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Discussion paper

Unpacking Article 2.1(c): Conceptual and Political Dimensions of Climate-Consistent Finance under the Paris Agreement

by

Bertha Argueta

Germanwatch, Berlin

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Umweltbundesamt
Wörlitzer Platz 1
06844 Dessau-Roßlau
Tel: +49 340-2103-0
Fax: +49 340-2103-2285
buergerservice@uba.de
Internet: www.umweltbundesamt.de

Report performed by:

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Abstract: Unpacking Article 2.1(c): Conceptual and Political Dimensions of Climate-Consistent Finance under the Paris Agreement

The objective of the paper is to explore the diverse interpretations of Article 2.1(c) and propose a working definition to guide future assessments of progress. The paper draws on literature, stakeholder submissions, and dialogues, particularly the Sharm el-Sheikh Dialogue, to analyse the varying views and challenges that emerge in interpreting Article 2.1(c). It aims to contribute to a larger research project that will develop a method to evaluate countries' progress in aligning with Article 2.1(c).

A central challenge for operationalising Article 2.1(c) is defining "consistency" in financial flows and understanding what constitutes a "pathway" toward low-emission and climate-resilient development. There is also debate over whether Article 2.1(c) serves as an independent long-term goal or as an enabler for the broader Paris Agreement goals of mitigation and adaptation.

The report highlights that although there is broad agreement that Article 2.1(c) applies to all financial flows, many assessments focus only on a limited subset, often neglecting informal flows or trade-related finance. The paper also emphasises the need for policies that integrate both public and private financial actors while avoiding new conditionalities that could disproportionately affect developing countries.

The paper proposes a working definition that incorporates equity, common but differentiated responsibilities (CBDR-RC), and national circumstances. This definition expands the scope to include all types of financial flows and stresses the importance of nationally determined pathways aligned with global climate goals. It also acknowledges the need to consider trade-offs between mitigation, adaptation, and sustainable development to ensure a just and inclusive transition.

The considerations of different views confirms the complexity of aligning financial flows with climate goals under Article 2.1(c), pointing to systemic barriers such as high capital costs, limited fiscal space, and debt burdens, especially in developing countries. To address these, international cooperation and reform of the global financial architecture are deemed essential. The proposed definition of Article 2.1(c) aims to clarify the operational challenges and provides a framework for future research and assessments. By integrating broader sustainable development objectives and recognising the need for tailored national approaches, the definition aims to support the transformation of financial systems and economies toward low-carbon and climate resilience.

Kurzbeschreibung: Eine Dekodierung von Artikel 2.1(c): Konzeptionelle und politische Dimensionen klimakonsistenter Finanzflüsse im Rahmen des Pariser Abkommens

Ziel des Papiers ist es, die unterschiedlichen Interpretationen von Artikel 2.1(c) zu untersuchen und eine Arbeitsdefinition vorzuschlagen, die als Leitfaden für künftige Fortschrittsbewertungen dienen kann. Der Beitrag stützt sich auf Fachliteratur, Stellungnahmen von Interessengruppen und Dialoge – insbesondere den Sharm-el-Sheikh-Dialog – um die unterschiedlichen Sichtweisen und Herausforderungen bei der Auslegung von Artikel 2.1(c) zu analysieren. Es soll zu einem größeren Forschungsprojekt beitragen, das eine Methode zur Bewertung des Fortschritts von Ländern bei der Ausrichtung an Artikel 2.1(c) entwickelt.

Eine zentrale Herausforderung bei der Operationalisierung von Artikel 2.1(c) besteht darin, „Konsistenz“ in Finanzströmen zu definieren und zu verstehen, was einen „Pfad“ zu einer emissionsarmen und klimaresilienten Entwicklung ausmacht. Es gibt auch eine Debatte darüber, ob Artikel 2.1(c) als eigenständiges langfristiges Ziel fungiert oder als Wegbereiter der umfassenderen Ziele des Pariser Abkommens in den Bereichen Klimaschutz und Anpassung an den Klimawandel.

Der Bericht hebt hervor, dass, trotz weitgehender Einigkeit darüber, dass Artikel 2.1(c) für alle Finanzströme gilt, sich viele Bewertungen nur auf eine begrenzte Teilmenge konzentrieren und dabei informelle Ströme oder handelsbezogene Finanzierungen oft ausser Acht lassen. Das Papier betont zudem die Notwendigkeit von politischen Rahmensetzungen, die sowohl öffentliche als auch private Finanzakteure einbinden, ohne dabei neue Konditionalitäten zu schaffen, die Entwicklungsländer unverhältnismäßig stark belasten könnten.

Das Papier schlägt eine Arbeitsdefinition vor, die die Prinzipien equity, common but differentiated responsibilities (CBDR-RC), and national circumstances einbezieht. Diese Definition erweitert den Anwendungsbereich auf alle Arten von Finanzströmen und unterstreicht die Bedeutung national festgelegter Entwicklungspfade, die mit globalen Klimazielen im Einklang stehen. Sie erkennt auch die Notwendigkeit an, Zielkonflikte zwischen Klimaschutz, Anpassung und nachhaltiger Entwicklung zu berücksichtigen, um einen gerechten und inklusiven Übergang (Just Transition) zu gewährleisten.

Die Berücksichtigung unterschiedlicher Sichtweisen bestätigt die Komplexität der Ausrichtung von Finanzströmen auf Klimaziele gemäß Artikel 2.1(c) und weist auf systemische Hindernisse wie hohe Kapitalkosten, begrenzten fiskalischen Spielraum und Schuldenlasten hin – insbesondere in Entwicklungsländern. Um diese zu überwinden, sind internationale Kooperation und eine Reform der globalen Finanzarchitektur von entscheidender Bedeutung. Die vorgeschlagene Definition von Artikel 2.1(c) soll die operationellen Herausforderungen verdeutlichen und einen Rahmen für zukünftige Forschung und Bewertung bieten. Durch die Integration übergeordneter Ziele nachhaltiger Entwicklung und die Anerkennung der Notwendigkeit maßgeschneiderter nationaler Ansätze zielt die Definition darauf ab, die Transformation von Finanzsystemen und Volkswirtschaften in Richtung einer kohlenstoffarmen und klimaresilienten Zukunft zu unterstützen.

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List of abbreviations

ABU	Argentina, Brazil and Uruguay
ADB	Asian Development Bank
AfDB	African Development Bank Group
AIIB	Asian Infrastructure Investment Bank
AILAC	Independent Alliance of Latin America and the Caribbean
ASEAN	Association of Southeast Asian Nations
CAN	Climate Action Network
CBDR-RC	Common but Differentiated Responsibilities and Respective Capabilities
CEB	Council of Europe Development Bank
COP	Conference of Parties
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ESG	Environmental, social and governance
EU	European Union
GFANZ	Glasgow Financial Alliance for Net Zero
GST	Global Stocktake
IDBG	Inter-American Development Bank Group
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IsDB	Islamic Development Bank
JETP	Just Energy Transition Partnership
LMDC	Like-Minded Group of Developing Countries
MDB	Multilateral Development Bank
NDB	New Development Bank
NDC	Nationally Determined Contributions
NGFS	Network for Greening the Financial System
OECD	Organisation for Economic Co-operation and Development

SCF	Standing Committee on Finance
SeS Dialogue	Sharm el-Sheik dialogue
TWN	Third World Network
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UNCTAD	UN Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
US	United States of America
WBG	World Bank Group

Summary

Article 2.1(c) of the Paris Agreement outlines the goal of "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." However, despite increasing recognition of its importance, there remains no shared understanding of how to define, implement, or measure progress on this goal. This discussion paper, the first output of a larger research project, synthesises current perspectives and emerging themes around the interpretation and operationalisation of Article 2.1(c). Drawing on literature, stakeholder submissions, and dialogues held under the UNFCCC, particularly the Sharm el-Sheikh Dialogue, the paper explores divergent interpretations and key challenges, and proposes a working definition to support future assessments of progress in the implementation of Article 2.1(c).

Origins and Diverging Interpretations

The language of Article 2.1(c) is intentionally broad, resulting in legal and conceptual ambiguity. Three dominant interpretations emerged during the negotiation of the Paris Agreement:

1. *Finance as obligation*: Finance under Article 2.1(c) is subordinate to Article 9 and relates only to support from developed countries to developing ones.
2. *System-wide transformation*: The goal involves aligning all financial flows, public and private, domestic and global, with climate objectives.
3. *Complementary roles*: Article 2.1(c) and Article 9 serve distinct yet synergistic functions.

