidecadal timescales (Allen et al., 2022).

In pursuit of the net zero goal, states mobilised first before cities; later, businesses joined, including fossil fuel companies, as well as other non-state institutions. This means there is now a wide spectrum of actors signed up to net zero commitments (see Figure 2). By 2023, net zero pledges had been made by 130 countries (out of 198), and covered 88% of emissions, 92% of global gross domestic product (GDP) and 85% of the world population.⁴ Given the focus on emission reduction, developed countries are expected to take the lead on action in line with the CBDR-RC principle of the UNFCCC. For example, Bhutan and Suriname have registered as having already achieved net zero (see Figure 2). But disparities exist with regard to the stringency of commitments: only 15 developed country states⁵ have legally binding action plans and frameworks to achieve net zero (Net Zero Climate, nd).

⁴ <https://zerotracker.net/> (accessed on 23 March 2023).

⁵ Canada, Chile, Denmark, France, Germany, Hungary, Ireland, Italy, Japan, New Zealand, Portugal, South Korea, Spain, Sweden and the UK.

Figure 3 The Race to Zero – carbon-neutral goals by country



Source: Visual Capitalist (2021).

The economic and social implications of adopting and actively pursuing a net zero goal are far-reaching, beyond the borders of individual countries. Economic risks arise from the temporal differences between trading countries, and the dependencies within countries on the transition-related sectors in which the emissions cuts would be most prevalent. The economic and social implications of a net zero strategy directly influence access to and flows of financial resources. A net zero goal would translate into significant changes to sectors and economic and trade incentives (such as the carbon border tax adjustments of the EU). These changes ideally should be paced according to the low-carbon alternatives that are put in place, which in turn are dependent on the appropriate structure and management of technology, trade and other resources.

Within this context, the Race to Zero campaign has emerged as a way of responding to the 'whole of society' necessity of emission reduction by quickly bringing into climate action non-state entities that operate at international and domestic level. The campaign aims to catalyse action and build momentum at pace at institutional level among these non-state entities, while more top-down approaches relying on fiscal, regulatory and public finance levers that are occurring in parallel take more time to trickle down to such entities.

This why the Race to Zero is framed as a campaign and uses the imagery of a race for non-state actors, of which some are public but most are private. The umbrella campaign – and, more largely, the concept of net zero – is explicitly in support of Article 2.1(a) of the Paris Agreement on emission reduction and achievement of a 1.5°C-aligned world.

4.1 The goal and effects of the Race to Zero

The Race to Zero is an umbrella campaign in which entities join via official partners (see below). It is a ‘UN-backed’ global campaign rallying non-state actors – including companies, cities, regions, financial and educational institutions – to take rigorous and immediate action to halve global emissions by 2030 and deliver a healthier, fairer, zero-carbon world (UNFCCC, 2022b).

The initiative originated during the UK COP presidency in 2020, reflecting developed countries’ priority goal to reduce emissions. Since then, the Race to Resilience has been created as a parallel initiative modelled on the same idea but focused on adaptation and developing countries’ immediate issues. It is hosted within the UNFCCC and overseen by two ‘high-level champions,’ currently from the United Arab Emirates and Egypt.

In 2020, about 2,500 entities had joined the race; this number had grown to 7,552 businesses, 1,122 cities, 1,114 educational institutions, 555 financial institutions and more than 3,000 hospitals by 2023 (UNFCCC, 2022b). Ultimately, the campaign aims to bring all businesses into the Race by 2040, to cover 50% of global GDP by 2025 and to at least double the number of people represented in the Race from 1 billion to 2 billion by 2023 (Global Climate Action, 2021). Top priorities for the Race for the coming years include (i) accelerating delivery transparently: all signed-up entities have to demonstrate that they meet the updated criteria by June 2023; (ii) ensuring accountability by developing a compliance mechanism; (iii) strengthening regionalisation: engaging with local leaders for fair operationalisation of the Race; and (iv) activating policy: supporting public action.

There are minimum criteria to meet in signing up to the campaign. These are procedural rather than output-based, in recognition that achieving the 1.5°C goal is a process: there should be a pledge to achieve net zero with a plan that includes immediate action and public reporting on progress (UNFCCC, 2021b). The independent Expert Peer Review Group⁶ vets entities’ applications against these criteria. The campaign is open to all non-state actors, including fossil fuel, mining and other GHG-gas intensive companies. By 2023, at least 51 fossil fuel companies (oil, gas and coal) had pledged to go net zero, with differing levels of effectiveness (Dietz et al., 2021). Entities sign up to the Race via partners that cover the range of non-state actors, from large businesses (via, e.g., The Climate Pledge), financial institutions (e.g. net zero asset managers), companies with fewer than 500 employees (e.g. the SME Climate Hub), companies with a sectoral focus

⁶ <https://climatechampions.unfccc.int/expert-peer-review-group/>



(e.g. the Fashion Industry Charter for Climate Action), subnational governments (e.g. Cities Race to Zero), universities (e.g. Race to Zero for Universities and Colleges), country-specific entities (e.g. Japan Climate initiative), sports clubs (e.g. Sports for Climate Action), health care institutions (e.g. Health Care Without Harm) and aid organisations (e.g. the Climate Action Accelerator) (UNFCCC, 2022d).

The Race to Zero assumes that non-state actors signing up will act as a signal showing their active contribution rather than passively awaiting public policy and regulation change, and that this will accelerate climate change mitigation and transform economies. As a result, the pledge narrative expects that the collective sum of non-state actor-led zero action will support the 1.5°C world. However, the campaign as of yet does not feature heavily in other debates on financing climate action, nor in financial reform agendas.

4.2 Intersections with operationalizing Article 2.1(c)

The Race indirectly contributes to achieving the global shift of all financial flows to climate consistency as set out in Article 2.1(c), even if this is not explicit in its mission statement. Emissions reduction action will *de facto* imply finance for mitigation and contribute to financing a climate-consistent world – but only if finance for non-climate-consistent activities decline (Jachnik et al., 2019). In a race to a net zero emissions target, therefore, actors will change the way they procure and purchase, invest and trade, therefore simultaneously shifting their finance flows towards climate consistency.

Table 2 Articulation of Article 2.1(c) with the Race to Zero

Race to Zero	
Action	For the signed-up entity to be net zero entails a change in its operations, <i>de facto</i> leading to a shift in the entity’s finance allocation and flows.
Object	Support towards peaking GHG emissions.
Effects	Focused on lowering emissions in support of Article 2.1(a) (mitigation).
Goal	For the signed-up entity to be net zero entails a change in its operations, <i>de facto</i> leading to a shift in the entity’s finance allocation and flows.

Source: Adapted from SCF (2021).

The wide breadth of non-state actors engaged in the Race to Zero can contribute to a greater ‘whole of society’ accountability whereby it is not only state parties that are held accountable to meeting the objectives of the Paris Agreement. Indeed, domestic and international private finance flows are relevant to the implementation of Article 2.1(c) and the SCF notes the importance of a structured approach to engaging non-party stakeholders, including the private sector, in acting and reporting progress (SCF, 2022b). This is particularly the case as some non-state actors, such as banks and other financial institutions, can have great leveraging impact when it comes to shifting flows towards low-emission, climate-resilient pathways.

Box 2 Glasgow Financial Alliance for Net Zero, a partner to the Race to Zero

The launch at COP26 of the Glasgow Financial Alliance for Net Zero (GFANZ), an industry-led financial network under the Race to Zero comprising 550 institutional investors with about \$150 trillion in assets under management, demonstrates leverage, resource control and decision-making power to facilitate shifts in finance flows.⁷ This is particularly the case as three of the largest fossil fuel financiers are part of GFANZ (Feyertag et al., 2022). However, since its launch in 2021, the network has lost members owing to claims by US Republican politicians that the group may violate anti-trust laws by working together to reduce GHG emissions. For example, one-third of insurers, including the largest, left the network within May 2023 because of these political pressures (Wilkes, 2023). As a result, with smaller numbers and smaller holdings, the leverage of the Alliance has been diminished.

Meanwhile, the mission statement of GFANZ does not refer to or infer any equity considerations. Some consideration of challenges linked to common but differentiated responsibilities is evident in the African regional GFANZ network and its working group focused on mobilising capital for emerging and developing economies, which recognises the specific challenges for markets with less maturity (GFANZ, 2022a). Implementation of the Africa GFANZ and working group was set to start in 2023 with a large focus on capacity-building and knowledge translation to emerging market contexts (GFANZ, 2022b). On an *ad hoc* basis, the GFANZ has also operated to support private sector mobilisation for the JETPs in Indonesia and Viet Nam (GFANZ, 2022c; 2022d).

The Race to Zero campaign relies on self-policing and peer pressure to support implementation and on information disclosure as a mechanism for whole of society shifts. One of its challenges is to offer an alternative to a top-down regulatory approach while creating an umbrella that balances speed and ambition across different geographies and stakeholders. At its heart is the market-based idea of a competitive race to win, where actors are aiming for the top rather than the bottom.

In a context where the Fifth Biennial Assessment lists 10 different methods for tracking Article 2.1(c) consistency for the private sector, the global proliferation of net zero approaches can risk leading to incoherencies and ultimately to limited real economy change. Even more serious, in the absence of a commonly agreed accounting framework across actors, greenwashing is a risk, as also pointed out in the Fifth Biennial Assessment (SCF, 2022a). The concept of a competitive race shifts the burden of such reporting and accountability from a third party (such as the UNFCCC) back onto non-state actors. The burden of proof lies with the signed-up entities. Conversely, the implicit assumption is one of trust – that is, that this is not a greenwashing opportunity for non-state actors.

4.3 Intersections with equity

is a primary construct of the Paris Agreement, directly addressing how countries respond to climate challenges (Lenzi et al., 2021). A major criticism of the net zero commitments and the Race in itself relates to its lack of focus and consideration on how decarbonisation policies affect global equity (Dooley et al., 2021; Lenzi et al., 2021). According to the

⁷ www.gfanzero.com/ (accessed 12 March 2023).



authors cited above, there are three pillars to equity: protection of vulnerable communities; achieving sustainable development; and raised ambition by those countries with capabilities and responsibilities to act relative to historical emissions.

In the Race to Zero, the principle of equity recognises that it would be inequitable for those already vulnerable to the effects of climate change to be further disadvantaged through the implementation of climate response measures. In essence, the Race should not ignore the fundamental rights of vulnerable communities in the name of climate responses.

Currently, entities signing up for the Race to Zero campaign are treated equally, each pledging to achieve self-set emission reduction targets in a chosen timeframe but no later than 2050. The mission statement of the pledge uses the word 'fairer' rather than equity or justice and suggests a process is underway. Further, one criterion of the campaign mentions 'equity' as means of demonstrating alignment with the pledge objectives.

The entity joining the Race to Zero campaign must demonstrate that it enables:

... all actors to contribute to the global transition towards [net] zero through engagement, information sharing, access to finance, and capacity building. The pledges, plans, and actions developed in context of any commitments made should be in consideration of equity, drawing on, for example, the Sustainable Development Goals and Articles 2 and 4 of the Paris Agreement.

