UNCTAD
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UNITED NATIONS
UNCTAD

Date: 31 May 2023
Mandate FCCC/PA/CMA/2022/L.9, para. 4

Submission of views on ways to achieve Article 2, paragraph 1(c), of the Paris Agreement, including options for approaches and guidelines for implementation.

Response from UNCTAD - United Nations Conference on Trade and Development.

Definitions

- There is growing recognition of the strong link between finance flows and greenhouses gas emissions, due to the high dependency of the global economy on fossil fuels and the deep integration of almost all sectors and societies with the carbon value chain. In line with Article 2.1C, progress is required on mandatory measures to move these flows away from activities that endanger climate, biodiversity and economic stability and into productive, low-carbon investments that can deliver climate-resilient development.
- There is a direct link between income and emissions, with per capita emissions[1] of people living in advanced economies outstripping most developing country counterparts: Least Developed Countries' (LDCs) CO2 emissions barely reach 9% of the world's average, and in 2019 the carbon footprint of an average person in a developed country was more than 23 times larger than that of an average person in an LDC.[2]
- There is an ongoing discussion around Article 2.1C and Article 9 of the Paris Agreement. Article 9 refers to climate finance, which needs to be new and additional, and not counted as development finance. Therefore, it should not be included in the internationally agreed 0.7% Official Development Assistance (ODA) target. Article 2.1C refers to sustainable financial flows. This is broader than bilateral and multilateral climate finance, and its support should not undermine the importance of delivering Article 9, for example by reducing additional climate finance flows.
- In this context, a common and standard interpretation of Article 2 1.C does not exist. Finance flows refer to both private and public, domestic and international flows, but "the lack of a common interpretation of or guidelines on what information qualifies as relevant presents a challenge" in mapping relevant information.[3] This gap translates into confusion and little guidance for countries when it comes to achieving this goal. Most parties in the 2022 UNFCCC and CMA's request for views regarding its implementation noted "the absence of an agreed definition or common understanding of the scope" of Article 2.1C.[4]

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[1] https://ourworldindata.org/grapher/co-emissions-per-capita
[2] https://unctad.org/topic/least-developed-countries/chart-october-2021
[3] https://unfccc.int/sites/default/files/resource/54307_1 - UNFCCC BA 2020 - Summary - WEB.pdf
[4] https://unfccc.int/documents/620459

A standard interpretation would allow better accountability and transparency in collecting data, which translates into a universally agreed methodology to assess progress in Article 2.1C. Counting is crucial: with a comprehensive reporting and monitoring framework of financial flows, countries can be held accountable for their efforts.

- Along the same lines, there is no standard definition of "climate finance". A commonly agreed definition would allow Parties to ensure better accountability and transparency: there should be a standard procedure to count and track climate finance, which minimizes inaccuracies and overreporting (according to Oxfam, developed countries inflated as much as 225% of their climate finance contributions in 2020), therefore holding parties accountable for their mitigation, adaptation and loss and damage efforts.[5]

Domestic and multilateral efforts

- The responsibility of ensuring financial flows which will result in a sustainable, climate-resilient and low emissions development pathway lies both at the domestic and multilateral level. While local implementation is of primary importance, it cannot take place without an enabling financial system and supportive multilateral governance.
- At the domestic level, national and international policies in developing countries can be implemented in a manner that reinforce one another.[6] This can be achieved by strengthening national capacities (deepen domestic capital markets, improve tax administration, promote development standards on debt sustainability, etc.); incorporating the objective of just transition across national development planning; implementing national development plans that guide delivery of Nationally Determined Contributions (NDCs) and National Adaptation Plans (NAPs) alongside sectoral transitions, with an explicit objective to deliver diversification and structural transformation using industrial policy tools such as taxes, subsidies, regulation, and public procurement.[7] Furthermore, policymakers need to deploy National Climate Funds to ensure resources for context-specific transition strategies and should rigorously cost their plans to understand the full financing gap.
- Developing countries are much more constrained than developed countries in terms of policy and fiscal space to implement an expansionary economic recovery. According to the UN Development Programme estimates, 54 developing economies are in urgent need of debt relief, which means little capacity to look at long term financing needs.[8] They account for more than 50% of people living in extreme poverty – including 28 of the world's top-50 most climate vulnerable countries.[9] The responsibility for implementing a global, expansionary economic recovery lies predominantly with systemically important developed countries and with

