Submission by the Republic of Zambia on behalf of the African Group of Negotiators (AGN): Views on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation

1. The work of the CMA, with support from the Standing Committee on Finance, on unpacking the process of making financial flows consistent with the pathway to low emissions and climate-resilient development requires a common understanding among Parties on the operationalisation of Art.2.1c in a way that does not constrain growth, while at the same time achieving the goals of the Paris Agreement and economic, social, and sustainable development while balancing support to pathways for adaptation and mitigation.
2. The work on the operationalisation of 2.1.c must also ensure that the New Collective Quantified Goal on Finance (para. 53/ Decision 1/CP.21) supports and be consistent with the expected pathways.

3. Article 2.1.c must support the achievement of increased finance for just transition pathways while avoiding unintended consequences, particularly on developing countries, while maintaining the integrity of the core elements of the Paris Agreement, particularly Articles 3 and 4.1 and 4.5.

4. Finance flows (2.1.c) must comply with the Paris Agreement objective to enhance the implementation of the UNFCCC, particularly Annex II Parties commitments under UNFCCC Article 4.

5. African Ministers of Environment declared in 2021 the importance of the Just Transition when making financial flows consistent with the pathway towards low emissions and climate-resilient development and underscored the opportunity for African countries to increase climate investment flows tied to the global low-emission and climate resilience shift.

6. Ministers also urged the CMA to ensure that the implementation of the Paris goal Article 2.1.c be operationalised to recognize the respective national capabilities and national circumstances to allow developing countries to maintain the pathway towards low emission and climate-resilient development while maintaining economic and social development per Article 2.2. Ministers further called for a harmonised, efficient, effective, just, and equitable implementation of Article 2.1c, including a common understanding and clear guidelines towards its implementation by Parties, the operating entities of the financial mechanism, international financial institutions, and other stakeholders in the financial sector.

7. The AGN welcomes that the Glasgow Pact contains the first-time directional guidance to all countries to support the Just Transitions, including ensuring that just transition financing is incorporated into approaches to align climate action with the goals of the Paris Agreement. The CMA also called upon Parties to accelerate the development, deployment, and

dissemination of technologies, and the adoption of policies, to transition towards low-emission energy systems, including by rapidly scaling up the deployment of clean power generation and energy efficiency measures, including accelerating efforts toward the phase-down of unabated coal power and phase-out of inefficient fossil fuel subsidies, while providing targeted support to the poorest and most vulnerable in line with national circumstances and recognizing the need for support towards a just transition.

A large proportion of the world's current financial assets belong to classes that will be sensitive to the effects of climate policy and the full implementation of Article 2.1c. These asset classes make up the primary resource base for government revenues, institutional investors, and the financial services sector in the African context. Any abrupt devaluation of this class of assets could constitute a systemic risk, create substantial amounts of stranded assets, and set back African countries' progress in achieving the SDGs. Therefore, a core element of the 2.1c operationalisation shall recognize equity and the differentiated responsibilities and capabilities of developing countries in the light of national circumstances (under Article 2.2).

8. It is unrealistic to expect developing countries to meet the exact timelines as developed countries to transition their economies and entirely shift and disinvest our economies away from fossil fuels. Therefore, the CMAs deliberations on Article 2.1c must give particular attention to the exceptional circumstances of Africa, noting Africa's slow progress rate in eradicating poverty and that Africa is one of the regions that contribute the least to climate change yet is highly vulnerable and exposed to the adverse impacts of climate change.

9. Africa's access to electricity is the lowest globally, at 43%, compared to the global average of 87%. Despite being home to 17% of the world's population, Africa currently accounts for just 4% of global power supply investment. Five hundred seventy million people still do not have access to sustainable and affordable energy. 70% of the population still uses unsustainable cooking sources, with 400 000 deaths annually due to indoor pollution. In the last two decades, only 2% of global investments in renewable energy were made in Africa, with significant regional disparities. However, with scaled-up funding, RE can ensure that the electrification of Africa is sustainable, contributes to just transition, and does not exacerbate climate change.

