



ALLIANCE OF SMALL ISLAND STATES

SUBMISSION

FINANCE: ARTICLE 2, PARAGRAPH 1(C) OF THE PARIS AGREEMENT

MANDATE

Decision 1/CMA.4, Paragraph 68: *[The CMA] decides to launch the Sharm el-Sheikh dialogue between Parties, relevant organizations and stakeholders to exchange views on and enhance understanding of the scope of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement and requests the secretariat, under the guidance of the Presidency of the twenty-seventh session of the Conference of the Parties, to organize two workshops in 2023 in this regard and to prepare a report to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on the deliberations at these workshops*

Decision 14/CMA.6, Paragraph 5: *[The CMA] invites Parties, the UNFCCC constituted bodies, the operating entities of the Financial Mechanism, climate finance institutions, observers and observer organizations, and other stakeholders, particularly from the private sector, to submit via the submission portal by 1 March 2025 views on the issues to be addressed during the workshops to be held in 2025*

AOSIS takes this opportunity to provide views on the operationalisation of Article 2, paragraph 1(c) of the Paris Agreement, and its complementarity with Article 9.

For AOSIS, the equitable operationalisation of Article 2.1(c) represents an important behavioural shift in the global financial system. It is not solely about increasing the quantum of finance, but about transforming the way finance is directed, regulated, and perceived. Delivering on Article 2.1(c) requires systemic change to ensure that all financial flows, including public, private, bilateral and multilateral, are aligned with the Paris Agreement's goals, in a manner that reflects the principles of equity and common but differentiated responsibilities and respective capabilities in light of national circumstances (CBDR-RC) and the special circumstances of small island developing States (SIDS).

KEY CONSIDERATIONS FOR OPERATIONALISING ARTICLE 2.1(C)

1. SCOPE OF ARTICLE 2.1(C) (BEHAVIOURAL CHANGE IN FINANCE)

- The fair implementation of article 2.1(c) of Paris Agreement is essentially focused on a set of behavioural changes across fiscal, monetary and regulatory domains and actors which seeks to equitably ensure consistency of their financial flows with a pathway to low greenhouse gas emissions and climate-resilient development.
- Fiscal policies (e.g. subsidies, tax incentives), monetary policies (e.g. central bank interventions), regulatory frameworks (e.g. disclosure standards), amongst other behavioural changing tools, are all central to driving this transition.

2. EQUITY AND DIFFERENTIATION

- Equity and differentiation must be central to operationalisation. Developed countries must take the lead, in line with their historical responsibility and extant obligations.

Additionally, SIDS are a special case for sustainable development linked to our unique set of special circumstances as codified in international law. Moreover, the AOSIS Leaders' Declaration adopted on 25 September 2025 calls for the full operationalisation of SIDS' special circumstances. The Lima Declaration 2025 also calls for the recognition of the special circumstances of SIDS. SIDS must be treated distinctly in light of those special circumstances and not likened to developed countries or even emerging markets and other developing countries.

- Operationalising the special circumstances of SIDS requires implementation of safeguards for SIDS in the face of measures undertaken by other Parties to implement 2(1)(c). Implementation of safeguards for SIDS should build on the internationally agreed commitments endorsed in United Nations SIDS outcome documents like the 2024 Antigua and Barbuda Agenda for SIDS.
- Specific approaches to address the special circumstances of SIDS could include:
 - empowering local SIDS private sector financial ownership,
 - addressing climate resilient development in SIDS,
 - addressing the needs of all SIDS so that no country/region is left behind in the transition, and
 - addressing the barriers to investment in resilience in SIDS.

3. ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS (IFIS) AND ENTITIES OUTSIDE UNFCCC JURISDICTION

- Many entities critical to the fair implementation of Article 2.1(c), such as multilateral development banks (MDBs), central banks, and institutional investors, are not directly governed by the UNFCCC regime. Yet as the primary fora for climate change governance, guidance from these Parties is therefore essential to the equitable implementation of Article 2.1(c). Moreover, these entities are also under the jurisdiction and control of the Parties to this regime.
- For instance, MDBs must increase accountability and improve transparency by clearly defining and distinguishing between 'Paris alignment' / consistency of their baseline development financial flows with climate action, and the actual provisioning of climate finance for concrete climate action by these MDBs. Importantly, MDBs must not retreat from climate ambition at a time when scaled-up action and support is urgently needed.

4. COLLABORATIVE APPROACHES AND SAFEGUARDS

- AOSIS underlines the need for approaches that respect national circumstances and sustainable development objectives. While the UNFCCC cannot dictate finance decisions outside its remit, Parties can provide guardrails.
- These guardrails should clarify what is consistent or inconsistent with the Paris Agreement, establish principles for resilience comparable to the 1.5C temperature goal, and address unintended consequences of unilateral measures.
- Importantly, implementation of Article 2.1(c) must not penalise adaptation actions that may involve greenhouse gas emissions.

5. GUIDANCE, PRINCIPLES AND SUPPORT MECHANISMS

- The UNFCCC process should provide principles and guidance for equitable implementation/operationalising of Article 2.1(c). These should address the following:
 - Scope of implementation (including this scope's relation to a definition of climate finance as a means of avoiding inconsistent interpretation)
 - Implementation reflecting equity and fairness
 - Differentiation treatment in implementation between developed and developing countries (including the specific differentiated treatment of financial flows of SIDS economies)
 - Mechanisms to safeguard developing countries from unintended consequences (including but not limited to those from unilateral measures)
 - Monitoring and tracking process (in particular for the Paris Agreement's Global Stocktake)
- Beyond the Financial Mechanism of the UNFCCC, other types of support must be mobilised, including policy-based support, enabling activities, and technical cooperation to help developing countries navigate and benefit from aligned financial flows.

AOSIS PRIORITIES GOING FORWARD

1. Ensure that Article 2.1(c) reflects equity and fairness, CBDR-RC, and differentiation in its implementation.
2. Secure recognition and operationalisation of the special circumstances of SIDS as well as the special case for SIDS sustainable development
3. Establish guidance and guardrails under the UNFCCC to shape finance flows' consistency with the Paris Agreement
4. Hold MDBs, IFIs, and developed country Parties accountable to making finance flows consistent with the regime's climate resilience goal, 1.5 degree Celsius temperature limitation goal, and the other climate goals, and to prevent retreat from these commitments.
5. Ensure that equitable operationalisation of Article 2.1(c) supports climate action without creating new barriers.

AOSIS stresses that Article 2.1(c) must be more than a conceptual principle: it must drive real and fair behavioural change in global finance. Delivering on this provision requires political will, systemic guidance, and accountability. For SIDS, the stakes could not be higher. Ensuring that all finance flows are consistent with a pathway towards low-emission, climate resilient development is critical for safeguarding our people, our islands and our ecosystems.