These perspectives reflect contrasting national priorities and concerns, such as fears over new obligations for developing countries or the privatisation of responsibilities.

Key Conceptual Challenges

A central point of contention is the interpretation of "consistency" and what constitutes a "pathway" towards low-greenhouse gas emissions and climate resilient development. Stakeholders differ over whether the pathways referred to in Article 2.1(c) should be based on global 1.5°C scenarios, nationally determined contributions (NDCs), broader development considerations such as energy access and food security, or a combination of these. Furthermore, while Article 2.1(c) is often seen as a third long-term goal of the Paris Agreement, alongside mitigation and adaptation, others regard it as an enabling condition to achieve the mitigation and adaptation goals of the Paris Agreement, rather than an independent objective.

Scope of Finance and Policy Implications

Although there is consensus that Article 2.1(c) applies to all types of financial flows, public, private, domestic, international, and transnational, most existing assessments focus on a narrow subset, excluding informal flows and trade-related finance. The relationship between Article 2.1(c) and Article 9 remains contentious, with concerns from some Parties that the former could dilute commitments under the latter. However, many acknowledge that Article 9 finance can play an enabling role, for instance by de-risking investments or supporting institutional capacity.

Roles of Stakeholders

A wide array of actors are involved in implementing Article 2.1(c), from national governments and multilateral banks to private financial institutions and civil society. Governments are seen as bearing the primary responsibility, especially through their regulatory powers and participation in international institutions. Private actors, while crucial, face scrutiny over greenwashing and the limits of voluntary commitments. Coordinated action across sectors and levels is identified as essential but remains insufficiently integrated into operational frameworks.

Policy Instruments and Measures

Implementation is often framed as dependent on enabling environments, but this concept remains contested. Two broad categories of measures are discussed: market-led instruments (e.g. taxonomies, disclosures, blended finance) and market-shaping strategies (e.g. evolution of institutional mandates; coordinated fiscal, industrial, trade and financial measures). The literature and stakeholder dialogues highlight the need for tailored, context-specific approaches, particularly to avoid new conditionalities for developing countries.

Systemic Challenges and Need for Reform

Structural issues such as high capital costs, debt burdens, and limited fiscal space pose significant barriers to Article 2.1(c) implementation, especially in developing countries. Addressing these challenges will require international cooperation and reform of the global financial architecture. The concept of “external consistency makers”, actions by actors beyond national control, is central to addressing these constraints.

A Proposed Working Definition

To guide future research and assessments, the paper offers a working definition of Article 2.1(c) that integrates the principles of equity, common but differentiated responsibilities (CBDR-RC), and national circumstances. The definition affirms the inclusion of all finance flows and recognises the need for nationally determined pathways that also align with global climate goals. Importantly, it calls for assessing trade-offs between mitigation, adaptation, and sustainable development to ensure a just and inclusive transition.

This working definition is not meant as an input to the negotiation process and does not imply a potential political compromise between Parties to the UNFCCC.

Table 1: A working definition of Article 2.1(c)

Proposed definition		
Action	“Making ...”	▶ Includes all policies and measures, at the national and international level that promote consistency of finance flows. ▶ Includes actions to ensure consistency of finance flows, implemented by public and private sector actors, at the local, national and international levels; and supported by civil society and academia. ▶ Includes actions that result from cooperation between public, private and a mix of public, private and other actors, in different forums nationally and internationally, including those aimed at addressing challenges to implementation (e.g. cost of capital, debt). ▶ Includes the evolution of mandates and business models of relevant actors, to integrate the potential for transformation of Article 2.1(c). ▶ Includes consideration of the complexity of causal relations, leading to holistic strategies.

Proposed definition		
Flows	“... finance flows...”	▶ Includes all finance flows and stocks, public, private, domestic, international and transnational that are relevant to different national circumstances, without exceptions. ▶ Includes flows under Article 9 of the Paris Agreement. ▶ Encompasses flows that support, undermine or are neutral towards the goals of the Paris Agreement.
Effects	“... consistent ...”	▶ Actions implemented under Article 2.1(c) aim to ensure that in the end, all finance flows and stocks either support the goals of the Paris Agreement or remain neutral to them. This requires reducing or re-aligning those flows that undermine these goals; as well as increasing those that support them, including finance under Article 9, in a just manner.
Trajectory	“... with a pathway towards...”	▶ Pathways are those nationally determined. ▶ Nationally determined pathways are critically assessed against their “fair” contributions to global mitigation and adaptation goals, thus requiring an operational understanding of equity and CBDR-RC (for example, through differentiated timelines).
Goal	“... low-greenhouse gas emissions and climate resilient development.”	▶ Integrates mitigation, adaptation and resilience targets (nationally determined and global), with sustainable development objectives. ▶ Assesses and addresses potential trade-offs between adaptation, mitigation and sustainable development priorities, to ensure proper consideration of potentially negative socio-economics impacts of actions and just transition, at the national level, as well as unintended consequences across jurisdictions.

Zusammenfassung

Artikel 2.1(c) des Pariser Abkommens beschreibt das Ziel, „Finanzströme in Einklang mit einem Pfad zu einer emissionsarmen und klimaresilienten Entwicklung zu bringen“. Trotz zunehmender Anerkennung seiner Bedeutung besteht weiterhin kein gemeinsames Verständnis darüber, wie dieses Ziel definiert, umgesetzt oder der Fortschritt dabei gemessen werden soll. Dieses Diskussionspapier – der erste Beitrag eines umfassenderen Forschungsprojekts – fasst aktuelle Perspektiven und aufkommende Themen rund um die Interpretation und Operationalisierung von Artikel 2.1(c) zusammen. Basierend auf Fachliteratur, Beiträgen von Interessengruppen und UNFCCC-Dialogen – insbesondere dem Sharm-el-Sheikh-Dialog – untersucht das Papier unterschiedliche Auslegungen und zentrale Herausforderungen und schlägt eine Arbeitsdefinition vor, um künftige Bewertungen des Fortschritts bei der Umsetzung von Artikel 2.1(c) zu unterstützen.

Ursprung und divergierende Interpretationen

Die Formulierung von Artikel 2.1(c) ist bewusst breit gehalten, was zu rechtlicher und konzeptioneller Unklarheit führt. Drei vorherrschende Interpretationen haben sich während der Verhandlungen des Pariser Abkommens herausgebildet:

1. *Finanzierung als Verpflichtung:* Finanzflüsse gemäß Artikel 2.1(c) sind Artikel 9 untergeordnet und beziehen sich ausschließlich auf die Unterstützung von Entwicklungsländern durch Industrieländer.
2. *Systemweite Transformation:* Das Ziel besteht darin, alle Finanzströme – öffentlich und privat, national und global – mit den Klimazielen in Einklang zu bringen.
3. *Komplementäre Rollen:* Artikel 2.1(c) und Artikel 9 erfüllen unterschiedliche, aber sich ergänzende Funktionen.

Diese Perspektiven spiegeln unterschiedliche nationale Prioritäten und Bedenken wider, wie etwa die Sorge vor neuen Verpflichtungen für Entwicklungsländer oder der Privatisierung von Verantwortung.

Zentrale konzeptionelle Herausforderungen

Ein Hauptstreitpunkt ist die Interpretation von „Konsistenz“ und was genau unter einem „Pfad“ zu emissionsarmer und klimaresilienter Entwicklung zu verstehen ist. Es herrscht Uneinigkeit darüber, ob sich diese Pfade auf globale 1,5°C-Szenarien, nationale Klimaziele (NDCs), allgemeinere Entwicklungsziele wie Energiezugang und Ernährungssicherheit oder eine Kombination daraus stützen sollten. Während Artikel 2.1(c) oft als drittes langfristiges Ziel des Pariser Abkommens betrachtet wird – neben Klimaschutz und Anpassung an den Klimawandel –, sehen ihn andere eher als Voraussetzung zur Erreichung der anderen beiden Ziele und nicht als eigenständiges Ziel.

Dimensionen der Finanzflüsse und politische Implikationen

Obwohl Einigkeit darüber besteht, dass Artikel 2.1(c) auf alle Arten von Finanzflüssen Anwendung findet – öffentlich, privat, national, international und transnational –, konzentrieren sich die meisten bestehenden Analysen auf eine begrenzte Teilmenge und schließen informelle Finanzflüsse sowie handelsbezogene Finanzierungen aus. Das Verhältnis zwischen Artikel 2.1(c) und Artikel 9 bleibt umstritten, wobei einige Vertragsparteien befürchten, dass Ersterer die Verpflichtungen unter Letzterem verwässern könnte. Viele erkennen jedoch an, dass Finanzierungen unter Artikel 9 eine unterstützende Rolle spielen können – z. B. durch Risikominderung oder den Aufbau institutioneller Kapazitäten.

