REDFIS Red Latinoamericana y Caribeña por un Sistema Financiero Sostenible

Submission on the issues to be addressed during the 2025 workshops of the Sharm el-Sheikh dialogue

Introduction

The Climate Finance Group for Latin America and the Caribbean (GFLAC) on behalf of the member organizations of the **Latin American and Caribbean Network for a Sustainable Financial System (REDFIS, for its acronym in Spanish),** present our perspectives on the key issues, stakeholders and other processes relevant to the 2025 workshops of the Sharm el-Sheikh dialogue on the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 of the Paris Agreement.

The discussions in last year's workshops significantly heightened awareness of the challenges and opportunities in addressing adaptation and tracking efforts. However, translating these discussions into concrete actions remains imperative. Ensuring resource accessibility and bolstering the institutional capacities of developing countries and their communities must remain central to the dialogue in 2025 and beyond. In that regard, REDFIS believes the topics for the 2025 workshops should focus on adaptation and the financial reform.

Key issues

1. Increased access and mobilisation of adaptation finance

The "Sixth Biennial Assessment and Overview of Climate Finance Flows" (SCF, 2024)[1] indicates that climate finance growth in 2021-2022 was predominantly driven by investments in key mitigation sectors. In contrast, adaptation finance experienced a modest 28% growth, primarily due to commitments from bilateral and multilateral development financial institutions. Despite this progress, adaptation continues to receive less attention than mitigation finance. The Sustainable Finance Index (GFLAC, 2024)[2] reveals that the Latin America and the Caribbean (LAC) region still faces challenges in attracting sufficient resources for resilience-building projects, especially in critical sectors like agriculture, coastal zones and water management.

[1] Available at: https://unfccc.int/topics/climate-finance/resources/biennial-assessment-and-overview-of-climate-finance-flows

[2] Available in Spanish at: https://www.sustainablefinance4future.org/ifs2024?utm_campaign=06baddd7-79d5-4a7e-a1d1-f9b796cf1e31&utm_source=so&utm_medium=mail&cid=45bcf17d-3208-44da-aad5-8b813f5de160

In addition, the "Report on the Doubling of Adaptation Finance" (SCF, 2024)[3] highlights that 59% of adaptation finance in 2019-2020 was provided through loans, while 31% came in the form of grants. This reliance on debt instruments raises concerns about the financial sustainability of developing countries, many of which are already burdened with high debt levels. Without increased concessional finance and grant-based support, climate investments risk exacerbating sovereign debt stress, limiting fiscal space for other significant development priorities. The Sustainable Finance Index (IFS, for its acronym in Spanish) also reveals that while public finance for adaptation is growing, private sector participation remains limited. A critical barrier identified is the high perceived risk of adaptation investments, which multilateral development banks (MDBs) can help mitigate by offering blended finance mechanisms that lower the risk for private investors.

2. Transforming the financial system to mainstream adaptation finance

International financial institutions (IFIs) and MDBs contribute in the channeling of climate finance to developing countries. However, their participation in the access and mobilization of finance for adaptation is still limited. According to the Organisation for Economic Co-operation and Development's report "Climate Finance Provided and Mobilised by Developed Countries in 2013-2022"[4], only USD 18.3 billion of the USD 50.6 billion in multilateral public finance allocated to developing countries in 2022 was directed towards adaptation. Furthermore, the "Third report of the Independent High-Level Expert Group on Climate Finance"[5] estimates that emerging markets and developing countries (excluding China) will need approximately USD 250 billion annually for adaptation and resilience.

Nevertheless, in the 29° Conference of the Parties, MDBs were called to actively participate in the mobilisation of climate finance as part of the new collective quantified goal (decision -/CMA.6)[6]. This is particularly visible in paragraph 23, which invites IFIs, including MDBs, to deploy non-debt-inducing instruments; consider shifting their risk appetites; simplify access; continue to enhance the effectiveness of the provision and mobilization of finance; consider scaling up highly concessional finance for developing countries; and aim at increasing grant financing disbursed to the least developed countries and small island developing States.

In this context, it is important to discuss how MDBs will deal with this challenge, considering the limitations of these institutions, such as the lack of finance in the form of grants and the scarce

[3] Available at: https://unfccc.int/process-and-meetings/bodies/constituted-bodies/standing-committee-on-finance-scf/scf-activities/measurement-reporting-and-verification-of-support-beyond-the-biennial-assessment-and-overview-of/report-on-the-doubling-of-adaptation-finance

[4] Available at: https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_19150727-en.html

[5] The Executive summary of the report is available at: https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-of-climate-finance_Executive-summary.pdf

[6] Available at: https://unfccc.int/sites/default/files/resource/cma2024_L22E.pdf

finance for technical collaboration, among others. Therefore, REDFIS feels that helpful topics to be discussed during the workshops regarding the financial reform include:

