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UNITED NATIONS
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Date: 02 April 2024

Sharm el-Sheikh dialogue on Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement. Call for submissions on the issues to be addressed during the workshops Article 2, paragraph 1(c), of the Paris Agreement.

Response from UNCTAD - United Nations Conference on Trade and Development

To respond to the call for submissions on the most relevant and helpful topics to be discussed under Article 2.1 (c), UNCTAD will focus on the quality of financial flows for "**climate-resilient development**".

To be fit for purpose, development strategies must respond to the exigencies of a warming planet. Financial resources, both domestic and international, must be mobilized on a massive scale to undertake the required investments in both mitigation and adaptation. However, and while the contemporary financial system is awash with resources these are not flowing towards productive, development-enhancing, climate goals. The inadequacy and injustice of this system is emphasized by the central paradox of the climate crisis: that those least responsible continue to pay the highest price.

Aligning the whole financial system with climate-resilient development, encompassing public and private financial flows at the domestic and international level, is a pre-requisite for limiting global warming to 1.5°C above pre-industrial levels. It will require deep and wide-reaching changes in the way financial resources are mobilized, allocated and managed. Even before the onset of the pandemic, many developing countries were saddled with expensive debt that squeezes their fiscal space, grappling with barriers to the developmental pathways necessary to diversify and transform their economies, and swimming against the tide of boom-bust flows from crisis spillover effects they have limited control over, had been struggling to achieve their climate and development goals.

UNCTAD has long called for comprehensive **reforms in global economic governance** such that finance flows can be shifted towards development goals – whether through improving debt resolution outcomes, expanding MDB financing, extending SDR use for development goals, reforming Credit Rating Agencies and other market-makers to work with rather than against development, reforming governance to better represent developing countries, or improving coordination to tackle illicit financial flows. The addition of climate goals only strengthens that call.

Secondly, **a common and standard interpretation of Article 2. 1(c) is needed**: 'finance flows' refer to both private and public, domestic and international flows, but the lack of a common interpretation translates into confusion and little guidance for countries. A standard interpretation would allow better accountability and transparency in collecting data, which translates into a universally agreed methodology to assess progress in Article 2.1(c). Counting is crucial: with a comprehensive reporting and monitoring framework of financial flows, countries can be held accountable for their efforts.

A third point is our emphasis on **pro-active, market-shaping strategies**, rather than relying on market-led initiatives, as the way to achieve the most optimal outcomes for Article 2.1(c). The alternative stresses the lead role for public policy, underpinned by policy coordination across fiscal, industrial, trade and financial measures, involving robust regulatory mechanisms for disciplining financiers of dirty assets, and establishing a clear trajectory for capital allocation in alignment with green transition plans which in turn encourages an orderly transition by creating certainty for private sector actors.

Establishing a climate-aligned financial system in line with Article 2.1(c) requires both a fundamental shift in the structure and calculus of private investors towards green assets and an urgent phase-out of finance in high-emitting industries and particularly in energy. This should not imply a uniform pace of transition: a distinction must be made between expanded production from fossil fuel majors in developed regions which already enjoy high levels of energy access and greater degrees of economic diversification, and national fossil fuel companies in developing countries. While phase-out is necessary everywhere, **applying the same standards across regions undermines the CBDR-RC principle**.

Finally, the proactive role of developed countries is key to Article 2.1(c) implementation. In addition to expanding bilateral grant-based sources of finance, developed countries (including through their dominant position in IFIs) have the responsibility for implementing a global, expansionary economic recovery. Developed countries must take the lead in implementing stronger incentives and disciplines in their jurisdictions for finance flows to align with climate goals and must take every precaution to avoid unintended negative consequences on the needed policy space in developing countries for transition and climate-resilient development.

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