Die Rollen der Akteure

Eine Vielzahl von Akteuren ist an der Umsetzung von Artikel 2.1(c) beteiligt – von nationalen Regierungen und multilateralen Entwicklungsbanken bis hin zu privaten Finanzinstitutionen und der Zivilgesellschaft. Regierungen wird die Hauptverantwortung zugeschrieben, insbesondere aufgrund ihrer regulatorischen Befugnisse und ihren Rollen in internationalen Institutionen. Private Akteure spielen eine wichtige Rolle, stehen jedoch wegen Greenwashing-Vorwürfen und der Schwächen freiwilliger Verpflichtungen unter kritischer Beobachtung. Koordiniertes Handeln über Sektoren und Ebenen hinweg wird als essenziell erkannt, ist bisher aber unzureichend in operative politische Rahmenwerke integriert.

Politische Instrumente und Maßnahmen

Die Umsetzung von Klimaschutzplänen wird häufig als abhängig von „ermöglichenden Rahmenbedingungen“ dargestellt, wobei das Konzept selbst umstritten ist. Zwei Hauptkategorien von Maßnahmen werden diskutiert: Marktorientierte Instrumente (z. B. Taxonomien, Offenlegungspflichten, Mischfinanzierung) und marktgestaltende Strategien (z. B. die Weiterentwicklung institutioneller Mandate; koordinierte fiskal-, industrie-, handels- und finanzpolitische Maßnahmen). Diskursbeiträge wie Fachliteratur und Stakeholder-Dialoge betonen die Notwendigkeit maßgeschneiderter, kontextspezifischer Ansätze – insbesondere um neue Konditionalitäten für Entwicklungsländer zu vermeiden.

Systemische Herausforderungen und Reformbedarf

Strukturelle Herausforderungen wie hohe Kapitalkosten, Schuldenlasten und begrenzte fiskalische Spielräume stellen bedeutende Hindernisse für die Umsetzung von Artikel 2.1(c) dar, insbesondere in Entwicklungsländern. Zur Überwindung dieser Hürden sind internationale Kooperation und eine Reform der globalen Finanzarchitektur erforderlich. Das Konzept der „externen Konsistenzhersteller“ – also Maßnahmen von Akteuren außerhalb nationaler Kontrolle – ist zentral zur Bewältigung dieser Beschränkungen.

Vorgeschlagene Arbeitsdefinition

Zur Unterstützung künftiger Forschung und Analysen schlägt das Papier eine Arbeitsdefinition von Artikel 2.1(c) vor, die die Prinzipien *equity*, *common but differentiated responsibilities (CBDR-RC)*, and *national circumstances* integriert. Die Definition bezieht alle Finanzströme ein und erkennt die Notwendigkeit national festgelegter Pfade an, die mit globalen Klimazielen in Einklang stehen. Besonders wichtig ist die Berücksichtigung von Zielkonflikten zwischen Klimaschutz, Anpassung und nachhaltiger Entwicklung, um einen gerechten und inklusiven Übergang (*Just Transition*) zu gewährleisten.

Diese Arbeitsdefinition stellt keinen Beitrag zum Verhandlungsprozess dar und impliziert kein mögliches politisches Kompromissangebot zwischen den Vertragsparteien der UNFCCC.

Tabelle 2: Eine Arbeitsdefinition von Artikel 2.1(c)

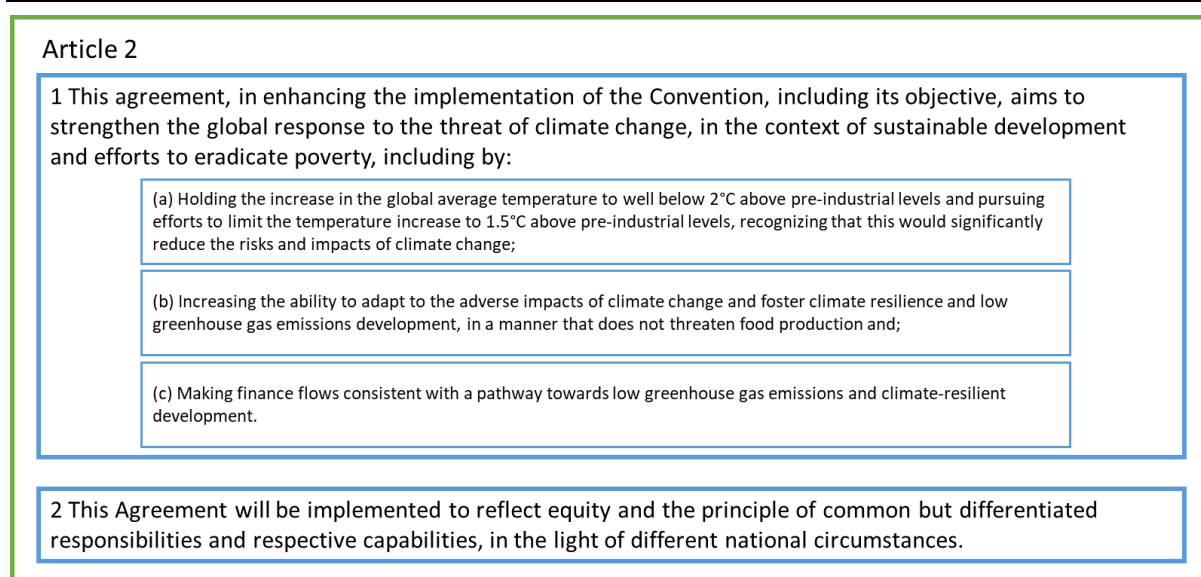
Vorgeschlagene Definition		
Maßnahme	“Making ...”	▶ Umfasst alle Politiken und Maßnahmen auf nationaler und internationaler Ebene zur Förderung der Konsistenz von Finanzströmen. ▶ Umfasst Maßnahmen zur Sicherstellung der Konsistenz von Finanzströmen, umgesetzt durch öffentliche und private Akteure auf lokaler, nationaler und internationaler Ebene; unterstützt durch Zivilgesellschaft und Wissenschaft. ▶ Umfasst Maßnahmen durch Kooperationen zwischen staatlichen, privaten und der Kombination von staatlichen, privaten und anderen Akteuren in nationalen und internationalen Foren, insbesondere solche, die sich mit Umsetzungshindernissen (z. B. Kapitalkosten, Schulden) befassen. ▶ Umfasst die Weiterentwicklung von Mandaten und Geschäftsmodellen relevanter Akteure zur Integration des Transformationspotenzials von Artikel 2.1(c). ▶ Berücksichtigt die Komplexität kausaler Zusammenhänge und fördert ganzheitliche Strategien.
Flüsse	“... finance flows...”	▶ Umfasst alle Finanzströme und Kapitalbestände – öffentlich, privat, national, international und transnational – entsprechend den unterschiedlichen nationalen Gegebenheiten, ohne Ausnahmen. ▶ Umfasst Finanzflüsse unter Artikel 9 des Pariser Abkommens. ▶ Bezieht Finanzflüsse ein, die die Ziele des Pariser Abkommens unterstützen, untergraben oder neutral beeinflussen.
Auswirkungen	“... consistent ...”	▶ Maßnahmen gemäß Artikel 2.1(c) zielen darauf ab, dass letztlich alle Finanzströme und Kapitalbestände die Ziele des Pariser Abkommens unterstützen oder zumindest neutral dazu stehen. Dies erfordert die Reduktion oder Umsteuerung den Zielen entgegen stehender sowie die Erhöhung unterstützender Finanzflüsse – einschließlich der unter Artikel 9 – auf gerechte Weise.
Pfad	“... with a pathway towards...”	▶ Die Pfade sind national festgelegt. ▶ Diese national bestimmten Pfade werden im Hinblick auf ihren „gerechten“ Beitrag zu den globalen Klimaschutz- und Anpassungszielen kritisch bewertet, was eine operative

Vorgeschlagene Definition		
		Auslegung der Prinzipien Gerechtigkeit und CBDR-RC erfordert (z. B. durch differenzierte Zeitpläne).
Ziel	“... low-greenhouse gas emissions and climate resilient development. ”	▶ Integriert die Ziele für Klimaschutz, Anpassung und Resilienz (national festgelegt und global) mit Zielen nachhaltiger Entwicklung. ▶ Bewertet und adressiert potenzielle Zielkonflikte zwischen Anpassung, Klimaschutz und nachhaltiger Entwicklung, um eine angemessene Berücksichtigung potenziell negativer sozioökonomische Auswirkungen von Maßnahmen aufzufangen. Dies beinhaltet einen gerechten und inklusiven Übergang auf der nationalen Ebene sowie auch unbeabsichtigte Folgen in anderen Rechtsräumen.