In the Race, equity is defined as covering 'actions that contribute to social equity through effective economic distribution and/or access to fundamental rights such as education, health, energy and water' (Climate Champions, 2022: 28).

Progress on greater accountability via verifiable plans, ensuring integrity and holding pledgers accountable to their commitments (UNFCCC, 2023a), is an ongoing matter. For example, the 2021 criteria consultation review: Net Zero Climate, 2021 shows that provisions for verification of the explicit commitment on equity have not yet been outlined.

These dynamics give rise to questions regarding:

1. whether equity could manifest in differentiated expectations for entities depending on their mandates, historic responsibility and capacities
2. what assurance or minimum safeguard can exist to ensure the pursuit of or race to zero minimises or does not create inequities.

On the first of the above questions, the Race to Zero is a voluntary and self-determined process in which non-state actors signing up set the pace and timeframes to achieve (net) zero emissions. The self-imposed timing and sequencing for reaching the net zero target can in itself be an expression of equity as stakeholders set their own actions and pace given their understanding of their own historic responsibility and capacities. Such an

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approach implies great trust in the action of non-state actors. It is essential, though, that equity be expressed as differentiated sequencing and scheduling of targets depending on the geographic and sectoral positionalities of non-state actor. For example, the historic responsibility – and capacity to adopt zero pathways for a university differs significantly from those for financial intermediaries like banks, as do their real economy impact.

The sequencing of net zero targets brings into question the enabling environment at international and national levels (depending on the level at which non-state actors operate) for non-state actors to effectively take action and the related financial capabilities to do so. At the international level, it points to the need for a fit-for-purpose financial system, especially the role of international public financial entities. At the national level, it signals the requirement for a regulatory environment that can equitably share the uncertainties and risks of net zero commitments among state and non-state actors.

Equity could also be expressed as provisions in the pledge to differentiate eligibility to receive financial, technical and technological assistance to build capacity to deliver on the Race to Zero. Signed entities in Europe and North America are mostly corporate and financial institutions; on other continents, they are public non-state entities (cities, local government, universities, etc.). This reflects different levels of capacity and engagement.

The second of the questions raised is more directly linked to finance flows, and concerns the direct and indirect consequences of shifting these as a result of delivering net zero plans. As a consequence of going net zero, there may be trade-offs at the international, national and subnational levels as entities reallocate and, *de facto*, stop financing non-climate-aligned activities and operations.

The question becomes, what does the redirecting of finance by non-state actors to reduce emissions imply for equity? Is there a risk of entrenching and bypassing economies nationally and subnationally? In other words, what are the costs and their distribution in pursuing climate consistency via the Race to Zero? Submissions to the SCF, for example, highlight the imperative to avoid ‘unintended consequences’ in the pursuit of climate consistency of finance flows, such as the risk of stranded assets if abrupt divestment occurs (SCF, 2022a). The difficulty lies in linking reallocation actions to real economy impacts in terms of equity and how they interact with public finance across different scales between and within countries.

In the context of transmission channels through which policy shifts manifest, when various entities simultaneously adjust to peak their emissions and redirect financial resources, it alters production and consumption patterns. In turn, such change, if at scale, has the potential to change the sectoral profiles of economies – with some sectors growing while others contract. These shifts ultimately affect labour markets and the availability and quality of jobs. Hence, the shift in investment decisions to achieve net zero targets will imply trading costs as production bases shift, trade patterns change and comparative advantage is redrawn to favour low-carbon supply chains for goods and services. These



compounding factors lead to altered trade revenues that may have difficult fiscal implications for countries' public spending.

Such shifts in finance flows also have implications across scales. For example, reshoring of value chains to limit emissions from transport may have a cost for intended consumer markets through price effects, as well as for the economies where the production was previously located. The groups affected by such change are determined by the subnational dynamics of the consumers and producers along the supply chain of the reshored products. Similar dynamics also determine potential knock-on effects this has on related goods and services production.

Shifting finance flows may have implications for trading relationships, particularly as, in conjunction, states implement policies to foster low-carbon supply chains, such as carbon border adjustments mechanisms. These may impact developing countries through knock-on or secondary effects along supply chains rather than through direct impacts, limiting the effect of provisions excluding LDCs (Mendez-Parra et al., 2020). Lenzi et al. (2021) call these secondary effects 'side-effect based equity concerns' (p3).

One such side-effect-based equity concern of net zero commitments is the disparate effect that policy measures such as carbon border tax adjustments have on developing countries relative to their developed country counterparts (Ward et al., 2019). The higher cost for developing countries will lead to shifts in export and import incomes, especially acute where the net zero target years between trading partners are unaligned, and where the partner imposing the measures is the primary trading partner of the other. These economic burdens do not uphold the principles of climate justice or equity, even though these measures in isolation are useful for shifting to a low-emission development path for those responsible for historical emissions. It would be essential for those making pledges, particularly in developed countries, to consider the side-effects and the consequential needs that will arise in terms of finance flows, technology and social protections as a result of mismatched commitment years and processes. Detailed net zero plans should consider this holistic equity perspective, particularly the economic and social burdens they impose on developing country trading partners, as well as any adverse domestic side-effects of such shifts. These side-effects imply that achieving consistency of finance flows in the context of the Race to Zero without equity considerations will create an additional burden on those most vulnerable, subverting the equity principles of the Paris Agreement.

As a result, some countries may bear the cost of twin external action, where state and non-state actors simultaneously shift their finance flows away from countries that may have limited access to resources for alternatives or that have historically been locked into non-consistent developmental pathways. Indeed, early discoveries and economic path dependencies from such discoveries have led to certain countries being heavily reliant on fossil fuel industries (coal mining sectors, oil and gas industries) for their economic growth and development. These historical contexts, particularly for low- and middle-income developing countries, can be traced to colonial legacies, which have influenced economic

and productive landscapes, and the structures through which finance flows manifest (Acemoglu and Robinson, 2017; Michalopoulos and Papaioannou, 2017; 2020).

The cost of transition for such economies would be intense. For example, South Africa estimates \$90 billion is needed between 2023 to 2027 to trigger transition across three sectors (electricity, new energy vehicles and green hydrogen). The transition risk born from retiring fossil fuel-dependent industries has fiscal implications, given that these fuels represent large exports and hence revenues for the state and its spending, with consequences for development; in addition, national economic activity is reliant upon fossil fuel energy sources. Importantly, the need for equity in terms of the protection of vulnerable communities recognises the adverse social consequences of fossil facilities decommissioning processes on livelihoods, both directly and indirectly – with broader systemic implications for local government and smaller businesses (see JETPs).

The risk of marginalisation that fossil fuel-dependent countries face and its potential costs highlight the importance of an enabling environment, and the need for a managed process towards net zero and related ambitions that is shaped by appropriate and precise international public policy. The Brundtland Commission in 1987 highlighted that trade was a key transmitting mechanism for scaled-up sustainable development: ‘if economic power and the benefits of trade were more equally distributed, common interests would be generally recognized’ (World Commission on Environment and Development, 1987). At present, the World Trade Organization, through its Trade and Environmental Sustainability Structured Discussions, recognises the key role of trade in promoting sustainability but is yet to link these to the objective of Art 2.1(c). Integrating trade into the discussion on Article 2.1(c) and equity is fundamental to understanding the Race to Zero, from an equity and finance flows perspective.

4.4 Key insights for the intersection of equity and Article 2.1(c)

To conclude, the Race to Zero campaign is practised as self-imposed voluntary participation which offers an essential contribution to reducing emissions. However, the campaign is not reflecting possible unintended consequences or social costs of reallocating finance flows for those locked into fossil-fuel development paths and sectoral activities (this is true for developed and developing countries). The negative side-effects of net zero commitments and reallocation of finance flows in the absence of equity are significant, and could result in dire economic and social disparities among trading partners and those industries within national borders. Further work is also necessary to understand to what extent countries and entities, having made net zero commitments, are either implementing or calling for institutional and financial reforms to meet such commitments and how equity considerations are being factored into such reforms. For example, countries such as the Netherlands are implementing farming regulations to limit the use of nitrogen oxide for fertilisers (Furtula, 2022). The UK’s carbon budget delivery plans is linked to a reformed net zero strategy (Dunne et al., 2023).



The net zero commitment process and the Race to Zero campaign offer useful insights that highlight that climate responses may be a race but also that any actions or strategies taken require a rights and equity lens. This implies a stronger focus to ensure that net zero plans and strategies do not create inequities in the midst of climate responses. The side-effects of such plans highlight that Article 2.1(c) in the context of equity requires a systemic approach and lens, appreciating that climate policies have both positive and adverse effects from vulnerable communities' perspectives – thus consistency in light of equity has to focus on using finance flows to ameliorate such vulnerabilities. Adverse effects of net zero commitments and the 'race' is evident in the emergence of social protests, particularly across the global north, opposing certain regulations being put in place in support of net zero.



+ 5. The Vulnerable 20's Global Shield

The IPCC's projections on the effects of rising temperatures predict a harsh reality for many countries across the world: deterioration of resilience capacity, irreversible loss of settlements and infrastructure, reduced food and water security and adverse socioeconomic consequences globally (Pörtner et al., 2022). This future reality is evident in the intensity of climate disasters across developed and developing countries over the past three years (2020 to 2022), which have been ravaged by floods, droughts and wildfires (Europe), floods and heatwaves (Pakistan), heatwaves and droughts (China) and flash floods and wildfires (US), among others (Ripple et al., 2022; Trenberth, 2022; World Economic Forum, 2023).

Article 2.1(b) of the Paris Agreement recognises the need to build resilience to climate events. This is particularly challenging for LDCs and SIDS, given their existing economic, social and environmental vulnerabilities. The impact that climate-related disasters have had on their economies is quantified to be a total loss of \$525 billion since 2000 (V20, 2022b), with a further future projected loss in developing countries estimated to be between \$290 billion and \$580 billion by 2030 (Markandya and González-Eguino, 2019).

Further, such countries are highly dependent on financial support to address broader developmental challenges, as climate responses intensify existing dependencies and vulnerabilities. Rebuilding the fabric of societies after immense climate-related disasters is extremely costly, particularly for disaster-prone regions. The UNFCCC recognition of 'loss and damage' at COP17 offered some progress in recognising that lack of resilience has far-reaching and costly consequences. But it was only seven years later at COP27 that negotiators secured a decision to finally establish a loss and damage fund; now its implementation modalities and speed of execution will determine its efficacy and impact towards achieving Article 2.1(b).

Financial support to LDCs and SIDs for building climate resilience currently comes via concessional debt and grants. The adequacy of such support as expressed in COP27 falls significantly short globally, as reflected in the Sharm El Sheikh Implementation Plan (UNFCCC, 2022b). While such measures are pursued, collaborations among developed and developing countries have emerged organically to address the climate crisis facing SIDS and LDCs. One such measure relates to the Vulnerable Twenty Group (V20), its approach to Climate Prosperity Plans (CPPs) and the suite of financing instruments developed to respond to their precise challenges, such as the Global Shield (GS), which is discussed in this example.