10. In the African context, in particular, the SCF and the CMA process must address the following key questions:

    a) what do we do with these assets?;
    b) What additional policies and measures will be needed by developing countries to create new asset classes in the low emissions sectors, and what is the practicality of developing these within this short time?;
    c) How much will it cost, and how long will it take to mobilize and deliver the resources to shift away from embedded carbon assets?

d) What institutional and legal transformations are required to prepare the public and private sectors to develop and accommodate new asset classes, and what capacity support is needed for the transition?
e) What are the expected levels of public sector support from developed countries to support the transition?
f) How is the diffusion of new technologies to support new asset classes delivered and deployed?

11. Establishing just transition pathways and making financial flows consistent with these pathways will benefit Africa by increasing access to investment flows tied to the global low-carbon shift. However, many African economies are resource-dependent; the transition risks need to be mitigated by ensuring that the realignment of financial flows follows a coordinated approach cognizant of Africa-specific economic conditions to avoid straining African financial markets further, suppressing development and restricting the practical transition to climate-resilient economies.

12. While Article 2.1c should be pursued by developing and developed countries alike, developed countries have an additional obligation to provide and mobilise climate finance for mitigation and adaptation to developing countries per UNFCCC provisions. This support is particularly crucial for the group of African countries with high carbon asset classes. In addition, there is a need for transitional finance to allow various sectors to accelerate decarbonisation and phasing down of their reliance on coal to avoid increased future emissions.

13. The CMAs deliberations on Article 2.1c should have a component of linking climate finance to the just transition. African countries require developed countries to provide finance and facilitate investments needed for finance Just Transitions pathways. Much financial support will be required, which cannot simply come as new debt. We need meaningful financial commitments and investments for programmatic renewable energy at scale and to support the social and equity dimensions of the just transitions' pathways. Developing countries need access to scaled-up levels of new and additional, and predictable grant and concessional finance, in particular for their conditional NDCs, which undoubtedly could be deployed effectively to create enabling environments by beginning to buy down risks and create new asset classes for clean investments that would allow for more significant mobilization and leveraging of public and private finance and hence access the elusive and unseen trillions.

14. An uncoordinated approach to realigning financial flows incognizant of Africa-specific economic is likely to strain African financial markets further, suppress development, and restrict the practical transition to climate-resilient economies. The need to realign financial flows away from carbon-intensive to renewable energy sources is widely acknowledged as a critical step toward realizing the Paris Agreement goals. Such realignments must consider the Just Transition (JT), particularly the high transition costs resulting in unsustainable debt-to-GDP ratios and stunted economic growth. We must avoid approaches that encourage

abrupt disinvestments from fossil fuels. This approach poses a threat to Africa because of the unintended impact on jobs, the economy, energy and food security, and the ability to mobilise finance. Developing countries need the development space to transition, and it should be acknowledged, respected, and supported. A transition to an environmentally sustainable, climate change resilient, low carbon economy, and just society does not happen overnight. Such rash actions only tend to diminish efforts to mobilise finance.

15. Possible options for implementing Article 2.1c need to account for the many sources and flows of finance involved and how such finance flows are deployed through different intermediaries but must be in line with UNFCCC Article 4 provisions since the PA's objective is to enhance the implementation of the Convention. Distinctions can be made between public versus private and domestic versus international, which in principle, all seek to maximise different objectives (for instance, profit or welfare or both).

16. Governments need to play a leading role in holding accountability under the Paris Agreement while insisting on UNFCCC enhancement, making it crucial to understand how it incentivizes and disincentivizes public versus private and domestic versus international financial flows in line with Article 2.1c. Though not exhaustive, these incentives and disincentives could take the form of public levers such as monetary policy and regulation, fiscal policy, public investment, and information instruments.

17. It should be noted that public flows alone will not be sufficient to support the transition to low-emission and climate-resilient pathways. Decarbonising the global economy to mitigate the effects of climate change can only occur if the entire financial system is aligned with the Paris Agreement's goals. However, a holistic transformation of the financial system consistent with climate action will still require additional regulatory, structural, and capacity efforts (beyond the public levers listed above) for both public and private flows.

18. In pursuing the pathways to the structural transformation of the financial service sector, there is a solid need to critically examine the role of institutional investors, such as the banking sector, pension funds, and insurance sectors, to establish a holistic alignment of financial flows.