1 Introduction

Article 2 of the Paris Agreement sets out the Agreement's overarching purpose: to strengthen the global response to climate change. It frames this ambition within the broader context of sustainable development and poverty eradication (chapeau of paragraph 1), and introduces key principles for implementation, including equity, common but differentiated responsibilities and respective capabilities (CBDR-RC), and national circumstances (paragraph 2). Importantly, Article 2.1 sets out the means through which the Agreement's aims are to be achieved, in sub-articles 2.1(a), 2.1(b), and 2.1(c). Article 2.1(c) focuses on "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC, 2015).

Figure 1: Article 2 of the Paris Agreement



Source: own illustration, Germanwatch, based on (UNFCCC, 2015)

In 2020, The Standing Committee on Finance (SCF) identified a lack of common understanding regarding what constitutes relevant information under Article 2.1(c) and how to achieve its objective (UNFCCC Standing Committee on Finance, 2021). The objective, scope, and relationship of Article 2.1(c) with Article 9, which requests the provision of financial resources to developing countries, have become central to discussions within the United Nations Framework Convention on Climate Change (UNFCCC). Despite increasing attention and a growing body of literature attempting to interpret, operationalise, and evaluate progress on Article 2.1(c), no clear consensus has emerged. Nonetheless, many countries have already begun implementing measures that arguably fall under its scope.

To date, the UNFCCC process has not provided a dedicated space for Parties to the Paris Agreement to negotiate and agree on a shared understanding of Article 2.1(c)'s objectives and scope. However, it has established a platform for exchanging views. At COP 27 in Egypt (2023), Parties launched the Sharm el-Sheikh Dialogue (SeS Dialogue) to enhance understanding of Article 2.1(c) and its complementarity with Article 9. The dialogue was extended at COP 28 in Dubai (2024) for two more years, with a broadened focus on operationalisation and implementation. While this platform has facilitated the sharing of experiences, perspectives, and best practices among governments, public financial institutions, international entities, the private sector, academia and civil society, it is not a venue for formal negotiations.

This discussion paper builds on outcomes from the SeS Dialogue and other relevant literature to examine how various stakeholders interpret Article 2.1(c). It is the first output in a research project that will develop and implement a method to evaluate countries' progress towards aligning with Article 2.1(c). Different methodologies to evaluate countries' progress towards alignment have already been developed and applied to individual countries and to specific flows at the global level. While several methodologies have already been devised and applied to assess individual countries or specific financial flows at the global level, there remains no shared understanding of how to operationalise Article 2.1(c), nor of what constitutes relevant information for assessing progress. As a result, methodological choices are often made without being explicitly stated or fully explained.

To determine which elements should be considered in such an evaluation, this paper seeks to identify both areas of consensus and divergence, as well as challenges to implementation and assessment, and to translate these into a working definition of finance aligned with Article 2.1(c). This definition will aim to clarify those methodological choices and enable subsequent work under this research project to address them in the development of the assessment method.

The following sections will focus on the different understandings of Article 2.1(c) in the UNFCCC and relevant literature, starting with the negotiation of the Paris Agreement and Article 2.1(c), and looking at the current discussions and emerging themes related to scope and function, roles of different actors, and policies and measures; and on developments and challenges in operationalising and measuring progress. In the end, the paper will propose a working definition of Article 2.1(c), which will serve as a starting point for the research project of which this paper is part. The definition can also contribute to the discussions under the SeS Dialogue and any future conversations on Article 2.1(c) under the UNFCCC.

2 Divergent understandings of the objective and scope of Article 2.1(c)

This section explores how stakeholders interpret key aspects of Article 2.1(c), including its objective, scope, implications for different actors, and relevant policies and measures. It highlights the implications of these variations, and how they influence implementation and progress assessment and identifies areas of emerging consensus.

2.1 Origins and negotiation of Article 2.1(c)

A legal and historical perspective on the origins and negotiating process of Article 2.1(c) and the Paris Agreement provides insight into the reasons behind divergent interpretations of Article 2.1(c).

International agreements like the Paris Agreement are often purposefully vague to accommodate compromise among Parties with diverse interests (Bodle et al., 2016). This ambiguity allows for flexibility but also creates legal uncertainty, particularly regarding interpretation and implementation. Such agreements often refrain from establishing clear and prescriptive legal obligations (Bodansky, 2021; Bodle et al., 2016; Minas, 2021). For example, Article 2.1(c)'s call to make finance flows "consistent" is open to interpretation, with the Agreement offering no definition of what constitutes consistency of finance flows.

Furthermore, such agreements give Parties a general direction of travel, but its provisions use language with little operational content (Bodle et al., 2016). Article 2.1(c)'s calls for finance flows to follow a "pathway" introduces ambiguity, as it does not specify a singular route, leaving it to individual Parties to define this in the context of "low greenhouse gas emissions and climate-resilient development."

Although Article 2 sets a collective global ambition, the Paris Agreement does not prescribe how individual countries should act to meet this goal. It also introduces equity-based principles like CBDR-RC and consideration of national circumstances, which further complicate the operationalisation of terms like "pathway" and "consistency" under Article 2.1(c).

During the negotiation phase of the Paris Agreement, three primary interpretations of Article 2.1(c) emerged (Zamarioli et al., 2021):

- a) *Finance as obligation* – Some Parties argue that Article 2.1(c) is subordinate to Article 9 and should refer solely to finance mobilised by developed countries.
- b) *System-wide transformation* – Others see Article 2.1(c) as encompassing the broader financial system, calling for alignment of all finance— public and private, domestic and global—with climate goals, including Article 9 flows. Article 9 flows would be a sub-category of finance under Article 2.1(c).
- c) *Complementary roles* – A third interpretation views Articles 2.1(c) and 9 as distinct but complementary, where Article 9 finance can support consistency under Article 2.1(c).

Based on Parties' individual and group contributions to the SCF and the negotiations of the Paris Agreement, Zamarioli et al. ((Zamarioli et al., 2021) identified narratives and counter-narratives, illustrating opposite positions, as shown in Table 3. These differing perspectives reflect the diverse priorities and concerns of countries, many of which persist nearly a decade after the Agreement was adopted (Alayza, 2024; Feyertag & Robins, 2023).

Table 3: Narratives around Article 2.1(c) during the negotiations

Narratives*	Counter-narratives*
NR 1. Contribution by all Include own contributions by developing countries	CN 1. No new responsibilities to developing countries Include context of implementation of the convention
NR 2. Full transformation Include shifting flows away from high-carbon investments	CN 2. No weakening of developed countries' commitments
NR 3. Engagement of the financial sector Include relevance of enabling environments	CN 3. No creation of economic conditionalities Include no language on enabling environments Include no privatization of countries responsibilities

* Note: Narratives and Counter-narratives are developed based on Parties submission to the Paris Agreements' negotiating process, including key contributions for the "Narratives" from developing countries such as Azerbaijan, Peru, and the Independent Alliance of Latin America and the Caribbean (AILAC).

Source: (Zamarioli et al., 2021)

2.2 Current discussions and emerging themes

Many elements of Article 2.1(c), including its objective, scope, implications for different actors, ways to operationalise and assess it, remain contested. At the heart of this is the interpretive ambiguity resulting from the Article's drafting and the diverse interests it was designed to accommodate.

This subsection outlines the main points of contention and their implications for developing any methodology to assess implementation.

2.2.1 Defining "consistency"

The concept of "consistency" is interpreted in many different ways by stakeholders. Unlike climate finance, which is usually defined by its clear goal to reduce emissions and build resilience, Article 2.1(c) of the Paris Agreement does not mention the purpose of the financial flows it covers. These flows are often understood to be broader than those defined under Article 9 and are not necessarily focused on climate action. Instead, their climate impacts are often seen as co-benefits rather than primary objectives (UNCTAD, 2023).

Different countries use a range of terms to express the idea of "consistency," such as 'directing,' 'aligning,' 'orienting,' 'shifting,' or 'attracting' finance flows (Standing Committee on Finance, 2023). Many emphasize the idea of 'realigning' or 'shifting away from' current practices to highlight the need for finance to support a transition to low-emissions, climate-resilient development. Even when the same terms are used, they are often interpreted differently (Standing Committee on Finance, 2023). This conceptual ambiguity has significant implications for implementation, measurement and comparability.