[5] https://www.oxfam.org/en/press-releases/true-value-climate-finance-third-what-developed-countries-report-oxfam#:~:text=Reporting%20international%20climate%20finance%20remains,according%20to%20investigations%20by%20Oxfam.
[6] https://unctad.org/system/files/non-official-document/UNCTAD_Just_Transition_BACKGROUND_NOTE_COP27.pdf
[7] https://unctad.org/tdr2022
[8] https://www.undp.org/press-releases/50-percent-worlds-poorest-need-debt-relief-now-avert-major-systemic-development-crisis-warns-un-development-programme
[9] Ibid.

international financial institutions that can use their role to both increase climate financing and make the necessary reforms to global economic governance to tackle prolonged structural challenges.

- Advanced economies should coordinate economic and financial policies to move away from boom-and-bust cycles that trigger capital flight from developing economies and create uncertainty regarding long-term investments.[10] Macroeconomic coordination between countries is necessary to provide a climate-sensitive reflation of the global economy that can trigger a positive effect on the growth trajectory of developing countries while advancing full employment in developed countries.[11]
- Traditionally, Multilateral Development Banks (MDBs) have provided support for fossil fuel industries and have not adequately integrated the importance of social infrastructure into their development approach. According to recent estimates, the nine major MDBs provided over $3 billion in direct support for fossil fuels in 2020.[12] MDBs and other public sources of financing should provide a plan to make investments compatible with a 1.5°C pathway and scale up investments in mitigation and adaptation.
- The more than 500 Public Development Banks (PDBs) in the world also have a key role to play to deliver Article 2.1c, with assets estimated at around $23 trillion.[13] It is necessary that the next Finance in Common Summit(s) deliver concrete and ambitious outcomes, as the space where PDBs can discuss their commitments in support of common actions to align financial flows to the Sustainable Development Goals and the Paris Agreement. Such pledges must be accompanied by concrete actions and an implementation plan, in the context of a broader and structural reform of PDBs that has at its core responsibility for the social and environmental results of their activities, as well as development as the main driver of mandates.[14]
- According to the UNFCCC, private finance mobilization has severely underperformed when compared to past predictions.[15] A cautious approach should be taken when it comes to relying only on mobilizing private finance as a primary mode of climate finance, identified with the de-risking and blended finance agendas. The same applies for Foreign Direct Investment, which presents limitations in terms of quality of financing to contribute to sustainable development, in particular linked to a tendency for speculative, boom-bust flows.[16] The track record of these approaches has yet to meet expectations, whether in the scale of financing or on the quality of development or climate outcomes, delaying much-needed action on other options to scale financing for which small countries are particularly vulnerable[17], or indeed for improving ways to regulate diverse financial flows towards sustainable ends.
- With more innovations becoming available every year, the risk of greenwashing increases. More efforts should be directed to tackling Environmental, Social and Governance (ESG)

[10] https://unctad.org/system/files/non-official-document/UNCTAD_Just_Transition_BACKGROUND_NOTE_COP27.pdf
[11] Ibid.
[12] https://bigshiftglobal.org/file/174/download?token=MNDTCnVb
[13] https://financeincommon.org/
[14] https://www.forus-international.org/en/pdf-detail/75919-finance-in-common-joint-cso-statement
[15] https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20100BN%202022%20Report_Book_v3.2.pdf
[16] https://ideas.repec.org/p/pke/wpaper/pkwp2122.html
[17] https://www.worldbank.org/en/topic/financialsector/brief/de-risking-in-the-financial-sector