The V20 operates voluntarily in cooperation and partnership, as well as in recognition of common but differentiated responsibilities, and takes a country ownership approach (UNFCCC, 2022a). The V20 approach is through *self-determination* to take 'action on



climate change and the promotion of climate resilient and low emission development with full competence for addressing economic and financial issues' (V20, 2015: 2). Making finance flows consistent in this context should ensure that the physical risks of climate change are fully recognised and incorporated, in pursuit of climate-resilient development pathways. A strong focus on the *quality of finance* underpins the V20 approach to financing resilience, because of concerns about high debt levels, therefore it aims to advance climate finance options for vulnerable and indebted countries through its focus on reforming the sovereign debt architecture and through development finance institutions expanding their financing without jeopardising country credit ratings, among other things (V20, 2022c). Watson (2022) argues that these objectives can be said to counteract inequities in the financial system to ensure the quality of finance is fair.

The V20 is a group of ministers of finance established in 2015 working through dialogue and action to tackle global climate change from 58 countries from regions such as Africa, Asia, Latin America and the Caribbean, which are considered climate-vulnerable developing countries (V20, 2015). The V20 is based on **free voluntary participation**, cooperation, learning in action and coordination. It comprises ministerial dialogue, secretariat support services, and additional 'observers' and 'experts' (Climate Vulnerable Forum, 2013). Furthermore, the main aim of the V20 is to 'steer a high-level policy dialogue pertaining to action on climate change and the promotion of **climate resilient and low emission development** with full competence for addressing economic and financial issues' (V20, 2015: 2).

The V20's composition of ministers of finance is especially crucial, as they are at the forefront of the finance system that is aimed at protecting the people in the real economy as well as steering economic growth and development in those countries. And, given that vulnerability and resilience exist as a result of climate change, the V20 as an initiative is borne out of the fact that it is challenging at a capability level for the V20 finance ministers and others to respond to and manage climate-related loss and damage (see Figure 3). Therefore, the V20 is a unique modality to respond to the need for V20 ministers to pull in resources to increase their capabilities to respond, which is affected by issues such as high indebtedness and loss of insurance owing to climate disaster, among other things (V20, 2022d). This is why the key priorities proposed, such as climate finance, loss and

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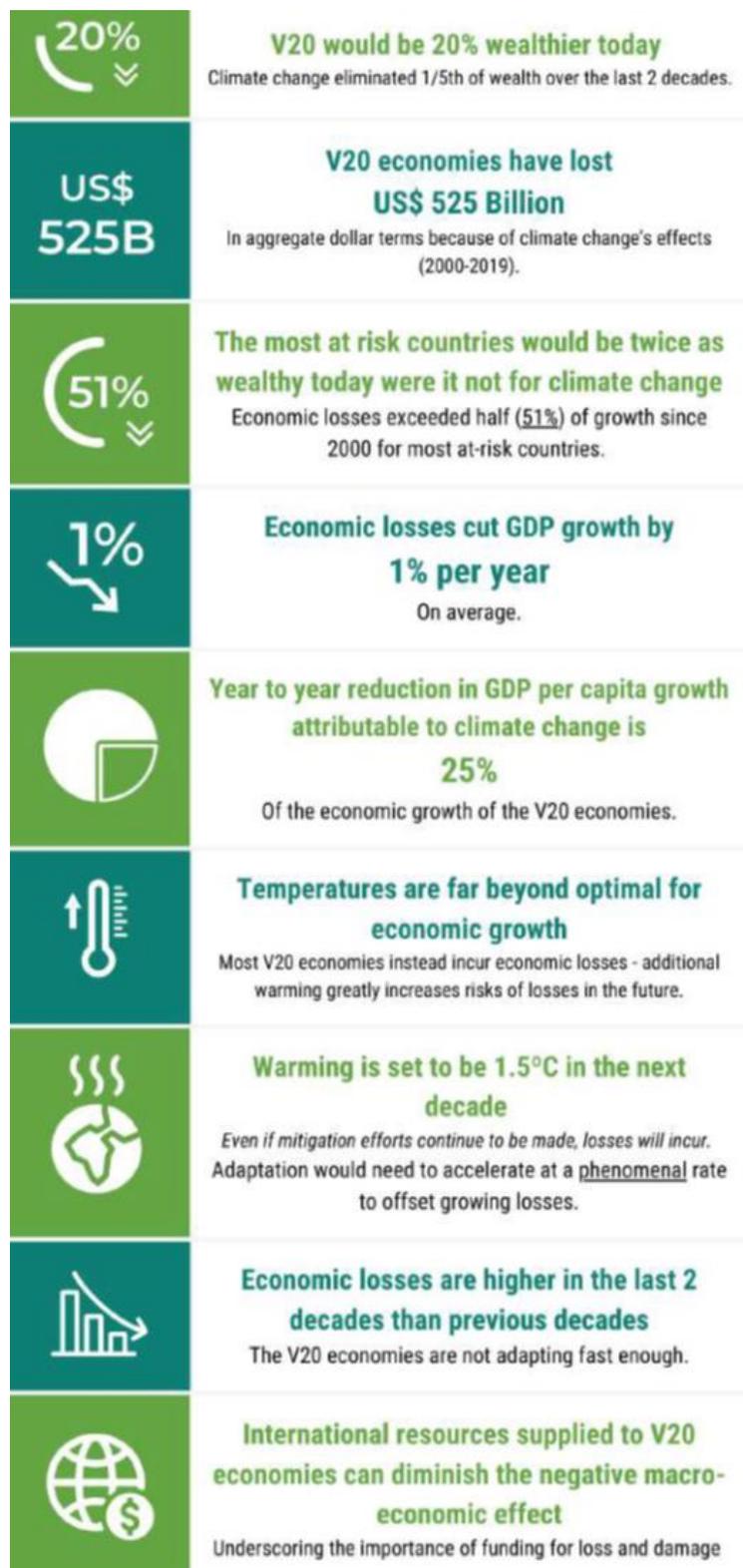
damage, cost of capital,⁸ closing the financial protection sinkhole⁹ and carbon markets,¹⁰ are relevant to the countries' circumstances.

8 This is focused on mobilising additional resources in the form of guarantees, subsidy accounts and implementation of the V20's Accelerated Financing Mechanism to maximise renewable energy and adaptation towards energy security and food security, offsetting high capital costs for climate investments and debt sustainability.

9 This is based on closing the 98% financial protection gap that the V20 faces as a result of the insufficient adaptation response from the north.

10 This aims to seek access to market-based carbon financing alternatives to fulfil domestic climate action.

Figure 4 Why the V20 is needed



Source: Baarsch et al. (2022).

5.1 Goal and intended effects of the Global Shield

The Global Shield (GS), the focus of this analysis, is one of the V20 instruments, and is a voluntary measure that aims to ‘increase protection for poor and vulnerable people by providing and facilitating ... pre-arranged finance against disasters ... [to] minimise and address losses and damages exacerbated by climate change’ (V20, 2022a: 3). It builds on the InsuResilience Initiative,¹¹ and intends to provide insurance and address premium costs (even for higher tail risk) as well as addressing insurance affordability barriers, with a clear focus on increasing the adaptive capacity of V20 nations. In doing this, it will build on other V20 instruments such as the CPPs,¹² the V20 Carbon Finance Development Programme¹³ and the Sustainable Insurance Facility,¹⁴ therefore enhancing and expanding on the existing structures already in place.

The GS is currently taking the form of *packages* between developed nations¹⁵ and select developing countries (Bangladesh, Costa Rica, Fiji, Ghana, Pakistan, the Philippines and Senegal) – called *pathfinder countries*. Each pathfinder country’s CPP is linked to the GS financial protection package as part of an investment strategy to enable the most ambitious possible climate action while improving socioeconomic results.

11 This supports the development of innovative climate risk insurance products in developing and emerging economies in order to buffer the impacts of climate change, by financing (i) risk analysis and capacity-building, (ii) concept and product development for climate and disaster risk finance and insurance solutions and (iii) premium subsidies to support market introduction and scale-up of climate and disaster risk finance and insurance solutions. See <https://www.insuresilience.org/implementation/programmes-projects/>

12 The CPPs set out mitigation and adaptation plans and climate finance needs to maximise socioeconomic outcomes, with a proposed plan with a set timeline and a detailed financing and investment plan to realise them. The CPPs essentially highlight that the V20 wants prosperity and is committed to achieving Article 2.1(c) by recognising that prosperity can be achieved only through the article.

13 This aims to seek access to market-based carbon financing alternatives such as forest, soil and ocean carbon assets to supplement funding for domestic climate action in order to fulfil domestic pledges to develop carbon pricing mechanisms.

14 This focuses on supporting the development and availability of climate insurance for micro-, small- and medium-sized enterprises (MSMEs) in vulnerable economies. By mobilising international financial and technical assistance to stimulate private sector insurance industries to increase the application of climate-smart insurance products for micro, small and medium enterprises as well as low-income and vulnerable groups.

15 The G7 consists of Canada, France, Germany, Italy, Japan, the UK and the US.

It must be noted, however, that the GS is not the only insurance initiative¹⁶ at play at the moment that is helping support countries; it is one of many insurances initiative that exist and acts as a complementary instrument rather than as a substitute (see Figure 4).

Figure 5 Other insurance initiatives



Source: (Stadtmuller, 2022).

The GS incorporates elements of social protection, contingency funds and insurance components. The discussion below focuses primarily on the insurance components of the GS. The GS insurance proposition is a practical expression of the climate justice principles of the V20 overarching framework, which is 'aimed at delivering **climate justice** for all humankind including robust climate security for those vulnerable groups so heavily exposed both now and tomorrow, especially our women and children, the poor and future generations' (V20, 2020: 3).

The GS financing structure is also guided by principles of subsidiarity and complementarity, whereby countries *must request* climate and disaster risk finance and insurance support; prioritisation will be dependent on the target group's *urgency and vulnerability*; and country requests should be directed to one or several of the financing vehicles under the financing structure¹⁷ (V20, 2022a: 15). In terms of these principles, equity will draw on the fact that country ownership materialises through the country's request for support, which is based on self-determination as per needs, and that

¹⁶ See the InsuResilience Global Partnership, African Risk Capacity, the Caribbean Climate Risk Insurance Facility and the Pacific Catastrophe Risk and Finance Initiative.

¹⁷ The three financing vehicles provided for by the GS are the Global Shield Solutions Platform, the Global Shield Financing Facility and the Climate Vulnerable Forum and V20 Joint Multi-Donor Fund. However, it is not yet clear whether countries are in a position to select their preferred financing vehicles.

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prioritisation will be based on *urgency and vulnerability*, which helps identify *who needs support the most now*. This rationale informs why Pakistan, for example, will be among the first recipients of the GS packages (BMZ, 2022).

Consideration of the balance between financing climate change and sovereign debt concerns and how this will be dealt with will also be essential. This is especially important when negotiating climate finance mobilisation packages (e.g. through avenues such as the JETPs) and in financing the CPPs, for example, as this will have to consider national country aspects and the policy and fiscal architecture.