Consistency is also interpreted in relation to different understanding of the "pathway" mentioned in Article 2.1(C). The framing of "pathway" is particularly critical, as it helps define the way forward to achieve the stated aim of Article 2.1(c). Some assessments equate the

pathway with scientifically derived 1.5°C scenarios or top-down equity models¹. Others use nationally determined contributions (NDCs) to interpret consistency². A third group expands the scope to include considerations such as energy access, food security, and just transition elements³, suggesting that consistency requires recognising and evaluating trade-offs between mitigation, adaptation, and broader sustainable development outcomes (Argueta et al., 2024; Schipper et al., 2022).

Many climate commitments and targets set by financial institutions or non-financial corporates are also set in relation to the mitigation target of 1.5°C (Standing Committee on Finance, 2024). There is markedly less focus on targets to build resilience and on adaptation outcomes, highlighting the missing link to both Article 2.1(b) and the idea of climate-resilient development (Standing Committee on Finance, 2024).

2.2.2 Scope and function

Beyond the interpretation of “consistency” and the choice of a pathway, all of which have implications for the way Article 2.1(c) is implemented and assessed, there are other relevant discussions around the scope of Article 2.1(c), and its function. Issues of scope relate to how the integration of the principles embedded in Article 2 of the Paris Agreement affect the scope of expected outcomes, and to the question of which finance flows should be included. The relation between Article 2.1(c) and Article 9, has emerged as one of the main issues of scope, and is addressed separately.

2.2.2.1 Function

Concerning whether Article 2.1(c) constitutes a standalone goal or serves primarily as a means of achieving the Paris Agreement’s broader objectives, some literature positions it as the third long-term goal of the Agreement (alongside Articles 2.1(a) and 2.1(b)) (Goritz et al., 2021; Minas, 2021). Others argue it is both a goal and an enabler, especially in Party submissions to the SeS Dialogue⁴.

Interpreting Article 2.1(c) as a means to support the overall goals of the Paris Agreement affects how it is implemented, particularly in terms of which pathway finance flows should be consistent with. In this context, the relevant pathways are often understood in relation to the temperature goal outlined in Article 2.1(a), and the adaptation and resilience goal in Article 2.1(b). If Article 2.1(c) is treated as an independent objective, however, the definition of the pathway requires further clarification. This is because Article 2.1(c) does not refer directly to a temperature target, but instead to low greenhouse gas emissions and climate-resilient development.

¹ For some examples of this approach, see (Bingler et al., 2021; Carter, 2023; Catzim, 2022; Hoffmann et al., 2022). In these cases, these studies include assessments using methodologies that define “fair share” contributions by each country to the global effort to keep average temperature rise below 1.5°C, which are not nationally defined and therefore considered top-down. A commonly used methodology is that developed by Climate Action Tracker.

² For examples of this approach, see (Halimanjaya et al., 2022; Imelda et al., 2024; Lopez-Carbajal et al., 2021). The methodology used by the Multilateral Development Banks (MDBs) to assess their own finance also focused on nationally determined pathways and specifically mention CBDR-RC as a reason for this (AfDB et al., 2023).

³ For examples of this see (Argueta, 2023; Imelda et al., 2024; Samo et al., 2022). Importantly, most of these assessments are qualitative, so their assessment of consistency with any chosen pathway is largely subjective.

⁴ Including those submitted by the United States (US, 2023), the United Kingdom (UK, 2023), the European Union (EU, 2023) as well as non-Party stakeholders like Environmental Defense Canada ((Environmental Defence Canada, 2023), available in the UNFCCC website.

2.2.2.2 Integration of the principles of Article 2 of the Paris Agreement

The scope of Article 2.1(c) intersects with questions of equity and differentiated responsibilities, and has implications for what outcomes need to be considered when operationalising the Article. Progress in implementing Article 2.1(c) can be assessed in light of Article 2's overarching principles, particularly the balance between common global goals and individual country ambitions. A top-down approach that assumes all countries must move at the same pace and make uniform contributions to the Paris Agreement's temperature goal could contradict the principles of CBDR-RC and equity⁵ and have negative implications for countries' development.

Another way in which the current discussion on Article 2.1(c) reflects concerns about the operationalisation of principles such as equity, CBDR-RC, and national circumstances is through the objections raised by developing countries and other stakeholders regarding conditionalities resulting from the implementation of Article 2.1(c). These concerns refer to measures that result in conditions being placed on countries to access finance, usually in the form of specific policy requirements, which could limit this access and reduce countries' policy space⁶.

These concerns highlight the potential impacts of such conditionalities on local employment, societal welfare, development, and the privatisation of services (Raheja et al., 2024; Standing Committee on Finance, 2023, 2024; Sward & Le Lannou, 2024; UNFCCC, 2023b). They were first voiced during the negotiations of the Paris Agreement, as seen in the narratives presented earlier, and they remain relevant today. This suggests the need to consider such issues when assessing the alignment of policies with Article 2.1(c).

Article 2.1(c) also includes transnational finance flows, many of which are controlled or heavily influenced by international governing bodies and economically powerful countries with systemic relevance (Agénor et al., 2024; Argueta et al., 2024; Diaz-Bonilla & Callaway, 2018). Concerns have emerged regarding the unintended consequences of unilateral measures taken by these actors on other jurisdictions. These issues have been highlighted in the SeS Dialogue, particularly regarding trade-related barriers⁷ and financial regulation⁸ (UNFCCC, 2023b, 2024). Similar to conditionalities, the negative consequences of these measures on resilience and sustainable development should be carefully considered when implementing and assessing Article 2.1(c).

If the goal of Article 2.1(c) of ensuring consistency in finance flows has negative impacts on other socio-economic aspects—such as food security or energy access—that remain unaddressed, it could undermine sustainable, and climate-resilient development, as well as poverty eradication. Therefore, the way Article 2.1(c) is linked to other targets of the Paris Agreement, particularly Article 2.1(b), and the pathways chosen to achieve its goals, must be carefully considered. Many countries' emphasis on the importance of the principles outlined in Article 2 support this point⁹.

⁵ This point seems less relevant when other stakeholders make commitments, particularly from the private sector, or when these are assessed. Nevertheless, there may still be implications for countries that remain to be explored.

⁶ Some examples are included in submissions to the SeS Dialogue, for example from Third World Network (TWN) ((TWN, 2023)), AILAC (AILAC, 2025), and UNCTAD (UNCTAD, 2025).

⁷ For example, the implications of measures like Carbon Border Adjustment Mechanisms on trade.

⁸ For example, the potential downgrading of credit worthiness for countries with high exposure to climate impacts, particularly vulnerable developing countries (Buhr et al., 2018)

⁹ Included in Parties submissions to the SeS Dialogue by Argentina, Brazil and Uruguay (ABU) (ABU, 2023), the LMDCs (LMDC, 2023), the Arab Group (Arab Group, 2023), AILAC (AILAC, 2025), the Philippines (The Philippines, 2025), and the EU (EU, 2023).

2.2.2.3 Finance flows

There is some agreement that Article 2.1(c) refers to finance that supports, undermines, or is neutral¹⁰ towards the goals of the Paris Agreement (Kreibiehl et al., 2022; Raheja et al., 2024; Standing Committee on Finance, 2023; UNFCCC Standing Committee on Finance, 2021). In principle, there is consensus that Article 2.1(c) would cover all public and private, domestic and international flows and stocks¹¹, as well as all layers of finance (IIED, 2022; Kessler et al., 2019; Kreibiehl et al., 2022; OECD, 2024).

In practice, however, most assessments focus on investing and financing activities of a limited range of public and private actors, and the policies and measures that influence them. In doing so, they neglect flows such as remittances, informal sector finance¹², or flows linked to trade, debt, and taxation (Actionaid, 2023; Argueta et al., 2024; Benson et al., 2014; Carter, 2023; Robertson et al., 2023). This selective framing risks overlooking systemic constraints and priorities that are specific to some national contexts, especially in developing countries.

2.2.3 Article 9 and complementarity

At the heart of the Article 2.1(c) debate is its relationship with Article 9. Some Parties fear Article 2.1(c) might dilute or replace the obligations of developed countries under Article 9.

As highlighted previously, different stakeholders see Article 2.1(c) either

- a) As primarily concerned with international support for developing countries
- b) As referring to a system-wide transformation, encompassing all flows, including those under Article 9
- c) As separate but complementary or synergetic with Article 9.

Perspectives that focus on complementarity suggest Article 9 finance can support Article 2.1(c) in several ways: by providing investment capital in high-risk contexts, enabling just transitions, and building institutional capacities (UNFCCC, 2023b).

