



February 2026

Submission from UN Trade and Development on the organization of the Veredas Dialogue

Issue: Sharm el-Sheikh Dialogue on the scope of Article 2, paragraph 1(c) and its complementarity with Article 9 of the Paris Agreement.

Parties, the UNFCCC constituted bodies, the operating entities of the Financial Mechanism, international financial institutions, observers and other stakeholders, particularly from the private sector, to submit views on the organization of the Veredas Dialogue.

Context of the Veredas Dialogue

Closing the climate and development finance gap

Given the significant financing gap for global climate action, meeting the ambition of Article 2.1c to “mak[e] finance flows consistent with a pathway towards low greenhouse gas (GHG) emissions and climate-resilient development” is one of the key urgent priorities¹. Climate finance is projected to have surpassed \$2 trillion globally in 2024, however the minimum average investment needed from 2025-2030 remains a projected \$6.3 trillion per year, while projections for needed investments from 2031 are around \$9 trillion.² UNCTAD estimates that developing countries face an annual USD 2.2 trillion investment gap to meet energy-transition needs, underscoring the scale of financing required to accelerate renewable-energy deployment.³

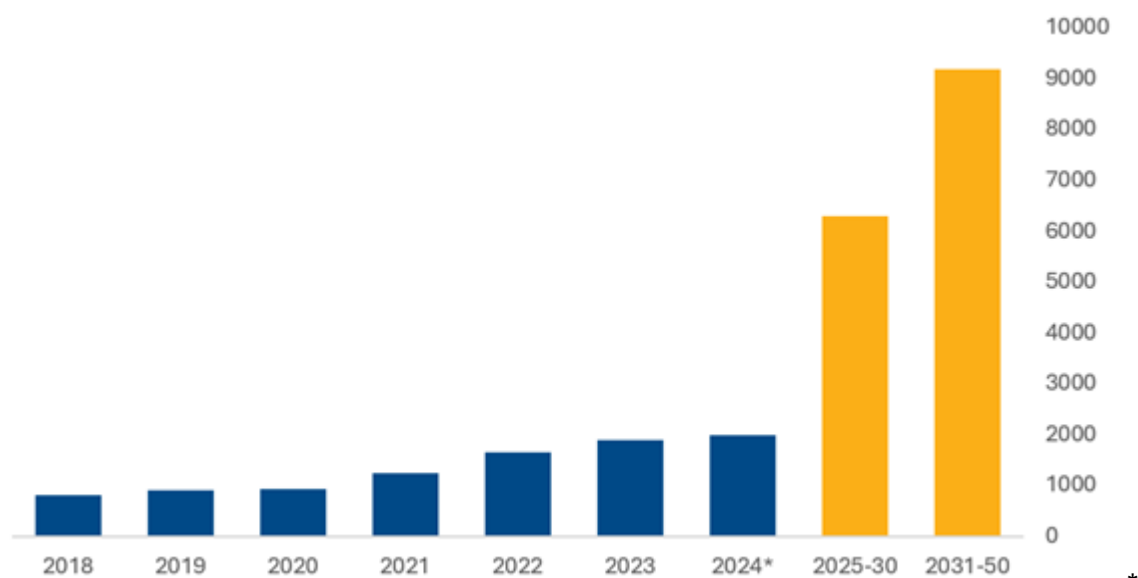
Figure 1: Climate Finance Flows (billions USD)

¹ Recognizing adaptation is a key priority, as also highlighted below

² Climate Policy Initiative (2025). Global Landscape of Climate Finance 2025. [Global Landscape of Climate Finance 2025 - CPI](#)

³ UNCTAD (2025). World Investment Report.





Source: UNCTAD based on data from Climate Policy Initiative (2025).

*Yellow lines indicate annual needs

When focusing only on current climate finance in developing economies, the total is around \$196 billion, less than a fifth of most estimations of climate financing needs in these countries (even considering the challenges in accountability and tracking climate finance).⁴ This demonstrates that while the finance gap is global, developing countries are facing a more severe challenge. Furthermore, only around a third of climate finance in developing countries comes in the form of grants or concessional financing. Regarding the composition of climate finance according to its use, the majority goes to mitigation and less than a third is going to adaptation. The challenge is therefore not only about quantity, but about the form financing takes and its suitability to needs. Given the lack of clear distinction between ODA and climate finance, the large recent cuts to ODA from major donors will likely lead to further downward pressure on both quantity and quality of climate finance reaching developing countries and thus poses a risk to progress on implementing Article 2.1c and the other major objectives of the Paris Agreement.