5.2 Intersections with Article 2.1(c)

The GS's main focus is on adaptation and resilience, and indebtedness concerns for V20 governments, through its objective to 'increase protection for poor and vulnerable people' and to help with efforts to 'cost-efficiently and effectively avert, minimise and address losses and damages exacerbated by climate change' (V20, 2022a: 3). It also acknowledges vulnerability and the need to minimise loss and damage owing to climate change.

Table 3 Articulation of Article 2.1(c) within the V20

V20	
Action	Voluntary, implemented through the G7 at the global level, through governments (ministries of finance), and through new financial instruments that help create financial flows to build resilience to aid the purpose of Article 2.1(c). Applicable to developing countries (LDCs, SIDS) prone to climate risks.
Object	Finance flows of a particular quality that aid the purpose of Article 2.1(c), largely focused on international financial flows.
Effects	Support towards adaptation and climate resilience, through actions that support shifts in finance flows towards resilient development.
Goal	Largely focused on Article 2.1(b) (adaptation), in the context of equity, and resilience funding gaps/insurances gaps.

Source: Adapted from SCF (2021).

The GS is focused on shifting towards 'good' *quality of finance*, through initiatives such as offering a new 'surveillance' approach to climate risks, redirection of debt servicing payments to climate resilience and energy transition investments, and debt for climate swaps, among other things. These represent pathways to avoid 'bad' quality of finance, which can take the shape of large shares of finance provided as loans, with little channelling through the multilateral system or inadequate adaptation initiatives (Colenbrander et al., 2022; V20, 2022c).

In assessing the application of the principle of CBDR-RC, the GS recognises that, in terms of *common responsibilities*, the V20 aims to respond to the Paris Agreement (Article 2),



adopting a needs-based approach to highlight the differentiated needs of V20 countries. In particular, climate-related loss and damage which the V20 are not able to respond and deploy the much-needed resources for those needs (Richards et al., 2022).

Concerning respective capabilities, the principles informing the GS speaks to country ownership and the quality of response by considering that respective capabilities mean that the V20 recognises its limitation(s). However, having highlighted climate-related disaster examples from both the south and the north's perspective, respective capabilities is also a reflection of the events happening globally, and how this may affect, for example, the north's responsibilities in terms of its respective capabilities in tackling issues in the south and their respective ongoing concerns.

5.3 Intersections with equity

The V20 GS has arisen in response to a particular funding need that was not being met by available sources of funding, including but not limited to insurance. Insurance in developing countries is largely underdeveloped, which makes the cost of capital to respond to climate disasters high and increases debt (Linnerooth-Bayer et al., 2009; Persaud, 2022). With this background in mind, we can understand the GS as an initiative that recognises the inequity of current financial responses towards resilience-building efforts, especially with climate-fuelled physical risks increasing the cost of capital and debt to unsustainable levels (Kellet, 2022; V20, 2022b; Ahmed, 2023).

Furthermore, the GS initiative is therefore a necessary tool in correcting an imbalance to address the inadequate adaptation responses that have left a 98% financial protection gap (SCF, 2021; V20, 2022c). In essence, it is triggering the need for a transformative agenda in the financial system on the quality of response. The GS takes the climate agenda forward by amplifying the V20 group's voice to '*remind the international financial system that our [their] voices matter and that [they] we should be at the forefront of progress and action to address those challenges*' (V20, 2022e).

Table 4 offers examples of recent climate disasters and their related cost on economies. As these highlight, climate disasters are not an abstract concept; these are real-life crises affecting people in the real economy. And although the GS is structured around climate-vulnerable developing nations,¹⁸ the evidence is clear that no one is immune. As Henry Kokofu, Special Envoy of the Climate Vulnerable Forum Ghana Presidency, said, '*The fate of the most vulnerable will be the fate of the world*' (V20, 2022b). The examples illustrated above highlight both global south and global north climate disasters, to show that climate change vulnerability is occurring globally. The difference is the *capabilities* to

¹⁸ As per the Development Assistance Committee List of Official Development Assistance Recipients. See the latest list at www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-List-of-ODA-Recipients-for-reporting-2022-23-flows.pdf

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respond: countries of the south have fewer resources to enable them to cope with climate change, which is why instruments such as the GS are in play.

Table 4 Examples of climate disasters and economic costs

Country	Climate events
Pakistan	The 2022 Pakistan floods affected 33 million and displaced 8 million, with more than 1,730 lives lost, as well as causing significant damage to infrastructure, agriculture and livestock, with economic damage amounting to over \$30 billion (Planning Commission, Pakistan, 2022). Furthermore, climate change is said to have exacerbated extreme weather events (World Weather Attribution, 2022a). Pakistan's economy pre-floods was already facing difficult economic conditions in terms of macroeconomic stability (Planning Commission, Pakistan, 2022). Concerns have been raised about the country's ability to manage its debt obligations amid mounting economic challenges, especially with the floods, whose impacts will likely affect the country's ability to generate revenue and repay its debts (Nabi, 2023).
Europe	As of early August 2022, severe drought has been affecting several areas of Europe, with dry conditions exacerbated by lack of precipitation together with a series of heatwaves (Toreti et al., 2022). It has been confirmed that these high temperatures, which increase the likelihood of droughts, are climate change-related (World Weather Attribution, 2022c). In Italy, drought has led to damage to agricultural produce of €6 billion (Levantesi, 2022; Toreti et al., 2022; Giuffrida, 2023) and to a state of emergency (Clifford, 2022). The situation in France is similar: various municipalities are facing the highest drought warning level since 1959, of 32 days without significant rainfall, which is further exacerbated by the heat (Toreti et al., 2022; France24, 2023). This issue has led some municipalities to start imposing water restrictions as a means of saving water while waiting on the next steps from the government (Thompson, 2023). Insurers in France have estimated the cost of the drought at roughly €2.5 billion in 2022; they anticipate that this amount will increase as the country battles the drought's effects (The Local France, 2023). Sixteen percent of homes in France are said to be in high-risk areas (Time News, 2022).
Kiribati	Kiribati is a SIDS that is subject to periodic storm surges and coastal floods, as a result of sea level rise caused by climate change. These coastal floodings stand to affect food security as well as the displacement of settlements and people (World Bank, 2021). Kiribati also estimates that the cost of climate change adaptation will be around \$75 million over the period 2014–2023 (Scherer and Tänzler, 2018).
Germany	In July 2021, severe flooding was caused by heavy rains in the German states of North Rhine-Westphalia and Rhineland-Palatinate, as well as in Luxembourg, and along the Meuse River and some of its tributaries in Belgium and the Netherlands. These caused 36 fatalities in Belgium and 163 in Germany (Lenthang and Hutchinson, 2021). Small cities and entire villages were submerged underwater, with many structures and properties destroyed. The disaster is said to have an estimated cost of up to \$40 billion, of which a quarter will be offset by insurance (Jeworrek, 2022). Studies have shown that such significant flooding owing to heavy rains is likely caused by climate change (World Weather Attribution, 2021).

Funding for low emission development is largely debt based, and exposes vulnerable countries to the risk of debt distress. The concern is that financing loss and damage through debt instruments, which requires repayment and restrictions on vulnerable



countries, deepens the debt distress some are already experiencing (Patel et al., 2022). This is especially the case because climate-related losses are also being funded by low or zero interest rate loans, as in the case of Mozambique to finance the aftermath of Cyclone Adai. Therefore, relief and contingency reserves to fund an alternative approach to the economic and financial burden experienced by vulnerable countries as a result of climate risks and to shield them against climate-related loss and damage are essential. Additional climate-related debt for such resilience and loss and damage measures is unsustainable and inequitable.

The V20 method represents a needs-based approach to finance flows and therefore embeds the core principle of equity. Such an approach helps centre ‘concrete needs [that] will help clarify specific capacities that are lacking, barriers that are present, and the scale and nature of the international finance ... required to meet the resulting needs’ (Athanasίου et al., 2022: 3) and also provide a metric to assess the quality of the response to meet those needs – covering, for example, type of finance instrument, access to finance (it must be simple and effective enough to avoid impractical barriers), institutions and mechanisms appropriate to deliver funds (Athanasίου et al., 2022). This would enable a more qualitative, transformative and long-term approach to enabling consistency towards financing climate-resilient development, while recognising that certain inevitable climate shocks are already ‘locked in’.

Achieving the goals of Article 2.1(b) also means recognising the destabilising socioeconomic effects in vulnerable countries as the impact and incidence of repeated climate disasters reduce the capacity of countries to respond. The window for resilience-building is narrowing, which implies that such countries need their financial (and social) protection gaps to be enhanced (V20, 2022d).

5.4 Key insights for the intersection of equity and Article 2.1(c)

Equity in the context of Article 2.1(c) is reflected through the GS helping build consistent financial flows through the quality of financial flows, defined through V20 country ownership, which identifies the country's respective capabilities to the extent to which they can respond and the GS acting as a tool to respond to those needs. Therefore, for the V20, quality of finance and country ownership is a process that enables equity, to align with Article 2.1(c).

In the pursuit of Article 2.1(c), biases still exist. Finance is still steered mostly towards mitigation (SCF, 2021), which undermines support to resilience-building, insurance and loss and damage (Walsh and Ormond-Skeaping, 2022). Financing for emergency relief also falls short of what is necessary and essential, as the increase and frequency in weather events (Pörtner et al., 2022) have the potential to destabilise entire economies. Therefore, there is a case to be made with regard to equity and resilience, to address how climate-related loss and damage can be mainstreamed in processes to transform the current financial infrastructure – that is, existing insurance policies. The GS is a good

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starting point as a champion that seeks to rebalance and mainstream V20 adaptation needs to improve equity.

Achieving consistency in finance flows as envisaged under Article 2 of the Paris Agreement is particularly challenging for V20 countries because of the high levels of indebtedness, loss of insurance due to climate disasters, high risk premiums and infrastructure costs (rebuilding after disasters, as well as resilience and low emission build programmes). Thus, shaping a view of equity and consistency of finance flows can only be framed within a particular context, as the V20 examples show. The GS offers useful insights to inform how consistency with Article 2.1(c) can be achieved, with a strong focus on the quality of finance linked to accessibility, transparency and predictability. Such quality is further informed by countries' respective capabilities, circumstances and priorities. The GS also shows the necessity of equity through the provision of social and financial safety (protection) nets, which have implications for finance flows, and recognition of insurance as a climate-related finance flow (SCF, 2021: 59).

Furthermore, equity is reflected in the self-determined CPPs, which highlight the need for debt relief and insurance buffers. The GS represents a dignified approach to providing climate finance in that it addresses quality, quantity and access to needs-based finance that is based on country circumstances and context. However, uncertainties still exist, as it is not yet clear who will be paying the premiums, what risks will be uninsurable (Schaefer and Waters, 2016) and what will be the affordability of the insurance for countries already economically distressed by climate disasters.