A common feature of these interpretations is that they all acknowledge that climate finance flows under Article 9 should be considered in the implementation and assessment of Article 2.1(c), both as part of overall financial flows and as a potential enabler of “consistency”. Some existing assessments have already incorporated Article 9 flows (Bingler et al., 2021; Halimanjaya et al., 2022; Hoffmann et al., 2022; Samo et al., 2022), primarily by analysing quantitative data. Others have gone further by emphasising the need to assess the quality of this finance, often referring to the instruments used and their impacts, when evaluating these flows (Imelda et al., 2024). This point was also highlighted in submissions made in the context of the SeS Dialogue¹³.

¹⁰ Meaning flows that “do no harm” to the Paris Agreement goals.

¹¹ Despite Article 2.1(c) referring only to flows, ensuring consistency of stocks has been highlighted in the literature as a necessary step. Stocks are understood as the accumulation of flows (Kreibiehl et al., 2022). Focusing on them can help ensure outcomes like the early retirement or decommissioning of heavily emitting assets, support for new technologies and other innovations (Kessler et al., 2019).

¹² The informal sector is, to varying degrees, an important part of developing countries’ economies (Deléchat & Medina, 2020), and relies largely on informal finance, which requires its own set of policy considerations to address consistency issues (Benson et al., 2014).

¹³ For example, those sent by Climate Action Network (CAN) International (2023), Environmental Defence Canada (2023), ABU (2023), LMDC (2023), the Arab Group (2023).

2.3 Role of different actors around Article 2.1(c)

Discussions within the SeS Dialogue have highlighted a wide range of actors essential to the implementation and assessment of Article 2.1(c). These include both public and private sector entities, operating at local, national, and international levels, from the financial sector and real economy, as well as civil society institutions and academia. The list of actors mentioned or included in Article 2.1(c) discussions includes:

Public national and subnational:

- ▶ Governments, including ministries of finance, climate, economy, taxation and other sectors and relevant agencies;
- ▶ Subnational governments, including for regions, cities and municipalities;
- ▶ Supranational institutions (the African Union, ASEAN, EU);
- ▶ Central banks, financial supervisors and regulatory authorities;
- ▶ Public development finance institutions, national and subnational;
- ▶ Export credit agencies;
- ▶ Sovereign wealth funds;
- ▶ State-owned enterprises.

Public international:

- ▶ International organisations and United Nations agencies;
- ▶ International financial institutions (IMF, MDBs, dedicated climate funds etc.);
- ▶ Multilateral decision-making forums for governments, such as the Group of 20 and the World Trade Organisation.

Private:

- ▶ Private financial institutions and service providers, including banks, institutional investors and pension funds, (re)insurers, impact investors, asset managers, credit rating agencies, environmental, social and governance rating providers;
- ▶ Real-economy businesses, including micro, small- and medium-sized enterprises;
- ▶ Industry and trade associations;
- ▶ Households;
- ▶ Industry-led global standard-setting bodies or target-setting initiatives.

Others:

- ▶ Academia, think tanks and non-governmental organisations, both national and international (UNFCCC, 2023b, 2024).

Additionally, the UNFCCC plays an important role in facilitating dialogue on Article 2.1(c). The UNFCCC also supports monitoring and measurement of progress, through the SCF and processes like the Global Stocktake (GST).

2.3.1 Public sector actors

The SeS Dialogue identified governments and other non-governmental public institutions¹⁴ as key actors in the implementation of Article 2.1(c). They are considered primarily responsible for carrying out this Article, as they hold formal obligations under the UNFCCC. This role was further reinforced by the first Global Stocktake (UNFCCC, 2023a), which calls on governments to enhance enabling environments and strengthen policy guidance, incentives, and regulatory frameworks.

All levels of government, local, regional, national, and supranational, are involved. For example, national authorities operate within broader frameworks like the European Union or the Association of Southeast Asian Nations (ASEAN), where collective policy alignment matters. At the international level, governments serve as members or shareholders in public financial institutions and forums, enabling them to drive policy changes that support consistent finance flows.

2.3.2 Private sector actors

Private finance actors also have a role to play, a point acknowledged by both the Global Stocktake and the SeS Dialogue. However, there is less consensus about the specifics of this role. Whether private actors in the financial sector and real economy can also lead the necessary transformation through their own initiatives is the subject of discussion.

Concerns about the role of private actors include the potential for greenwashing (OECD, 2023; Standing Committee on Finance, 2024; UNCTAD, 2023), the backtracking on voluntary commitments (Mundy & Bryan, 2025; Reclaim Finance, 2024), and the limited effectiveness of current initiatives (Harnett & Salazar, 2023; MIT Sloan Office of Communications, 2024). Private actors are often driven by fiduciary responsibilities, which may make them agnostic to climate goals (Standing Committee on Finance, 2024; UNCTAD, 2023). This could explain why voluntary commitments frequently yield mixed results. In some cases, it becomes clear that private sector commitments are contingent on the existent policy and regulatory environment (Khan, 2025).

2.3.3 Civil society and research institutions

The role of academia, think tanks and non-governmental organisations, both national and international, is mentioned but less discussed in detail, though it can be assumed to be a more supporting role linked to the production of knowledge and research on the topic of Article 2.1(c), its implementation and assessment.

2.3.4 Coordination and mandates

The SeS Dialogue highlighted that actors are increasingly coordinating through various networks and groups. Examples include the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), sustainable finance working groups, and joint initiatives such as the Asia Investor Group on Climate Change, the Glasgow Financial Alliance for Net Zero (GFANZ), and the collective efforts of the MDBs towards Paris Alignment (UNFCCC, 2023b).

Participants in the SeS Dialogue emphasised the importance of coordination at both national and international levels. At the national level, this involves whole-of-government approaches; at the international level, it requires collaboration through networks, organisations, and forums.

¹⁴ For example, central banks and other financial regulators.

However, coordination in relevant forums remains underexplored in existing frameworks for operationalising and assessing the implementation of Article 2.1(c).

If coordination is essential for the implementation of Article 2.1(c), then it should be considered a necessary measure and included in assessments. The joint methodologies developed by Multilateral Development Banks (MDBs) provide a useful precedent, but other avenues for coordination within international forums remain insufficiently examined, particularly those that govern financial flows often excluded from existing assessments, such as trade and taxation. These forums could play a crucial role in addressing challenges such as the impacts of unilateral measures and the imposition of conditionalities.

Public sector actors already have mandates that define the roles they can play in ensuring the consistency of finance flows. However, questions arise as to whether the scale of transformation implied by Article 2.1(c) may require the expansion or revision of some of these mandates. At the national level, institutions such as central banks, whose mandates may constrain their ability to drive systemic transformation, have increasingly been the subject of calls for reform, in light of the challenge of aligning financial flows with climate goals (Feyertag & Robins, 2023; Schröder Bosch, 2023; UNCTAD, 2023). At the international level, processes like the World Bank's Evolution Roadmap are ongoing, although their transformative potential has been contested (Bretton Woods Project, 2024).

If Article 2.1(c) is to serve as a tool for transformation, then it is relevant to question whether the scope of currently enacted mandates and established modes of operation by key actors—such as central banks and MDBs—is sufficient, or whether these institutions must evolve beyond their current mandates and business models to enable implementation.

2.4 Policies and measures to implement Article 2.1(c)

Implementation of Article 2.1(c) is often framed as a matter of creating the right enabling environment, but there is no agreement about what this entails, or whether this is the right approach. Developing countries often push back against the idea of enabling environments, especially if established in a top-down manner, due to the potential that they will create new obligations or establish new conditionalities for them, by requiring them to develop or reform specific policies.