Worsening Structural Challenges

From the pandemic to geopolitical spillover effects, from macroeconomic tightening to climate-related disasters, cascading crises from recent external shocks have intensified long-standing structural challenges, exacerbating the unsustainable position that faced many developing countries even before the Covid-19 pandemic.⁵

For example, a significant proportion of public resources is being routed into servicing debt burdens rather than proactively investing in climate-resilient development plans. Recent UNCTAD research has found that 3.4 billion people live in countries that spend more on debt interest payments than on health or education.⁶ Because their domestic financial markets are small and less developed, many developing economies rely on external borrowing, facing borrowing rates of

⁴ UNCTAD (2024). The New Collective Quantified Goal on climate finance.

⁵ UNCTAD (2025). Sovereign Debt Workout Mechanisms: The G20 Common Framework and Beyond. Financing Policy Brief Series. Inter-agency Task Force on Financing for Development.

⁶ UNCTAD (2025). World of Debt: It is time for reform.

7 to 11 per cent compared with 1 to 4 per cent in major advanced economies.⁷ These elevated costs often reflect structural issues in the international financial architecture, including volatile currency markets, unequal access to concessional finance, persistent capital flight and the compounding burden of high levels of debt. Climate impacts can also play a role: countries repeatedly exposed to extreme weather now pay an estimated \$20 billion more each year in interest because lenders perceive them as riskier.⁸ Since 2006, these additional premiums have cost climate-vulnerable economies about \$212 billion – resources that could have supported social investment or climate adaptation.⁹

Existing mechanisms to resolve sovereign debt challenges generally do not support developing countries to pursue simultaneously their development goals and low greenhouse gas (GHG) emissions pathways. Thus, many developing countries have no other option than to increase export revenue, which – without necessary investment to decarbonize production - can in turn accelerate extractive and high emissions activities that negatively impact ecosystems and exacerbate global warming. Furthermore, they are deterred from embarking on a process of debt restructuring because an appropriate mechanism is either unavailable (for most middle income countries (MICs)) or is slow, cumbersome and costly (for countries eligible for the G20 Common Framework).¹⁰ The result is underinvestment in development and climate goals, deepening vulnerability and fewer options when the next crisis hits, forming a climate-debt vicious circle of perpetual vulnerability and economic stagnation or deterioration.

Considerations for the Veredas Dialogue in 2026

1. Ensure balance in content between national experiences and global, systemic and structural challenges

Inputs to the Sharm el-Sheikh Dialogue from different Parties have emphasized that Article 2.1c implementation is underway, and that efforts are nationally determined, respecting national sovereignty and accounting for national circumstances, time frames and approaches of Parties, in particular, developing country Parties. Simultaneously, many of the structural constraints that undermine the capacity of developing countries to implement Article 2.1c and the other objectives in Article 2 of the Paris Agreement are global and/or systemic in nature.

To this end, focusing only on national experiences and approaches risks missing foundational elements of a more enabling environment at the *international* level for making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. **The Veredas Dialogue should therefore seek a balance in discussion between national implementation and systemic challenges** such as debt distress, high cost of capital, volatile financial flows, and trade uncertainty.¹¹ This could include an exploration of national case studies framed not only on what countries are doing, but also on what they cannot do under current

⁷ Idem.

⁸ UNCTAD (2025). Trade and Development Report 2025: On the Brink – Trade, finance and the reshaping of the global economy.

⁹ Idem.

¹⁰ UNCTAD (2025). Sovereign Debt Workout Mechanisms: The G20 Common Framework and Beyond. Financing Policy Brief Series. Inter-agency Task Force on Financing for Development.

¹¹ UNCTAD (2026). International Investment in Sustainable Infrastructure: The Role of Public-Private Partnerships.

financial, technological, and geopolitical constraints. In complementarity with this aspect of the Dialogues, the **Xingu Finance Talks could then provide an opportunity to engage key stakeholders in economic governance institutions on the findings and considerations discussed in the Dialogue** as central actors in overcoming such challenges. This can include international financial institutions, relevant UN agencies, regulators, and other critical actors, depending on the content and focus of the Talks. Such an approach would allow 2.1c discussions to better reflect the realities of each countries' contexts and build strong synergies between technical discussions in the Dialogues and their application vis a vis key stakeholders and decision-makers in the Talks.