Lastly, the GS recognises that countries require needs-based funding which is the basis for understanding the quality of finance flows, their timing and certainty, and is also the basis of equity. The Standing Committee on Finance describes such country-specific needs as requiring various post-disaster fiscal tools such as reducing debt default, ex ante contingent credit and ex-post borrowing; and risk transfer and pooling, as well as insurance initiatives such as multi-country sovereign disaster insurance, insurance of public assets and catastrophe bond (SCF, 2021).

The GS is an example of a needs-based funding mechanism. It represents a dignified response strategy in that the V20 countries, which have similar vulnerabilities, recognise that they do not have the means to take on more debt (while recognising that there is already a low basis on which to work on equity – that is, existing socioeconomic issues) (Ahmed, 2023). The voluntary nature of the GS may mean that it is challenging to measure the predictability and consistency of financial flows as well as the unintended consequences of costs. However, it is a first step in shifting financial flows towards climate consistency, with a clear goal



and timeline by way of changing the financial architecture for adaptation and resilience funding gaps/insurance gaps.¹⁹

¹⁹ The GS recognises the importance of complementarity with adaptation measures by 2025.



+ 6. Just Energy Transition Partnerships

Fossil fuel-dependent developing countries such as South Africa, Indonesia, Senegal and India, among others, face significant challenges in transitioning to a low-emission and climate-resilient development pathway. The impact and pace of transition directly influence economic and social systems, requiring an approach that recognises the costly and disruptive effects on lives and livelihoods, fossil fuel industries and smaller businesses. Financing energy transitions has particular characteristics – technologically focused, innovative, time-based and socially conscious (Araújo, 2014; Jasanoff, 2018; Naidoo, 2018). The Sixth Assessment Report of the IPCC recognises that ‘ambitious mitigation pathways imply large and sometimes disruptive changes in economic structure, with significant distributional consequences, within and between countries, including shifting of income and employment during the transition from high to low emissions activities’ (IPCC, 2023: 67).

Just Energy Transition Partnerships (JETPs) have emerged as voluntary partnerships among developing and developed countries that respond to the particular financing challenges of developing countries that are heavily dependent on fossil fuels.

6.1 Goal and intended effects of JETPs

The concept of a JETP appears to have been initiated following deep engagements between the South African government, Eskom and certain developed countries. At first, the concept focused on a ‘just transition transaction’ as promoted by South African think-tanks and Eskom. Through these discussions, the need for financing facilities that meet the unique economic, technological and social challenges of heavily fossil fuel-dependent countries became apparent. The original concept sought to address the dual challenge of an indebted power utility and the need for scaling clean energy sources through a bespoke financial arrangement, which traditional climate finance appeared not to cater for.

The JETPs currently take the form of arrangements between developed nations (through International Partner Groups – IPGs) and developing countries such as Indonesia, South Africa, Vietnam and others that are locked into fossil fuel development pathways. A JETP is underpinned by an offer to support developing countries to advance their NDC goals in an ambitious, just and inclusive manner, through bespoke financial arrangements.

The JETP theory of change is that, through the provision of finance at scale by developed countries, a series of projects can be initiated that builds the foundation for larger investments over the course of the NDC. In this way, the JETP allows progress towards Article 2.1(c). These projects should be essential for enabling energy transitions that both account for the disruptive social impacts associated with the transitions and align with the broader developmental objectives of the recipient developing countries (Kramer, 2022).



The first JETP, announced in November 2021 at COP26, is a partnership between South Africa, which has a highly coal-dependent economy,²⁰ and an IPG consisting of the UK, the US, France, Germany, the EU and the Climate Investment Funds. The IPG will provide South Africa with \$8.5 billion over a three- to five-year period to support a just transition of its electricity sector, initiate a green hydrogen sector and advance new energy vehicle (NEV) development (The Presidency, South Africa, 2022).

Since COP26, two further JETPs have been announced, with an expanded IPG.²¹ The first was announced in November 2022 at the G20 summit in Indonesia and is underpinned by a commitment to mobilise an initial \$20 billion for an Indonesian just transition away from coal, with \$10 billion to come from the IPG (European Commission, 2022a). The second was announced in December 2022 between Vietnam and the extended IPG for \$15.5 billion of public and private finance to support the country in its delivery of a just energy transition (European Commission, 2022b). Two further JETPs are also under consideration, for India and Senegal (Kramer, 2022). However, the possibility of an Indian JETP appears doubtful, largely because of India's stance on phasing out or phasing down coal, although it is increasing its renewable energy capacity (van Diemen, 2022). India's stance is based on the view that phasing down coal does not align with the country's broader developmental needs and objectives (Srivastava, 2023).

The focus of the JETPs for South Africa, Indonesia and Vietnam is reducing carbon emissions and the transition of the energy sector and the broader economy. The funding for each of these JETPs is further dependent on the development and concurrence of an investment plan/framework among the counterparts (The Presidency, South Africa, 2021; European Commission, 2022a; 2022b). This section considers the case of South Africa, where the JETP concept is most advanced and has manifested in a draft investment plan with funding offers from five developed countries.

6.2 Example: South Africa JET Partnership

South Africa's JETP is the most advanced in terms of governance, negotiation and investment programming. Thus, it offers useful insights for exploring the relationship between equity and Article 2.1(c) of the Paris Agreement, through its focus on justice and its offer of bespoke finance that can have greater impact on aligning future finance flows with the Paris Agreement's objectives.

The JETP advanced under the direction of a specially formed Presidential Climate Finance Task Team created by President Ramaphosa (The Presidency, South Africa, 2022, as the primary interface between the South African government and the IPG. Through this process, the financial offer was considered, and the Just Energy Transition Investment

²⁰ In 2021, coal accounted for 84% of South Africa's electricity mix (Ember, 2023).

²¹ Now also including Japan, Italy, Canada, Denmark and Norway (European Commission, 2022b).

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Plan (JET IP) emerged, with the technical support of a Secretariat (The Presidency, South Africa, 2022). The Political Declaration by South Africa and the IPG made the initial offer subject to concurrence on the investment plan, thus making it a precondition for the provision of funding for South Africa's JETP (The Presidency, 2021).

The JET IP identifies three priority sectors – electricity, NEVs and green hydrogen – which will require a total of ZAR1.48 trillion (\$98.7 billion)²² in investment for the period 2023–2027 to decarbonise the economy in line with South Africa's NDC and facilitate broader economic development guided by the National Development Plan (The Presidency, South Africa, 2022). The JET IP also outlines the focus and the need for implementation bodies and monitoring and evaluation frameworks.

The social justice component of the JET IP is not separated from the three primary investment themes but is embedded within each sector. Specifically, the JET IP identifies funding needs for national infrastructure, municipal infrastructure, skills development, and social inclusion and support. The JET IP refers to the importance of social protection and safety nets as a precondition for a just energy transition and highlights the need for policy shifts to create such safety nets.

The JET IP is silent on how progress against the aspirations of the JET IP will be measured. There is mention that the initial portfolio was constructed based on the transition effects linked to social, economic and environmental goals (of social justice, economic growth and development, and lowering emissions while building resilience). However, these goals and impacts are not yet advanced to represent precise metrics for assessing impact and progress.

The JET IP does not contain detailed business plans of potential projects and the respective timelines defining when such investments need to happen to meet the goals of the portfolio and align with the NDC ambitions. The proposed initial investment portfolio does mention that certain short-term investments are necessary to commence with – that is, grid strengthening and expansion, accelerating renewables and establishing social and municipal conditions for responsible decommissioning. In this way, the JET IP represents predominantly an investment framework, as it sets out thematic areas for investment, and establishes the qualitative nature of such investments, in theory.

Though the plan does also not specify precise implementation modalities or entities, it does contain certain qualitative considerations. First, the social justice of the JET IP is based on South Africa's Just Transition Framework (JTF), where principles of

²² Exchange rate of 15:1 (used in the JET IP).



distributive,²³ restorative²⁴ and procedural²⁵ justice are paramount (Presidential Climate Commission, 2022). The JTF acknowledges that all social partners need to align their actions towards a just energy transition, and climate response more broadly.

Instead, the JET IP does mention priority sectors, financing principles for resource mobilisation against the overall value of the portfolio of the ZAR1.48 trillion and potential financing instruments, and further describes how the \$8.5 billion of IPG funding will be allocated. It also contains some guidelines for implementation but also defers to an implementation plan to be developed.

6.3 Intersections with Article 2.1(c)

The IPG has committed an initial \$8.5 billion (ZAR127.5 billion) towards the JET IP relative to the ZAR1.48 trillion estimated for financing the full portfolio between 2023 and 2027. The \$8.5 billion is being offered in the form of concessional loans (63%), commercial loans (18%), guarantees (15%) and grants or technical assistance (4%). Of the remaining ZAR1.35 trillion (\$90.2 billion), ZAR500 billion (\$33.3 billion) of potential private sector investment has been identified and ZAR150 billion (\$10 billion) of potential public sector investment over the five-year period. At present, the JET IP has a funding gap of 44% to be filled in the period 2023–2027 (ibid.).

As shown in Table 5, the JET IP and JETP represents an “action” in the form of an investment strategy (and partnership platform) that influences the consistency of finance flows within South Africa.. The object of the action is investment flows, to low-emission development pathway for South Africa through advancing its just energy transition. The JETP may catalyse shifts in finance flows among public and private financial institutions, and influence the flows between national and international flows to South Africa supporting the JETP.

The effect would entail that financing institutions begin transitioning their portfolios towards achieving Article 2.1(a) guided by the JET IP aspirations, and develop resilience- and adaptation-related investment goals for Article 2.1(b). However, the realisation of such potential depends largely on the implementation of the JET IP. If implemented taking a whole of society, systemic and portfolio approach (i.e. as a series of projects rather than piecemeal), the shift evidences one possible manner of assessing progress against Article 2.1(c) that is systems-based with a clear qualitative impact in mind. To achieve this

²³ A fair distribution of the risks and opportunities associated with the transition.

²⁴ ‘Historical damages against individuals, communities, and the environment must be addressed, with a particular focus on rectifying or ameliorating the situations of harmed or disenfranchised communities’ (Presidential Climate Commission, 2022).

²⁵ Empowering all stakeholders groups so they are able to shape and guide the transition.

outcome, the finance flows that support the JET IP would need to be consistent in pursuit of those objectives – or risk the key contribution of not accelerating the pace of South Africa’s transition in a just manner.

Table 5 Articulation of Article 2.1(c) with the JETIP

JETPs	
Action	New, voluntary financial arrangement implemented at state level through IPGs but needs-driven and country-owned. Applicable to developing countries that are locked into fossil fuel development pathways, to reduce their carbon emissions in a just manner.
Object	Consistent finance flows of a particular quality that aid the purpose of Article 2.1(c), to enable decarbonisation in a just manner, with an initial focus on catalytic international financial flows.
Effects	Support towards mitigation and a just transition, through actions that shift finance towards low-emissions development pathways that simultaneously address the socioeconomic consequences of the transition.
Goal	Focused on Article 2.1(a) (mitigation) in the context of a need for low-emissions economies that can actively address the country-specific socioeconomic imperatives and developmental objectives.