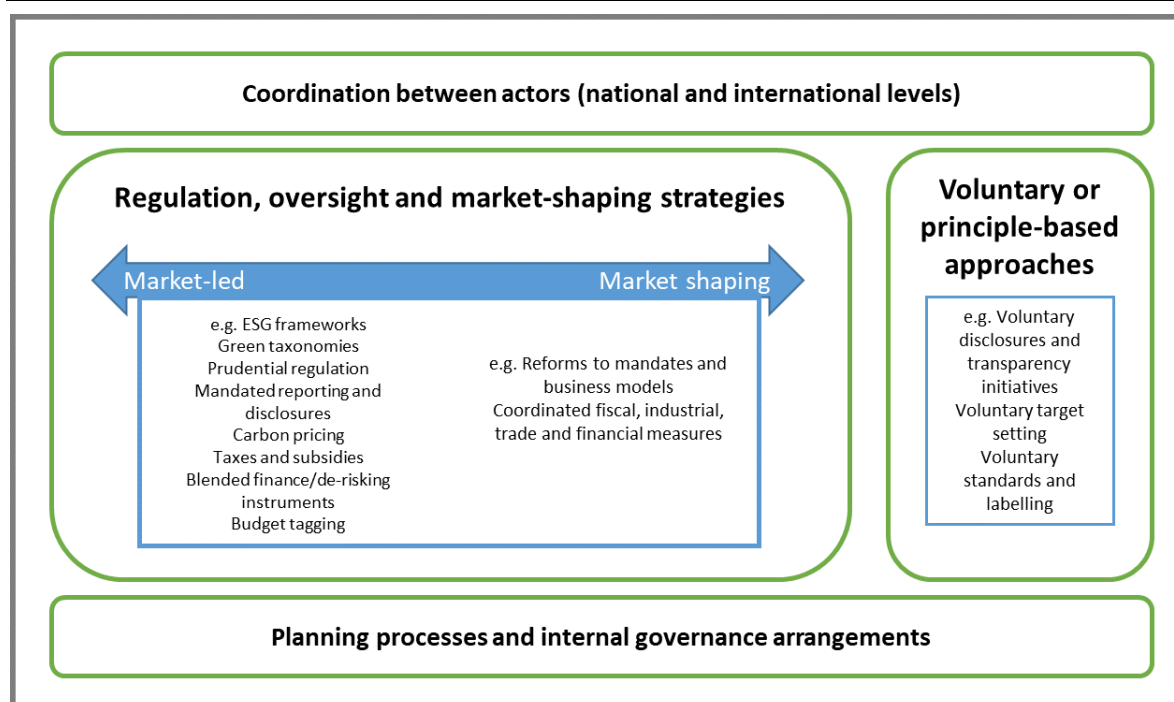
2.4.1 Overview of relevant policies and measures for 2.1(c) implementation

A long list of potential policies and measures have been identified in existing literature and through the SeS Dialogue. These can be categorised in two broad “types” of potential policies and measures:

- ▶ The first one focuses on regulation, oversight and market-shaping strategies;
- ▶ The second one includes voluntary or principle-based approaches (UNFCCC, 2024).

These two approaches are underpinned by planning processes and internal governance arrangements.

Figure 2: Overview of relevant policies and measures for 2.1(c) implementation



Source: own illustration, Germanwatch, based on (UNFCCC, 2024; Whitley et al., 2018)

In practice, a combination of approaches is being implemented, and some existing frameworks like the one developed by Whitley et al. (Whitley et al., 2018), or the one proposed by the OECD (2024) can combine policies and measures that fall under both approaches. However, the effectiveness of these two types of policies and measures varies¹⁵ and not all stakeholders support the use of both¹⁶. At the international level, there are also proposals for what international governing bodies can do to implement Article 2.1(c) (Kretschmer, 2021).

Within the first type of policies and measures, there is a spectrum of options that range from “market-led” mechanisms to “market-shaping” strategies. Market-led mechanisms work to provide incentives and signals to steer actors towards consistency by addressing the risk-return profile of investments; while market shaping strategies require a more interventionist approach from governments, and rely on coordinated fiscal, industrial, trade and financial measures (Kedward et al., 2022; UNCTAD, 2023).

Many examples of market-led approaches have been discussed and presented in the literature and in the SeS dialogue. These include prudential regulation, sustainable and transitional finance frameworks, like ESG frameworks and green taxonomies, reporting and disclosures, carbon pricing, as well as the use of fiscal instruments like taxes and subsidies. Blended finance, de-risking instruments and platforms (e.g. guarantees, the JETPs) are also mentioned. Integrated approaches to the use of these market-led instruments have been proposed, as a more effective way of ensuring consistency (Bowman, 2023). Importantly, the OECD (2024), noted that policy instruments are much less frequent for adaptation, than for mitigation, a point already noted by many countries in the context of the SeS Dialogue.

¹⁵ As discussed above for voluntary initiatives of the private sector.

¹⁶ As exemplified by the US’ (US, 2023) submission to the SeS Dialogue, stating that they do now expect the inclusion of financial-sector regulatory or supervisory policy as part of the 2.1(c) work; or by India’s submission to the GST (Republic of India, 2023), raising concerns about 2.1(c) translating to no more fossil fuel subsidies in developing countries, in contradiction of CBRD-RC.

Critiques of the most common market-led approaches, beyond their ineffectiveness (Kedward et al., 2022; UNCTAD, 2023), also include the fact that many do not apply to all countries, particularly lower-income ones (Attridge & Engen, 2019)¹⁷. This connects with calls for Article 2.1(c)'s pathways to be nationally determined and non-prescriptive, and therefore to rely on nationally determined policies and measures that reflect national contexts. The issue of differentiation also manifests in these discussions, around the need to assess policies and measures for their socioeconomic implications, as well as implications on international trade, debt and financial market access.

Market-shaping mechanisms, as well as broader reform examples are often less prominent in the SeS Dialogue, but are nonetheless evident in processes outside the UNFCCC and in the literature. A clear example of this are the proposed reforms of central banks' roles, and changes in capital adequacy frameworks of development finance institutions (Boosting MDBs' investing capacity, 2022; UN, 2023). At the international level, there are several reform agendas with proposals that go beyond business-as-usual, many of which target the governance of international institutions, like the Bridgetown Agenda (Bridgetown Initiative, 2024), or a broader set of reforms in multilateral forums, like the Financing for Development process (International Commission of Experts on Financing for Development, 2025).

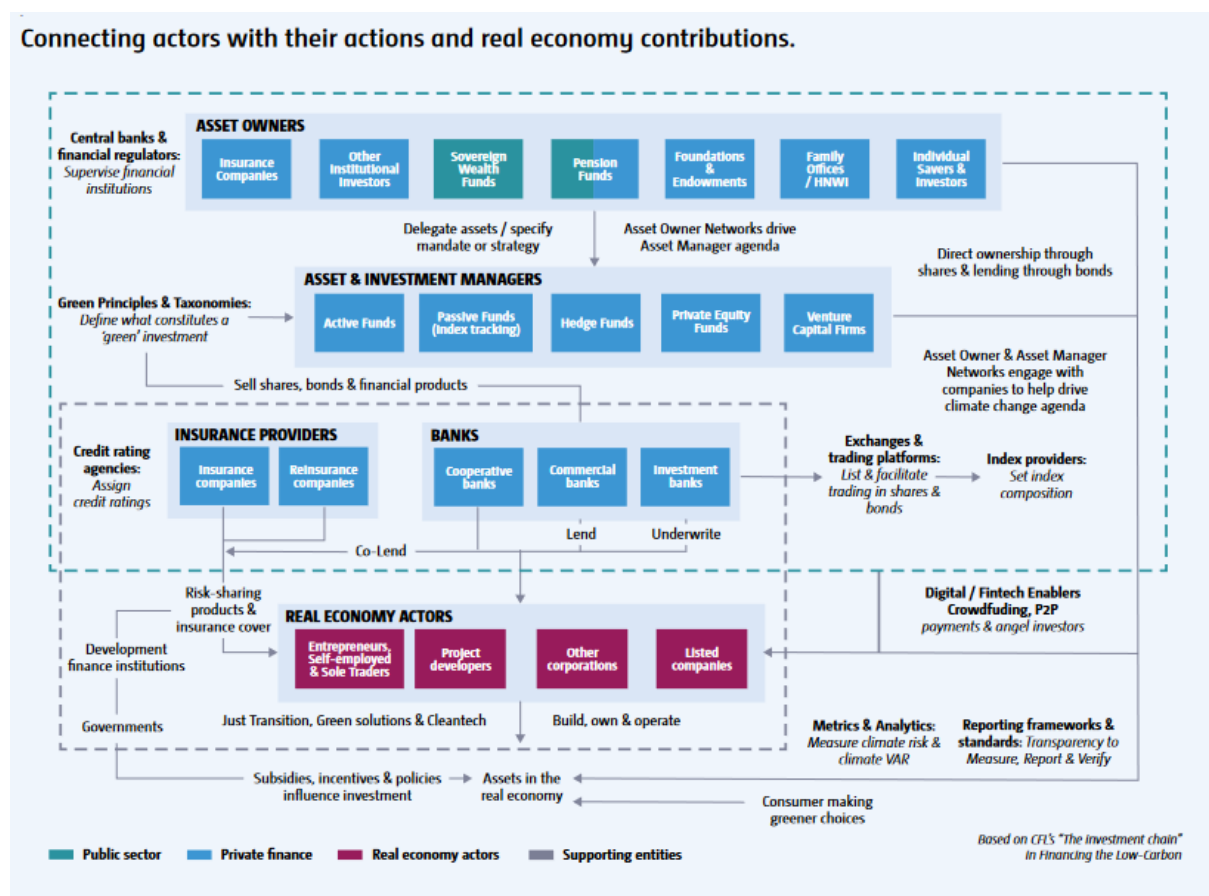
2.4.2 Challenges to the design and implementation of policies and measures

A key challenge in the choice of policies and measures, and in measuring progress in the implementation of Article 2.1(c) is the difficulty in attributing specific changes and impacts in the real economy to a measure or policy. The SCF (Standing Committee on Finance, 2024) noted that little is known of the impacts of public and private measures to implement Article 2.1(c) on the real economy, including on increased resilience and reductions in greenhouse gas emissions. This raises the potential for a substantial part of the efforts to implement Article 2.1(c) to be dedicated to less-efficient policies and measures.

