Climate Action Network

Submission: Sharm el-Sheikh Dialogue: Suggestions for 2025

February 2025

Climate Action Network (CAN) is a global network of more than 2000 civil society organisations in over 130 countries driving collective and sustainable action to fight the climate crisis and to achieve social and racial justice.

Context

The 2024 SES Dialogue (SESD) workshops covered several crucial issues and provided strong analysis of many core challenges around the lack of adaptation finance, debt and fiscal space constraints, and the need for a proactive, public-driven approach to resilience and consistency. The summary report made clear that there is a need – and desire from participants – to explore more comprehensively the linkages between Article 2.1c and the international financial system. There is a wider consensus that the system is not fit for purpose and must be transformed. This includes the vicious cycle between debt and inadequate climate action and fossil fuel lock-in, cost of capital for climate and socially just transitions versus continued financial flows into harmful activities - including fossil fuels - at a massive scale, and lack of fiscal space for climate-resilient development in Global South countries. It also covers the institutional reforms and regulatory measures required to create the enabling conditions for addressing these challenges.

The 2025 SES Dialogue is also taking place in the context of a) an NCQG outcome widely considered grossly insufficient, a dilution of responsibilities as countries seek to offload them to the private sector, and the product of discarding months of preparatory work for last-minute political strong-arming, b) the clear ineffectiveness of voluntary commitments and "alliances" in the private finance sector (e.g. Net Zero Banking Alliance and Glasgow Financial Alliance for Net Zero) which are seeing key players backtrack and renege immediately once political winds shift, and c) global recognition of the urgency of financial architecture transformation, reflected in challenges spotlighted by the Bridgetown Agenda, the COP27 outcome text, the UN SG's Our Common Agenda, and the upcoming fourth Financing for Development Conference. At the same time, the Baku to Belem roadmap is looking to operationalize a meaningful pathway to 1.3T.

The SES Dialogue must be embedded in a recognition of this context, with the aim of influencing the political economy and raising the ambition around operationalizing Art. 2.1c. Participants and co-chairs need to also decide in what format deliberations on Article 2.1c should continue beyond the Sharm El Sheikh Dialogues, to ensure a meaningful space for progress between parties on this goal, since it is essential to the success of the Paris Agreement.

Principles

The **principle of CBDR-RC** must be put at the centre of this operationalization dialogue, in line with a **"whole of Art. 2" approach** that recognizes the historical responsibility of developed countries in creating the enabling environment for implementing Art. 2.1c, which must include **addressing the structural inequalities** - for example in debt, tax and trade - which tilt the playing field against developing countries.

The Climate Action Network has developed **7 principles for finance system transformation** which the SES Dialogue should be embedded in in order to meaningfully realize a justice lens:

1. Challenging unfair economic relationships and imbalances: across production, trade, and capital, which lead to extraction of finance from South-to-North instead of to North-to-South
2. Democratising and decolonising governance: giving Global South more equal decision-making role in international finance debates, institutions, and fora, e.g. LDF versus unequal MDBs/IFIs
3. Debt justice: cancelation and UN debt workout mechanism, rather than inadequate debt swaps, plus increasing finance that does not worsen debt
4. Tax justice: supporting the UN tax convention, addressing tax dodging, introducing wealth taxes for the (super)rich and making polluters pay on an equitable basis
5. Phasing out direct and indirect public and private finance for fossil fuels and harmful activities: equitable phase-out across all sources government, multilateral, bilateral, ECAs, and private finance.
6. Justice and access in finance: climate and development finance needs new models, must be rights-based and responsive to marginalized communities in need, including Indigenous Peoples, women, children and youth, and people with disabilities.
7. At-scale increases in international public finance to the Global South: Higher-income historic polluters must go beyond the 0.7% GNI for ODA and provide new and additional, adequate, predictable, needs-based grant-based public climate finance on a fair share basis.

To truly succeed in enabling climate resilience and sustainable development, the implementation of Article 2.1c must lead to **a transformational shift in the role of public**

policy and financial institutions to end harmful finance flows, shape markets, steer and discipline finance, and remedy power imbalances in economic decision-making in the context of global financialized capitalism.

Workshop substance

The Paris Agreement commitment under 2.1c to “make financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” requires efforts to both address financial flows that are currently inconsistent with and which undermine low GHG emissions and climate-resilient development, in addition to scaling up finance for climate action. So far, we note that within the 2.1c discussion, disproportionate emphasis has been put on the role of private sector in climate finance, and **insufficient attention to the role of public finance and fiscal space, and the need to address harmful financial flows,** in particular for fossil fuel related activities, that exacerbate the climate crisis. Despite record fossil fuel industry profits and the urgency of phasing out fossil fuels to meet climate goals, taxpayers money continues to be used to prop up fossil fuel production and use. Global fossil fuel subsidies and public finance are estimated at over $1.5 trillion in 2023, with a three-year average of $846 billion ($270 of which in Annex II countries). Redirecting this money to climate finance, development aid and other public policies - recognizing e.g. that subsidies in the Global South often represent a form of universal social assistance and their removal needs to be compensated - presents an important opportunity to fill finance gaps and address inequalities.