Source: Adapted from SCF (2021).

A key message in South Africa’s JET IP is the recognition that international climate finance should be used strategically to address the national gaps and challenges in financing a just energy transition. Such finance sources offer a useful trigger to advance national action and consider the complementary actions required by other finance providers nationally, such as the private and public banks, the National Treasury and related regulators and supervisors, including financial conduct authorities. The ‘whole of society’ approach relates not only to the focus on the impact of the JET IP investment but also to the ‘whole of the financial system’ that can work together to enable a just energy transition. More broadly, the aim is to work together towards a just climate response that recognises the economic and social vulnerabilities from action and inaction, and accounts for these through appropriate and equitable finance flows.

6.4 Intersections with equity

The JETPs are intended to focus uniquely on ‘justice’ and so introduce a qualitative dimension to how finance flows can realise the lowering of global temperatures goal within Article 2.1(a) of the Paris Agreement. The JETPs promise initial catalytic finance at scale, over a specific timeframe, from developed countries to developing countries. The promise is helpful because of the disruptive effects of shifting the fossil fuel dependence of certain developing countries, which carries significant and potentially destabilising economic and socioeconomic consequences. All of this is compounded by the burdens of underdevelopment and socioeconomic imperatives such as poverty reduction and job creation. Furthermore, developing countries relative to developed countries have limited



access to capital markets and constrained fiscal capacity, and are often unable to take on additional debt (IEA, 2021; SCF, 2021).

The JET IP contains nine financing principles that are positioned as South Africa's funding guidelines and preferred terms and conditions (see Box 3). These emphasise the need for the equitable and just finance terms and conditions that South Africa seeks, from its developed country partners and between public and private finance entities (domestically and internationally). In particular, the financing principles call for equitable risk-sharing arrangements to support South Africa in its transition through quality of finance that recognises the country's respective capabilities, circumstances and priorities, which:

1. offers financing terms and conditions favourable to South Africa, with the grant component reflecting the financing demands and the country's capacity and limitations, including consideration of the fiscal challenges
2. ensures external financial support is predictable, and keeps pace with NDC investment targets
3. mainstreams the just transition components in all projects and programmes, as essential components of the portfolio
4. represents appropriate risk-sharing arrangements between developed and developing countries, and between public and private sectors and
5. prioritises the use of local intermediaries to access the funds made available.

Box 3 JET IP financing principles

1. Finance should follow the principles for support to developing countries established under the UNFCCC whereby developed countries commit to provide finance, capacity building, and technology transfer to developing countries to advance their climate response, taking account of their respective capabilities and their national circumstances and priorities.
2. Finance should be additional to existing climate and development commitments, and not divert critical development assistance away from existing development funding.
3. The composition of financing instruments should reflect South Africa's unique needs as reflected in the JET IP, taking account of the need for fiscal sustainability, and incorporate appropriate and equitable risk-sharing arrangements. The grant component should be reflective of the finance demands entailed in enabling a just and inclusive transition.
4. Financing of the just transition components (relating particularly to impact on livelihoods, local government, and small businesses) should be mainstreamed into the design of all JET IP projects and programmes as an integral and essential feature of South Africa's climate response.
5. Any debt-related terms for the sovereign should be more attractive than South Africa's National Treasury could secure in the capital markets without unduly onerous reporting requirements.
6. Finance flows from partner countries should be predictable and certain, to avoid delays and enable a sustained momentum of the broader investment plan.
7. Finance flows should be channelled through the institutions which are best placed to manage them for the intended outcomes and in the most cost-efficient manner.

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8. Partnerships with the private sector should be supported to foster appropriate risk-sharing arrangements, recognizing that private sector financial institutions equally need to decarbonise their portfolios and align with just transitions.
9. Governance and safeguards must be in place to manage risks.

Source: The Presidency, South Africa (2022: 120).

The financing principles of South Africa's JET IP appear to be the aspirational lens through which finance for South Africa's Just Energy Transition was evaluated. These principles appear to be fundamentally needs-driven, aligned with the needs framework developed by Ngwadla et al. (2023) (see Figure 2). The principles highlight both the quality and the quantity of finance South Africa requires, and aspirations for equitable access in managing and governing such funds.

First, the principles centre the concept of CBDR-RC in relation to the external financial support South Africa will require, with the need for grants and concessional finance emphasised, reflecting the country's decreasing creditworthiness,²⁶ (in)ability to access cheap finance and current fiscal constraints. Furthermore, the principles stipulate that all financial flows for the JET IP must be consistent and guaranteed to maintain momentum, and require finance for the JET IP to be in addition to existing developmental finance, and not reallocated or repackaged existing commitments. The finance itself is to be channelled through institutions with the capacity and knowledge to ensure it is efficiently allocated and aligned with the sequence and priority of investments identified in the JET IP.

Though the principles focus largely on international financial flows, they also acknowledge the need for risk-sharing between the private and public sectors. This principle is not insignificant given the central role South Africa's private industry and financial sector have played in developing the country's fossil fuel industries (Fine and Rustomjee, 1996). The shared responsibility between developed and developing countries for creating the climate crisis acknowledged in the Paris Agreement also extends to the public and private sectors. Undue and unsustainable incentives from national public finance systems to encourage the private sector to respond to the climate crisis fail to recognise how the climate risks were created in the first instance. Thus, equitable responsibility in financing a just energy transition between the public and private sectors is essential.

The principles also introduce the focus on justice, stating that, 'just transition components (relating particularly to impact on livelihoods, local government, and small businesses) should be mainstreamed into the design of all JET IP projects and programmes as an integral and essential feature of South Africa's climate response' (The Presidency, South Africa, 2022: 120). Drawing on the JTF, justice is understood in three ways: procedural, distributive and restorative (Presidential Climate Commission, 2022). In the case of the

²⁶ www.fitchratings.com/entity/south-africa-80442220 (accessed 7 March 2023).



latter two, they are reflected throughout the JET IP and in the allocation of finance to support the communities most affected by the transition. The prioritisation of NEVs is a direct response to the need for distributive justice: the sector has over half a million employees, many of whom would be at risk of losing their jobs as the global automotive sector decarbonises and South Africa decarbonises its transport sector (ibid.). In addition, specific funding has been earmarked for social protection and skills development to support displaced workers and previously disadvantaged groups, including women and youth. New social ownership models for new energy infrastructure have also been prioritised in light of the country’s deep-rooted inequality (Valodia et al., 2023). This is so that the potential rewards of the transition opportunities are shared equitably across the country and its various communities. The JET IP contains specific programmes for advancing these various forms of justice (see Table 6). However, the funding allocation – both that by the IPG and the broader allocation for justice elements relative to the ZAR1.48 trillion – is surprisingly low.

Table 6 JET IP just transition programmes

Just transition priority	Allocation (ZAR)	Allocation (US\$)	% of proposed investment needs
Localisation of the renewable energy programme nationally	1.6 billion	88.9 million	0.1%
National social ownership programmes	1.65 billion	91.7 million	0.1%
Repurposing plants and mines in Mpumalanga	16.4 billion	911.1 million	1.1%
Infrastructure development in Mpumalanga	12.3 billion	683.3 million	0.8%
Worker support, skills development, post-coal planning in Mpumalanga	7.7 billion	427.8 million	0.5%
Economic diversification in Mpumalanga	24 billion	1 333.3 million	1.6%
Total	63.65 billion	3,536.1 million	4.3%

Source: The Presidency, South Africa (2022).

Procedural justice is articulated in the JET IP, particularly in the section on implementation, monitoring and evaluation (although no further details are provided). These three understandings of justice were developed within South Africa by multiple stakeholder groups across the country, and any analysis of equitable financial flows concerning the JET IP is redundant without an understanding and acknowledgement of how financial flows address these conceptions of justice. What their inclusion also highlights is that equity requires there to be a balance between socioeconomic and climate considerations, and there cannot be a simple trade-off between the two. This is especially when considering the developmental gap between donor and recipient countries in the IPGs, and the fact that this gap is in large part because of the historical emissions of the developed partners, and their histories of colonial exploitation and extractivism (Valodia et al., 2023).

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To summarise, the financing principles are centred on a needs-based approach, defined through a process of country ownership that infers a particular quality of finance to advance South Africa's NDCs. The quality of finance recognises the differentiated and respective capabilities of the partners. Going forward, these principles would be useful only if they manifest to guide the quantity and quality of the financial flows South Africa will require for a just transition, as well as how these are to be managed and allocated. Nevertheless, there is a degree of disconnect between the principles that have been developed (action) and the actual financial flows (object), calling into question the extent to which the principles have been applied, and what further implementation may look like.

In the case of the IPG offer, it is noteworthy that, of the \$8.5 billion (ZAR127.5 billion) only \$50 million (ZAR750 million) has been set aside for skills development, economic diversification and innovation, and social investment and inclusion, while \$6.9 billion (ZAR103.5 billion) has been allocated for electricity infrastructure. This small allocation for justice-focused elements casts doubt on the extent to which these were mainstreamed into the IPG offer. Furthermore, while the IPG offer has a substantial concessional loan contribution of 63%, the grant component is only 4%, which is not a true reflection of the financing demands, or the respective capabilities of the IPG partners.

In terms of equitable risk-sharing, the JET IP appears to put a greater share of the risk of developing new low-emission technologies on South Africa. Green hydrogen development – a promising but relatively new technology – has a total investment need of ZAR319 billion (\$21.26 billion), and infrastructure costs of ZAR150 billion (\$10 billion). Yet it has a funding gap of ZAR285 billion (\$19 billion), despite an initial ZAR10 billion (\$666 million) from the IPG. In its current iteration, the JET IP only identifies commercial loans, the government budget and guarantees as funding instruments for green hydrogen development going forward. If this remains unchanged, and both international and local private capital is not mobilised, it may end up placing a degree of cost and risk on the South African state that does not reflect its ability to raise credit or its fiscal capacity.

Finally, the perceived conditionality of the JET IP (and JETPs as a whole) has proven a point of contention, as has donor transparency around financing modalities and instruments, particularly since the provision of funds is linked to investment and implementation plans (European Commission, 2022a; 2022b; von Lüpke et al., 2022). Though this is not unusual in itself, it is unclear how the existence of an investment plan reshapes how developed countries provide finance to developing countries in recognition of such needs. What is required, based on the portfolio in the South Africa JETP, appears to be financing facilities that the country may draw down as needed, underpinned by the investment themes in the JET IP. The South African portfolio of investments requires investment in a particular sequence to deliver transition effects and very precise social impacts. The evidence does not yet exist to assess the JETP impact on communities, other than through the promise of resource mobilisation.