Additionally, the various discussions on how to operationalise and measure progress under Article 2.1(c) have yet to fully address the interlinkages between the multiple layers of actors and mechanisms that contribute to its complexity. As highlighted by the Standing Committee on Finance (2024), in Figure 3, these complex relationships and causal chains can result in fragmented efforts that fail to produce real-economy impacts. This underscores the need for holistic approaches to both the operationalisation and assessment of Article 2.1(c).

¹⁷ An issue that has also been pointed out in the LMDC (LMDC, 2023) and Arab Group's (Arab Group, 2023) submissions, backed by IPCC (IPCC, 2022) findings

Figure 3: Connecting actors with their actions and real economy contributions



Source: UNFCCC Standing Committee on Finance (2024)

3 Operationalising and measuring progress

3.1 Potential challenges to implementation and measurement

3.1.1 Systemic and structural barriers

In the SeS Dialogue, many developing countries have highlighted significant challenges to implementing Article 2.1(c) at the national level. Some of the most prominent include high capital costs, debt sustainability concerns, limited fiscal space, and heightened investment risk perceptions—all of which constrain their ability to undertake actions aligned with Article 2.1(c). These challenges cannot be effectively addressed at the national level alone and therefore require international coordination, linking Article 2.1(c) implementation to broader reforms of multilateral frameworks, notably the international financial architecture.

As such, the successful implementation of Article 2.1(c) in many countries is likely to depend on overcoming these systemic barriers. How addressing these challenges can be operationalised in practice, and how progress can be measured, are therefore critical questions. Existing frameworks already offer guidance on how to integrate such factors into Article 2.1(c) implementation, for example, by addressing what ODI and Germanwatch (Robertson et al., 2023) refer to as external consistency makers (Figure 4). External consistency makers are defined by Robertson et al. (2023) as actions to scale or direct finance flows taken by “either an entity or group of entities external to, and beyond the sole control of, the considered State, and directly or indirectly influencing the individuals, entities, groups or enterprises domiciled in the considered State’s jurisdiction.”

Figure 4: Internal and external consistency makers for Article 2.1(c)



Source: (Robertson et al., 2023)

The idea of external consistency makers aligns with many of the calls for broader reform of the international financial architecture mentioned above. It can be argued that the proposal also aligns more closely with the vision of Article 2.1(c) as driving a full transformation in the ways in which finance flows, in light of the challenges posed by climate change and development.

3.1.2 Data and capacity constraints

Stakeholders frequently cite data limitations as a major obstacle for the assessment of the implementation of Article 2.1(c). Private sector data, in particular, is often inaccessible,

inconsistent, or not granular enough for meaningful analysis (Delrieu et al., 2022; NGFS, 2021). Flows in the informal sector and non-financial dimensions of alignment are rarely tracked.

Some stakeholders noted that given the diversity of actors and oversight mechanisms, private finance flows are more difficult to track and report than public finance flows, though public finance may be less comparable. Others noted that data in the financial and real-economy sectors is not sufficient to assess collective progress.

Additionally, many countries lack the technical and institutional capacity to undertake complex financial alignment assessments. This includes gaps in climate risk modelling, finance tracking systems, and integration of climate objectives into budgeting and investment planning. The lack of capacity is likely to be at least partly a result of the absence of climate objectives embedded in many organisations' mandates and work.

Data and capacity constraints could be tackled using Article 9 finance, thus highlighting again the potential complementarity of both Articles.

4 Conclusion: A working definition of Article 2.1(c)

Building on the current discussions outlined in this paper, including the key points of contention and their implications, as well as on the original scope proposed by the SCF (2020) Biennial Assessment, we propose a working definition of Article 2.1(c) to facilitate future work as part of the broader research project of which this paper is a first output. The definition can be useful in other processes, too. However, this working definition is not meant as an input to the negotiation process and does not imply a potential political compromise between Parties to the UNFCCC, whom, depending on their political priorities, are likely to express disagreement with parts of this proposal.

This proposed working definition uses the language of Article 2.1(c) as a starting point, but integrates the full text of Article 2 of the Paris Agreement, including the broader context (sustainable development and poverty eradication), and key principles for implementation (equity, CBDR-RC, and national circumstances).

The proposed working definition attempts to define “consistency” and to outline a pathway that integrates the Paris Agreement’s dual approach of establishing global goals, while relying on individual nationally determined targets for their achievement. At the same time, it recognises that Article 2.1(c) is a means to achieve the mitigation and adaptation goals of the Paris Agreement (Articles 2.1(a) and 2.1(b)), but that it goes beyond this and should also support, or at least not undermine, sustainable development.

The working definition sees Article 2.1(c) as potentially transformative, and therefore encompassing finance flows, and stocks, beyond those that fall under Article 9. It does not prescribe specific finance flows, but includes all those flows that are relevant to all national contexts, though some flows may be less relevant than others for specific countries or regions. It includes finance flows that undermine the goals of the Paris Agreement, and therefore need to be identified and re-directed in ways that either support those goals, or remain neutral to them.

Finally, the definition does not prescribe policies and measures, but considers that Article 2.1(c) includes measures by all relevant actors at all levels (sub-national, national, international). Though there are disagreements about the effectiveness of the different types of policies and measures identified in this paper, and the relative importance of the different actors involved, this definition does not address those issues. The definition remains neutral to the choices made in relation to policies and measures, which it considers to be nationally determined. The definition also considers that cooperation and holistic approaches to implementation are necessary for successful implementation of Article 2.1(c), including to address implementation challenges like debt, high cost of capital, and others. In line with the view that Article 2.1(c) could lead to a system-wide transformation, the definition includes measures that seek to evolve the mandates and business models of relevant institutions.

Table 4: A working definition of Article 2.1(c)

Proposed definition		
Action	“Making ...”	- Includes all policies and measures, at the national and international level that promote consistency of finance flows. - Includes actions to ensure consistency of finance flows, implemented by public and private sector actors, at the local,

Proposed definition		
		national and international levels; and supported by civil society and academia. ▶ Includes actions that result from cooperation between public, private and a mix of public, private and other actors, in different forums nationally and internationally, including those aimed at addressing challenges to implementation (e.g. cost of capital, debt). ▶ Includes the evolution of mandates and business-models of relevant actors, to integrate the potential for transformation of Article 2.1(c). ▶ Includes consideration of the complexity of causal relations, leading to holistic strategies.
Flows	"... finance flows..."	▶ Includes all finance flows and stocks, public, private, domestic, international and transnational that are relevant to different national circumstances, without exceptions. ▶ Includes flows under Article 9 of the Paris Agreement. ▶ Encompasses flows that support, undermine or are neutral towards the goals of the Paris Agreement.
Effects	"... consistent ..."	▶ Actions implemented under Article 2.1(c) aim to ensure that in the end, all finance flows and stocks either support the goals of the Paris Agreement or remain neutral to them. This requires reducing or re-aligning those flows that undermine these goals; as well as increasing those that support them, including finance under Article 9, in a just manner.
Trajectory	"... with a pathway towards..."	▶ Pathways are those nationally determined. ▶ Nationally determined pathways are critically assessed against their "fair" contributions to global mitigation and adaptation goals, thus requiring an operational understanding of equity and CBDR-RC (for example, through differentiated timelines).
Goal	"... low-greenhouse gas emissions and climate resilient development."	▶ Integrates mitigation, adaptation and resilience targets (nationally determined and global), with sustainable development objectives. ▶ Assesses and addresses potential trade-offs between adaptation, mitigation and sustainable development priorities, to ensure proper consideration of potentially negative socio-economics impacts of actions and just transition, at the

Proposed definition		
		national level, as well as unintended consequences across jurisdictions.

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