greenwashing, as well as leveraging ESG and sustainability-themed trends to create new financial products with the highest standards and transparency, which can channel investment from developed to developing countries, and from the private sector to development projects. Governments must also respond to this rapidly changing environment with consideration to ensuring competition policy and consumer protections drive further ambition and enhance sustainable outcomes.[18] As the UN report "Integrity Matters: Net Zero Commitments by Business, Financial Institutions, Cities and Regions" presented at COP27 insists, parties should have "zero tolerance for net-zero greenwashing" .[19] For instance, the Glasgow Financial Alliance for Net Zero (GFANZ), whose objective is to support and accelerate decarbonization, gathered hundreds of investors and financial institutions under its objective, but has so far fallen short of committing to ambitious and binding net-zero requirements. According to the UN report, the following principles can prevent greenwashing by non-state actors: committing to end investment in fossil fuels; reducing emissions in their totality and across their full value chain; ending lobbying that undermines ambitious government climate policies; and establishing a binding and regulated framework for net-zero commitments, on a statutory basis. These principles would allow for a high standard of transparency and accountability to achieve Article 2.1C.

- When it comes to Illicit Financial Flows (IFFs), the global commitment under the Addis Ababa Agenda to "substantially reduce illicit financial flows by 2030, with a view to eventually eliminating them, including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation" remains crucial.[20] IFFs drain resources that could otherwise support human rights, climate- and gender-related policies, and must be redirected towards pro-development and –climate investments. In 2021 alone, tax-related IFFs were estimated at USD 483 billion: USD 312 billion due to corporate tax avoidance by multinationals and the rest to offshore tax evasion by wealthy individuals.[21] Recent developments at the global level include the adoption of the 2022 UN General Assembly Resolution "Promotion of inclusive and effective international tax cooperation at the United Nations", which opened the way for the creation of an intergovernmental UN Tax process.[22] This could lead to a UN Framework Convention to establish a UN Tax Body, with a focus on progressive redistribution and reigning in tax abuse. Other redistributive policy options include the reinforcement of public service provisions and progressive tax reform, such as wealth and windfall taxes, together with a reduction of regressive tax cuts and loopholes.[23] Global taxation policy should be discussed and formulated by a UN tax body established with a UN Tax Convention. It is crucial that this process remains in the multilateral system.

[18] https://unctad.org/system/files/official-document/ditccplp2023d1_en.pdf
[19] https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf
[20] https://sustainabledevelopment.un.org/content/documents/2051AAAA_Outcome.pdf
[21] https://taxjustice.net/wp-content/uploads/2021/11/State_of_Tax_Justice_Report_2021_ENGLISH.pdf
[22] https://www.un.org/development/desa/financing/tax-report-2023#:~:text=On%2030%20December%202022%2C%20the,aggressive%20tax%20avoidance%20and%20evasion.
[23] https://unctad.org/tdr2022

Equity

- Progress in the context of Article 2.1C needs to consider national realities, and therefore be approached in the framework of a just and equitable transition for sustainable development. In this sense, it is closely connected with Article 4.7 of the UNFCCC Convention, according to which "economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties".
- Achieving Article 2.1C will be crucial to improving available and affordable financing for climate action, but it cannot replace the role of proactive ambition from developed countries now, for example in expanding bilateral grants-based flows and using their position in multilateral institutions to increase climate finance flows.
- Access to finance is not equally distributed between countries. A report commissioned by UN Environment estimates that "exposure to climate risks has increased the cost of debt for V20 countries by 117 basis points, on average. In absolute terms, that translated into more than USD 40 billion in additional interest payments over the past 10 years on government debt alone. (…) climate risks have cost debt-issuing V20 countries over USD 62 billion in higher interest payments across the public and private sectors"[24]. A reform of the international financial architecture could provide a fairer system, in which developing countries can access more affordable and non-debt-creating financial instruments for their development needs, that can ensure debt sustainability and climate ambition.

Implementation

Developed countries should give full consideration to the inputs from the countries that are most vulnerable and affected by climate change and its related crises, including sovereign debt distress and the growing threat of defaults (see Article 4.15).

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[24] https://wedocs.unep.org/handle/20.500.11822/26007;jsessionid=E2F8661567B779869BDE31D6222704C2