2. Explore unintended consequences of 2.1c implementation

International coordination and collaboration is essential to ensure that domestic response measures can make a positive contribution to both climate and development goals at the global level, minimizing negative spillover effects. The most recent outcome highlighted the importance of safeguards in further engagement on Article 2.1c, including the need to pursue all three long-term goals of the Paris Agreement together; that Article 2.1c is no substitute for climate finance provided under Article 9; the nationally-determined nature of implementation; the importance of facilitative, enabling, nonpunitive and non-prescriptive engagement on Article 2.1c; and the importance of avoiding additional reporting burdens. Nevertheless, despite these safeguards, implementation of Article 2.1c may already be resulting in unintended negative consequences such as new conditionalities for financing that do not align with developing countries transition pathways; decreases in total volumes of much-needed development finance; and frameworks that have extraterritorial implications that are not sensitive to the principles of equity and common but differentiated responsibilities and respective capabilities.¹² **The Veredas Dialogue can provide a safe, structured space to unpack these risks** in an evidence-based manner that can bring deeper understanding, clarity and trust to Article 2.1c discussions.

3. New Collective Quantified Goal implementation and relationship to Article 2.1c

The Baku to Belém Roadmap presented by the COP29 and COP30 Presidencies outlined a variety of recommendations to mobilize \$1.3 trillion annually by 2035 to support climate action in developing countries. Its five action fronts—replenishing concessional finance, rebalancing fiscal space, rechannelling private finance, revamping capacity and coordination, and reshaping systems and structures—reveal several elements of relevance to Article 2.1c implementation. Considering that the COP30 Global Mutirão saw Parties “decide[] to urgently advance actions to enable the scaling up of financing for developing country Parties for climate action from all public and private sources to at least USD 1.3 trillion per year by 2035,” **the Veredas Dialogue and the Xingu Finance Talks could allow for continued discussion on key recommendations and action points that link Article 2.1c implementation to achieving Article 9 commitments.**

4. Strengthen understanding of Article 2.1c implementation in line with a just transition

¹² UNCTAD (2023). Making sense of Article 2.1(c). What role for private finance in achieving climate goals?

Article 2.1c cannot be implemented in isolation from the development needs and transition priorities of developing countries and should be understood as both transformational and differentiated. Transformational, because it seeks to reorient global economic governance and reshape the international financial system; and differentiated, because countries are at different starting points and require calibrated support to shift their financial systems in ways that promote equitable, inclusive climate and development outcomes. **The Veredas Dialogue offers a crucial opportunity to deepen collective understanding of how Article 2.1c can be implemented in a manner fully consistent with just transition principles.** Discussions on this topic could include, for example, ensuring support for nationally-determined transition pathways; expanding transition finance instruments, including sectoral ones for emissions-intensive and trade-exposed industries; enabling financial institutions to provide tailored transitional support; and supporting countries to avoid commodity traps and use revenue from high-emitting industries towards transition needs. Together, such discussions can help ensure that Article 2.1c delivers not only on financial alignment, but on inclusive, development-positive just transitions.

5. Assess the successes and failures of private finance initiatives in Article 2.1c implementation

The role of private capital in driving climate action is central to the ambition of Article 2.1c, yet private finance has historically underperformed, and many major private finance actors are departing from voluntary net zero efforts. The observed retreat combined with the relatively modest share of private finance mobilized toward the \$100 billion goal underscores the need for deeper scrutiny of why voluntary alignment efforts have struggled to scale. **Discussions in the Veredas Dialogue can explore the structural reasons voluntary initiatives often fall short,** such as lacking enforceability and accountability mechanisms. Parties could assess where private finance initiatives have succeeded as well as underperformed, allowing identification of the most promising tools, frameworks and levers, including the role of financial regulators and Central Banks, to ensure private finance can meaningfully support low-emissions, climate-resilient development. This should include deeper consideration of adaptation investments, which fall far behind mitigation in terms of private investment. This reflective stocktake would allow the Dialogue to address the shortcomings of voluntary efforts and move toward more robust, coherent, and equitable proposals for aligning private financial actors with climate-resilient development.

6. Explore emerging financial risks beyond the traditional banking sector

Given that Article 2.1c concerns *all* finance flows, **the Veredas Dialogue should explore non-bank financial intermediaries and unregulated financial innovations,** which increasingly shape global capital markets but often run counter to climate goals. Large asset managers, private equity, and hedge funds that in part make up shadow banking operations, for example, hold significant portfolios in emission-intensive industries but have less incentives than regulated banks to align portfolios with climate goals. Cryptocurrency and digital-asset markets may be another key area of inquiry in the coming years, not only because it remains highly energy-intensive, but also because speculative crypto flows can impact financial stability and divert capital from productive, climate-aligned investment, increasing exposure to volatility and capital flight, and worsening

macro-financial vulnerabilities.¹³ Many such emerging financial actors fall outside global climate-related disclosures or supervision systems, making it difficult for countries to anticipate risks or steer capital toward climate-consistent activities. The Dialogue could also engage with the findings of the UNSG's Taskforce on Net Zero Policy for non-state actors and study their recommendations in relation to these actors and others.

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¹³ See, for example, Trade and Development Reports 2015, 2019, 2023 and 2025.