Countries and SES Dialogue participants need to move beyond the hegemonic “de-risking” approach to climate finance and **adequately regulate the private financial sector to align with the goals of the Paris Agreement** - which means not only “green incentives” but also introducing safeguards and penalties for climate damaging activities. The dialogue should develop clear recommendations on **HOW** to address the issues identified in 2023-2024. The dialogue should look through what role public actors, coordination forums, regulatory channels, and accountability mechanisms should play, with the aim of establishing a global transition finance framework anchored in targets and transition plans for governments, central banks, and IFIs. This requires coordination between fiscal, monetary, industrial, and development policy - both in terms of domestic and international institutions and fora that enable or constrain Global South countries’ policy space.

Therefore, to appropriately address the mandate of 2.1c, the Sharm el Sheikh dialogue process must:

- Ensure that a substantive amount of the discussions are focused on the **equitable phasing out of fossil fuel finance and other harmful finance flows**. These must include addressing the phasing out of fossil fuel finance in government budgets and in public, private, national and international financial institutions, providing clear guidelines of **what, how and by when** this needs to take place in light of climate-resilient development and with just transition principles that centre people’s needs and avoid socially regressive impacts. Some countries have already made progress on this (e.g.

restricting their international public finance for fossil fuels), of which lessons can be shared.

- This could include developing a common **accounting framework for the alignment of financial flows to measure progress towards a measurable and time specific goal**, with full alignment no later than 2050. Annex II countries should move first and fastest in removing their fossil fuel support, with G7 countries meeting their agreed end of 2025 deadline for ending this support and others adopting a 2027 deadline. It should also include exploring the implementation of a global **Do no significant harm principle** for public and private finance.
- **Assess and address the harmful role of debt, debt distress and debt repayment finance flows**, their contribution to the expansion of climate-harming industries such as fossil fuels in order to generate foreign currency for debt repayment, and how climate impacts contribute to deepening debt in a vicious cycle, and how addressing this indebtedness can unlock public finance for mitigation and adaptation. The SES Dialogue should engage with the discussions around a UN debt workout convention under the Financing for Development conference and signal support for a strong outcome there.
- Bring clarity around how **institutions that do not have 'climate-resilient development' in their mandates but significant influence over financial flows** can (and must) work towards ensuring the fulfilment of Article 2.1c. These include Central Banks that prioritise 'price stability', financial supervisors that prioritise 'financial stability' and the IMF that prioritises 'macroeconomic and financial stability' and Export Credit Agencies that are focused on supporting domestic businesses with investing overseas.
- Provide **realistic estimates of the role of private finance**, particularly for LDCs and SIDS, given a decade of evidence that blended finance leverage ratios are consistently far below expectations (70 cents for every dollar invested in development, 85 cents in energy transition finance, dropping to 69 cents in LICs), in addition to other limitations in the alignment of private finance with mitigation, as well as being highly inadequate for adaptation and Loss & Damage goals (profit motive takes precedence over development outcomes, creation of further debt in a context of high distress, volatility of markets and capital flows, investors suing countries under opaque ISDS mechanisms, lack of public accountability etc.). While the previous SESD sessions have identified a few positive examples of the role of the private sector, it has not really grappled with these contradictions.
- In the context of a limited role of private finance, the SES Dialogue should evaluate the significant opportunities for Annex II countries to unlock over $5 trillion a year in **public finance** ($10 trillion for all countries) through ending fossil fuel handouts, taxing pollution and changing tax systems to properly operationalize the "polluters pay" principle, tackling tax abuse, and through changing unfair global financial rules.

  The SESD should provide clear recommendations on what are the avenues for **international financial architecture reform** that should be explored, including trade rules, debt architecture, tax architecture, governance reform, and a more just global financial safety net.

These discussions should explore what **changes** (in policies, frameworks, standards, decision-making processes etc.) are necessary to address financial flows that undermine Paris Agreement objectives, as well as the role of institutions that are part of the international financial system and have crucial influence over operationalizing 2.1c, but do not yet consider climate-resilient development their primary mandate (such as the IMF, many central banks and financial supervisory bodies, or regulators/policymakers in global financial centres).

Stakeholders to participate in and contribute to workshops in 2025

The previous section on workshop topics has made reference to various stakeholders and institutions whose reform and action is crucial in operationalizing Art 2.1c, many of which have not been a central part of the UNFCCC and SES Dialogue where climate (and perhaps development of foreign affairs) ministers and departments are usually at the center. To make meaningful progress on shifting financial flows, the involvement and buy-in of Ministries of Finance, financial regulators and supervisors is crucial - also one of the take-aways from the 2024 SESD summary.

Other processes to take into account for work in 2025

Beyond the "usual" processes where economic and financial governance decisions are made, such as the G20 and IMF-World Bank Meetings, 2025 will see the fourth Financing for Development Conference, a unique once-in-a-decade intergovernmental conference that should be seen as a crucial moment to advance some of the structural reforms to the international financial system and governance architecture that are required to enable a meaningful operationalization of 2.1c.

Resources

- UNCTAD: Making sense of Article 2.1(c): What role for private finance in achieving climate goals? Dec 2023
- ODI: Putting climate resilient development at the heart of Article 2.1c to further its equitable implementation. Dec 2023
- CSE: What do we mean by Paris alignment of finance flows? Decoding Article 2.1(c) of the Paris Agreement. Sep 2024
- ActionAid: The Vicious Cycle: Connections between the debt crisis and the climate crisis. April 2023
- Oil Change International: We can pay for it. September 2024
- Oil Change International: Why we can't rely on the private sector to finance the energy transition. November 2024

Other

- UN Secretary General: Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture. May 2023
- Civil Society for Financing for Development Mechanism: Inputs to the Zero Draft of the Outcome document of the Fourth International Conference on Financing for Development. Feb 2025