6.5 Key insights for the intersection of equity and Article 2.1(c)

The Race to Zero case study shows there are side-effects of net zero commitments that may bring further economic and social vulnerability to countries, and such a race needs to recognise these social costs and equity concerns. In the case of the JETPs and to an extent the V20's GS, it is evident that embedding principles of equity in the design of country and financing interventions is essential to meeting the needs of low-emission and climate-resilient development. Consistency of finance flows in the context of equity therefore relates to accounting upfront for the potential costs of progress made, and the associated socioeconomic disruptions. However, in the case of the JETP for South Africa, its funding principles also recognise that equity has to be reflected in the quality of the finance flows that a country accesses through either international or domestic climate finance. Such equity needs to be reflected in the appropriate funding terms and conditions, flexible funding processes that shift away from a project-by-project approach and risk-sharing arrangements spread among all funders.

For developing countries where JETPs are emerging, consistency of finance flows under Article 2.1(c) and in the context of equity needs to further be reflected in sequencing and prioritisation of the portfolio of investments, a predictable pace for finance flows towards such portfolios, equitable access at national level by countries to the funding provided and appropriate risk-sharing that reflects the respective capabilities of countries and other social partners.

Equity in the context of Article 2.1(c) through the lens of JETPs draws attention to the need to focus on the quality of finance flows to support energy transitions, and embedding equity (justice) as a core principle in making such flows consistent with the future development pathway. Such finance flows relate to international and national flows, as well as flows blending public and private capital within the national finance system.



+ 7. Conclusions and Contributions

This paper has presented three examples to deconstruct what using the lens of equity and finance flows may imply for understanding progress and implications for Article 2.1(c) 'in light of equity.' We note that in practical terms the intersection of equity and finance flows raises several elemental questions, particularly for the GST and for the larger focus brought about by the COP27's explicit call for a transformation of the global financial system. These questions are discussed within the preceding chapters; this section aims to synthesise general observations and contributions to the GST process and beyond.

The paper studied Article 2.1(c) on finance flows, and equity through the lens of the frameworks and definitions applied in the UNFCCC reports and decisions. The key lens for Article 2.1(c) involved considering the examples based on the following elements, applying the longstanding principles of CBDR-RC established under the UNFCCC:

1. **Actions:** What voluntary or mandatory actions '*make finance flows consistent*'?
2. **Object:** What flows are affected by such actions to inform the overall object of 'finance flows' being made consistent?
3. **Effects:** Do the actions taken around the different finance flows have a particular effect, in support of Articles 2.1(a) and 2.1(b)? Is such an effect '*consistent*' in support of the intended goal?
4. **Goal:** What is the goal of actions to make finance flows consistent in order to achieve low-emission and climate-resilient development? Are the actions around finance flows in support of this goal?

7.1 Ambition and temporality as basis for the Global Stocktake process

The Paris Agreement, NDCs and related UNFCCC submissions imply that progressive and urgent raising of ambition among member states is an essential driver of climate response. Each of the examples have implications for Article 2.1(c)'s view on finance flows in the context of equity, where multiple outcomes in varying degrees reflect environmental, economic and social ambitions either directly or indirectly, serve as a basis for action towards Paris Agreement goals. These multiple outcomes highlight the integrated and complex dimensions of enabling the Paris Agreement but are also essential to the efficacy of interventions designed to advance its goals. In this context, the GST should be aware of the different levels of ambition underpinning country- and entity-level interventions in measuring progress broadly and more specifically on Article 2.1(c):

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- 1. The environmental ambitions are relatively clear, focused on either Article 2.1(a) or Article 2.1(b) in terms of lowering emissions or building resilience to climate change.** The Race to Zero focuses on accelerating non-state and state actors' actions to achieve net zero emissions by no later than 2050. The V20's CPPs and financing instruments (such as the GS, which we have explored) are driven by an aim to ensure resilience in vulnerable countries to rapidly escalating and narrow gaps between climate events. The JETPs are trying to operationalise an acceleration (over time) to meet temporally based NDC targets of fossil fuel-dependent developing countries. These initiatives offer a useful and important platform for increased ambition to contribute to the Paris Agreement's environmental goals.
 - 2. The economic ambitions expressed either implicitly or explicitly in these three examples are wholly dependent on finance flows to deliver investment, growth and development.** This is the fundamental assumption underpinning each example, though the economic narratives are expressed differently, such as through the V20's framing of economic prosperity, whereas the JETPs and Race to Zero focus on growth and development to ameliorate transition risks and sectoral investment opportunities. Such economic ambitions are also embedded across different timescales in the case of Race to Zero as countries progress towards a common end date of 2050. The JETPs are also time scale-based, linked to the NDCs.
 - 3. The temporal differences across and within countries create a spectrum of opportunities associated with Race to Zero and JETPs but also veil the side-effect-based equity considerations of emission reduction policies at sectoral and trade levels.** The differences here are at two levels. First, there are different target dates set for when climate policies become effective, which creates a mismatch between countries that are close trading partners. The earlier targets of one country influence directly the ability and cost of trade when the other trading partner has a later date. Second, target date differences set in motion a series of consequences within a country in terms of sectors exposed negatively (fossil fuel-intensive sectors), as well as the new sectors that may emerge from the climate response policies (e.g. green hydrogen).
 - 4. The environmental objectives of certain countries – with respect to their target dates - motivate policy actions such as on carbon border tax adjustment mechanisms, trade conversations and access to finance flows.** These policy actions on the one hand are helpful to support environmental outcomes but on the other generate side-effect equity challenges that have to be accounted for in the course of transition. Among these are increased national and global vulnerabilities as a result of the pace of transition that is set, and a rise in the costs of export and import dynamics for countries unable to absorb such costs at the pace they may be emerging. Thus, the pure pursuit of economic and environmental ambitions as

a basis for the Paris Agreement generally, and more specifically for informing progress on the consistency of finance flows, would be unhelpful – and indeed harmful.

5. The side-effect equity challenges and the economic and social costs that initiatives such as JETPs and net zero-related campaigns exact need to be accounted for through additional finance flows to the affected parties to ensure an equitable transition. Consistency of finance flows without addressing equity would be short-sighted in that this would force further inequality and vulnerability across developed and developing countries, given that social protection is a primary underpinning of just outcomes.
6. **The social ambitions across the three examples also appear to be varied and veiled in some instances.** In the case of the net zero commitments, there is still room to embed more strongly the social implications and associated costs of ‘racing’ towards net zero. The Race has national and trade implications, which creates opportunities in the course of transition while also generating vulnerabilities for national and trade partner livelihoods where policies are mismatched. It is not yet apparent within the net zero and Race to Zero narratives and plans what social ambitions exist and how in practice equity considerations will be addressed. For JETPs, the ‘justice’ components are strongly highlighted as a basis for use of finance flows towards just related investments. However, the ambitions are not yet reflected in the finance flows, their consistency and equity considerations.

While the initiatives offer important examples to trigger national and international consistency of finance flows to support the energy transition, more is necessary. There is a lack of complementary actions by national and international financial intermediaries around the quality of finance, offering appropriate terms and conditions, and nascent evidence of prioritising provision of finance flows for social justice elements of the transition. This limitation at platform level is likely to be mirrored across the spectrum of finance flows. The V20 and its GS proposition is a useful start in embedding equity into expressing the need for and providing finance flows to address the vulnerabilities that come from climate events and building economic and social resilience.

7.2 Equity-centered approach for Article 2.1(c)

Assessing progress in the context of equity requires an equity-centred approach to finance flows within the GST process. It also requires that the notion of ‘progress’ has qualitative metrics. A few observations on what such progress on consistency of finance flows in the context of equity may entail:

1. **Consistency of finance flows based on equity requires multiple very specific lenses.** This is particularly the case because the side-effect costs of



climate policies need to factor in the economic and social costs, as well as institutional and member state capabilities of shifting to a low-emission and climate-resilient development pathway. On one hand, an ‘equity-centred’ formulation requires consistency evidenced in the commitment of provision and coverage areas of the finance flows, especially to those dependent on international finance flows for climate action. On the other hand, an equity lens requires that all countries appreciate and factor into their climate policies the cost of disruptive processes (foreseeable in terms of sectoral shifts), and those that are less predictable (such as the climate events occurring globally) into policies in support of Article 2 of the Paris Agreement.

2. **Consistency implies a particular profile of finance flows.** The finance flows to support the transition to low-emission and climate-resilient development have a specific qualitative dimension in that they are or should be responsive to the needs of countries developed and developing, as they evolve and emerge relative to the climate realities being faced. This requires the finance flows supporting climate action to be predictable, factoring in short-, medium- and long-term time horizons to deliver the necessary investments and goals. Further, it requires the terms and conditions of such finance flows that support investment to be transparent and to reflect country needs, capacity and limitations, which include fiscal and institutional challenges.
3. **Finance flows targeting particular ‘pathway’ goals denotes systemic transformation.** Thus, consistency in this context implies that finance flows are portfolio-driven (not project-based) and cross-sectoral, with explicit consideration and inclusion of catalysts for driving systemic transformation.
4. **Finance flows must explicitly adopt principle of CBDR-RC as a basis for action.** This implies embedding this into financing terms and conditions, and the differentiated capabilities, timescales and related implementation requirements to the provision and negotiation of finance flows. Such a principle is relevant for both relationships between developed and developing countries and those between private and public finance intermediaries.
5. **Finance flows need to be needs-based and country-owned.** Finance flows need to be defined across time horizons. The differentiation across time recognises that transition and transformation are process that evolve, thus needs also evolve. Countries are thus best placed to determine and define the finance needed according to their evolving needs.
6. **Finance flows need to incorporate just transition objectives.** Enabling a just transition is among the effects envisaged when implementing the Paris Agreement. However, the financial intermediaries (national, international, public and private) which represent distribution channels of finance need to better incorporate “just” components. For example, through appropriate terms and conditions that recognise national circumstances and priorities, and the proportion of finance allocated to justice components (impact on livelihoods, employment, skills etc).

7. **Intra-regional, intra-governmental and community-level finance flows can form part of Article 2.1(c).** A range of finance flows can be supported under of Article 2, provided that equitable access across different distribution channels exists. There is scope in future for the GST to measure progress at national, subnational, community and local government level. However, the “progress” metrics should be equity based. For example, appreciating that at community level, finance should flow or be immediately accessible for first responders who respond to disasters. And to local communities and governments, who have to rebuild and build resilience due to related loss and damage events. The provision and accessibility of finance flows to where most needed, and most impactful is often overlooked. How can finance distribution channels best respond to the urgency at hand? Who needs the funds first, and how fast can it reach them?
8. **Inclusivity, gender sensitivity and a focus on marginalised communities are also essential elements of an equity based approach to consistency of finance flows.** The general principles of CDRC-RC should apply to how finance flows are considered and progress measured under Article 2.1(c) from the perspective of youth, women and vulnerable communities. For example, measuring the response to questions such as: Where does the need exist? What finance flows are necessary to meet such needs? How will finance flows consistently be made available to meet the needs of vulnerable groups?

7.3 Measuring the cost of progress

Shifting to a low-emission and climate-resilient development pathway is a transformative process, which is inherently disruptive across the whole of society, affecting economic and social dimensions and influencing the quantity and quality of finance flows. It is important to acknowledge these disruptions from an equity perspective, as they create transition-related side-effects, while recognising that the underlying actions are important for meeting Article 2 goals. Acknowledging the costs requires explicit recognition for cost-bearing and cost- and risk-sharing arrangements, and a new paradigm in how finance flows are viewed. A key question here for the GST is, at what cost is progress being made, and who is bearing such a cost? Progress for the GST needs to be understood in terms of counterfactual positions, and assuming that climate policies can create inequities and inconsistencies inasmuch as they are able to create positive environmental and economic benefits.

1. **New financing terms and conditions are necessary.** Transformative and system-focused finance flows are essential to enable consistency in finance flows. Such as equitable risk-sharing arrangements, institutional processes and adjusting distribution channels for finance flows. All of which would ensure a greater degree of consistency. This means that the *status quo* of how international–national and public–private financial actors currently engage needs to be revisited, and the transformation agenda for financial systems needs to factor such fundamental shifts into its narrative.

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2. **National circumstances will influence the ability to absorb or adjust to the additional costs of shifting to new pathways.** The quantity and quality of finance flows within developed and developing countries, and the climate-related finance flows to developing countries, are all factors that affect how consistency and equity influence the provision of finance flows. For example, existing sovereign debt levels, the pace and quality of shifting to new pathways, the vulnerabilities of countries and the existing financial architecture, and access to and dependency on finance flows need to be viewed systemically.

7.4 Baseline assumptions in measuring progress

With regard to the immediate role of the GST in assessing progress in operationalising Article 2.1(c) in light of equity, the examples illustrate that the assessment of collective progress needs to acknowledge the following:

1. **Different starting points are inevitable and necessary.** Vulnerability in the case of the V20 is to physical risk and the increasing burden on these states to ensure finance flows that support climate-resilient development. JETPs respond to unique transition-related challenges of fossil-fuel dependent countries.
2. **The role of different actors and differential access to actions and capabilities.** In the case of the Race to Zero, non-state actors aim to stimulate a whole of society approach based on their accessibility to finance flows. The V20 and JETPs focus on state-led initiatives that initially target international climate finance flows as a driver to influence broader finance flows to advance Articles 2.1(a) and 2.1(b).
3. **The qualitative effects of the finance flows are different across actions.** While all actions address climate-related goals, with a view to economic growth and development, not all actions equally engage with the side-effects of such actions, and the additional finance flows they would require to ameliorate such side-effects (particularly in case of net zero/the Race to Zero and JETPs).
4. **Different ways of assessing progress exist.** The examples chosen in this paper show the difficulties in measuring “progress” if the “progress measure” is whether they have achieved consistency or not, or established an economy on a pathway towards low-emission and climate-resilient development. Current actions being taken in the spirit of Article 2.1(c) are diverse, and largely still at the level of campaign (or pact), financing pledges and platforms, disclosures and taxonomies. These are examples of individual actions but assessing their collective progress or contribution to Article 2.1(c) may still be premature. The individual actions can however be the basis a “reference measure” to later measure their collective contributions to better assess in future GSTs whether they have enabled consistency, and in the context of equity. A decision from the GST could be to determine 2023 as a reference year for example, coinciding with the first GST. A further reason for having such a reference year, is that the many

actions are yet to be tested in practice, pacts and promises are not progress measures.

5. **Distinguishing what constitutes progress in the current GST will be essential.** For example, this may be the existence of particular policies linked to finance flows and the investment they support, to be measured relative to existing policies that may be harmful towards the goal of Paris Agreement. Progress could be defined if using 2023 as a “reference year” by defining progress measures that track relative shifts from one period to the next, as this recognises the process of transition and transformation underway.

1. *To what extent is climate risk being factored into the national financial system?*
2. *To what extent are climate policies addressing equity considerations reflected in how finance flows are made available?*
3. *At what pace is finance flows shifting and are they accounting for negative side-effects at social and economic level?*
4. *To what extent are international climate flows increasing flows for equity and justice relative to Article 2 of the Paris Agreement?*

6. **Financial systems are interconnected, and actions do not operate in a vacuum.** This means there is a significant risk that the blind and narrow pursuit of Article 2.1(c) in isolation veils the secondary effects and negative consequences of climate policies, however well-intentioned they are. Further, the geopolitical shifts in the financial system, including rising interest rates and the cost of funding more generally for some regions, are essential to consider. Beyond Article 2.1(c) and the focus on the Paris Agreement, the financial system as a whole may be creating social and economic vulnerabilities that are not yet fully being acknowledged and taken account of.

The paper also offers useful insights in terms of planting seeds for engaging further on Article 2.1(c) in context of future GSTs:

5. **The GST technical annex could promote questions that would help evaluate actions (or inaction)** undertaken towards operationalising Article 2.1(c) by taking an approach that recognises that equity manifests differently in each context and is also actor-dependent, to avoid diluted responsibility and weak accountability. Thus, the future progress on operationalising Article 2.1(c) should:

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1. take a needs-based approach towards actions that seek to operationalise Article 2.1(c) and map initiatives and actions against these needs
 2. identify actions by actors and the results they are able to leverage – for example type of actor, potential for real economy impact, within or across geographic locations
 3. identify the interdependencies between actions and the role of international policies and regulations guiding finance flows that influence the starting points or actions available to actors, including noting any sequencing of these actions/actors.

6. **The GST political outcomes need to also interrogate and elevate an equity-centred approach into how finance flows are framed and assessed.** While the scope and objectives of Article 2.1(c) are further explored through 2023 at the workshops mandated by the cover decision text at COP27, such text should strongly emphasise the equity-centred approach as a primary basis for operationalising Article 2.1(c), including in the context of the New Collective Quantified Goal and negotiations beyond such a goal. Such a political outcome should recognise the inherent equity elements already contained in the Paris Agreement, which are gaining prominence as a means of equity, such as the just transition, though it requires a broader definition of justice (not only loss of jobs but also of livelihoods and operations linked to such losses).

7.5 Towards transformation of the financial system

In our view, the conversation around finance flows is currently at two levels. One is as a legacy following the Paris Agreement formulation, and the limited progress on advancing Article 2.1(c) specifically. The conversations around Article 2.1(c) have largely been happening outside of the UNFCCC formal negotiations, where some resistance to engage has endured. At COP27, progress was made on furthering formal discussions on what operationalising this article constitutes. The other level of discussion on finance involves ‘transformation.’ These levels reflect how the conversations on finance flows are advancing relative to the real economy, as broader systemic dimensions linked to the realities of enabling a transition amidst other related social and economic, and geopolitical tensions that may be emerging.

Interestingly, COP27 explicitly speaks to the broader transformation of the financial sector. Unfortunately, the transformation agenda of the financial system is still largely premised on scaling up finance for renewable energy, with inadequate and at times absent attention accorded to the very real financial and social costs of climate disasters and resilience- and adaptation-building efforts. It is concerning that the arguments for a transformed financial system do not acknowledge the growing need for resilience and social protection, as we can see in the examples in Section 5 of this paper: climate disasters are increasing in

frequency and intensity around the world as per the arguments of the V20's GS. ***This is the first flawed assumption of the transformation agenda – that it is being pinned on a renewable energy investment agenda, scaling up finance for investment and putting resilience and climate disaster funding on the back bench. It begs the question, if not now, in the face of the climate science, then when?***

Perspectives relating to equity are embedded in the UNFCCC with entrenched framings such as the CBDR-RC in place for some time. However, Article 2.1(c) offers a more recent and precise qualitative metric of 'consistency,' linked also to the SDG agenda for 'integrated' finance flows. These qualities are important markers for understanding progress and appreciating its heterogeneity across sovereign states, non-state actors and the differentials at national, subnational, community and international (global) levels. This paper has offered a contribution mainly on the qualitative dimension of equity as a basis for consistent finance flows, to contribute towards measuring progress on Article 2.1(c) 'in light of such equity.' ***For the transformation of the financial sector work that is expected to proliferate, are there any lessons one can draw from the malaise and resistance to engaging Article 2.1(c) thus far?***

The narrative on finance flows within the UNFCCC has historically focused mainly on the quantity of finance flows to support low-emission and climate-resilient investment. This is an important focus, given the significant finance flows necessary for advancing the Paris Agreement goals, globally and nationally. However, it is useful to recall that at their earliest origins, sustainable development and climate narratives, such as the 1987 Brundtland Commission, spoke to both quantity and quality of finance (flows). Till recently, the focus on quality of finance has been relatively marginalised, but it is rapidly resurfacing, evident in the COP27 call for transformation of the financial system and a roadmap for Article 2.1(c).

Outside of the UNFCCC systems, one might argue that such resurfacing is directly linked to the stark economic and social vulnerabilities exposed by COVID-19 and the escalating global polycrisis and breakdowns. ***These dynamics also highlight fundamental disparities among countries and their varying abilities to respond in just and inclusive ways. For example, adaptability and flexibility are functions of pre-existing sound foundations for such qualities to be applied in response to events. The transformation of the financial system agenda requires a focus on building resilience to climate risks, while acknowledging that certain climate shocks are inevitable and require social and economic safety nets, where possible.***

Initiatives such as the Bridgetown Agenda, the V20's Accra–Marrakesh Accord and the forthcoming 22–23 June 2023 Summit for a New Financial Pact recognise the need for systemic transformation across a spectrum of reform ambitions that target different temporal urgencies. The quality of finance flows question is clearly a critical issue in the planet's history. ***The transformation agenda should consider more firmly longstanding issues as expressed in the three examples of this paper, such as the***



cost of capital, levels of indebtedness and absence of contingency, rebuilding funds in the face of climate events, the indignity of climate finance access and the importance of country-led needs-based support.

The elements raised in each of the sections and this synthesis section should be carefully considered in advancing the transformation agenda for the financial system, and in particular how MDBs are refocusing (transforming) their contributions to the multiple crisis, which most were not designed to respond to.

1. The financial sector's transformation agenda itself has temporal dimensions, with short-term measures that are useful for advancing particular outcomes in particular constituencies and medium- to longer-term actions needed in parallel.
2. This paper primarily highlights that actions operationalising Article 2.1(c) in the absence of equity will lead to detrimental economic effects and further social vulnerabilities. Thus, transformation in the absence of a rights- and principles-based approach, appreciating the side-effects of climate policies, would be harmful to society.
3. Such negative consequences, if not accounted for by providing appropriate social safety nets, additional finance flows and related capabilities, will undermine any transformation agenda associated with the global and national financial systems.
4. Needs-based funding that focuses on how the financial sector responds to the underlying needs should be a key baseline assumption of any financial sector transformation agenda.
5. Policymakers and contributors towards financial sector reforms should be mindful of and interrogate what other baseline assumptions of risk, return, mandates and related 'barriers to action' underpin the proposals being put forward for transforming the financial system. This should particularly include the basis for public-private sector partnerships, advancing and making real equitable risk-sharing arrangements and accounting for financing terms and conditions that are 'just' and reflective of country and entity circumstances and capabilities.

The transformation agenda needs also to urgently consider what distribution channels of finance are necessary to advance equity and dignified access to finance flows for those most in need.

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