- **Prioritize adaptation disbursements:** scale up funding dedicated to adaptation projects, ensuring that the resources are accessible to vulnerable communities by effectively utilizing concessional windows.
- **Deploy innovative finance alternatives:** develop blended finance mechanisms that reduce risks for private sector investments in adaptation.
- **Align with the Sustainable Development Goals (SDGs):** ensure that their funding strategies and portfolios contribute to the SDGs, including poverty alleviation, ecosystem restoration and community resilience.
- **Improve transparency and capacity building for measuring and reporting:** The 2024 IFS underscores the absence of standardized frameworks in LAC countries for tracking adaptation finance. MDBs can support this by facilitating the adoption of uniform reporting standards. Additionally, MDBs and IFIs should prioritize strengthening local capacities of governments, civil society and private sector stakeholders in developing countries to design, implement and monitor adaptation projects. This includes fostering regional partnerships (in LAC, e.g., through the Inter-American Development Bank or the Development Bank of Latin America) to build climate resilience and promoting knowledge-sharing and technology transfer.
- **Redirecting fossil fuels' subsidies:** achieving systemic transformation in the global economy necessitates phasing out fossil fuel subsidies. In 2022, global fossil fuel subsidies reached a record 7 trillion dollars, equivalent to 7.1% of GDP (IMF, 2023)[7]. In the LAC region, governments provided fossil fuel subsidies amounting to approximately 0.57% of their GDP, nearly 500 billion dollars (Cárdenas & Peña, 2024)[8]. The 2024 IFS also reveals that LAC countries received 19 times more revenue from carbon-intensive activities than from climate and biodiversity finance. Additionally, budgets allocated to carbon-intensive sectors are 12 times higher than those for sustainability initiatives. Redirecting these substantial funds toward sustainable development, including adaptation and resilience-building efforts, could significantly enhance climate action.

<u>Key guiding questions</u>

1. **Increased access and mobilisation of adaptation finance**

- What are the primary barriers preventing developing countries from effectively accessing and utilizing multilateral adaptation finance?
- How can financial mechanisms be designed to ensure that adaptation finance does not exacerbate the debt burden of developing countries?

[7] More information on: https://www.imf.org/en/Blogs/Articles/2023/08/24/fossil-fuel-subsidies-surged-to-record-7-trillion?utm_source=chatgpt.com

[8] Please see: https://www.energypolicy.columbia.edu/how-finance-ministries-in-latin-america-and-the-caribbean-can-enhance-climate-action/?utm_source=chatgpt.com&

- What concrete steps can MDBs take to simplify and accelerate access to adaptation finance for vulnerable communities?
- What role can MDBs play in de-risking investments for adaptation?
- What best practices can be adopted to ensure that adaptation finance reaches and benefits the most vulnerable populations, including women, Indigenous Peoples and local communities?

2. Transforming the financial system to mainstream adaptation finance

- What policy and financial incentives can be introduced to scale up concessional and grant-based finance for adaptation in developing countries?
- How can MDBs adjust their risk assessment frameworks to better support adaptation projects in critical sectors?
- What steps can MDBs take to standardize measurement, reporting and verification frameworks for adaptation finance across regions?
- How can MDBs and IFIs enhance regional collaboration to strengthen climate resilience, particularly in regions like Latin America and the Caribbean?
- What strategies can be implemented by MDBs and IFIs to redirect fossil fuel subsidies' funds toward adaptation and sustainability initiatives?
- What innovative financial instruments (e.g., green bonds, blended finance, debt-for-climate swaps) can be leveraged to accelerate adaptation finance?

Key stakeholders

- **Public development banks (PDBs):** they serve as crucial intermediaries between IFIs and local economies, enabling the implementation of national and regional adaptation strategies. However, challenges such as limited concessional finance, regulatory constraints and lack of technical expertise can hinder their capacity to effectively scale up adaptation finance.
- **MDBs:** as mentioned, they have the capacity to mobilize large-scale resources, provide technical assistance and de-risk adaptation investments. Despite their role in financing climate efforts, their contributions to adaptation finance remain relatively low.
- **Local entities, communities and groups in situations of vulnerability:** these groups, particularly those in climate-vulnerable regions, are at the frontline of climate change impacts. However, they often face challenges in accessing adaptation finance due to bureaucratic barriers, lack of technical capacity and financial exclusion.
- **Local banks:** they serve as important conduits for distributing climate finance at the national and subnational levels. However, they often lack the financial products, risk assessment tools and incentives to support adaptation investments.

Other relevant processes

- **Reform of the IFIs:** as mentioned, current IFI structures often favor larger-scale mitigation projects, leaving adaptation finance underfunded. Reforms should focus on increasing concessional finance and streamlining bureaucratic procedures for adaptation funding, among others.[9]
- **Fourth International Conference on Financing for Development (FFD4):** scheduled from June 30 to July 3 in Seville, Spain, it represents a crucial opportunity to integrate climate finance into the broader development finance agenda. It is imperative that adaptation finance is a central theme of its outcomes.
- **UN Tax Convention:** ensuring that fiscal policies support climate resilience is crucial for achieving long-term sustainability goals. Tax incentives for sustainable investments and the removal of fossil fuel subsidies are key fiscal strategies that can support adaptation finance.[10]
- **Biodiversity finance:** biodiversity and climate adaptation are deeply interconnected, as healthy ecosystems provide critical resilience benefits. Investments in nature-based solutions, conservation finance and ecosystem restoration are essential components of adaptation strategies.[11]

Conclusions

Achieving the objectives of the Paris Agreement requires a substantial increase in adaptation finance and its prioritization alongside mitigation efforts. While some progress has been made, current financial flows remain insufficient, and structural barriers continue to hinder developing countries from accessing much-needed resources. Addressing these gaps is critical to ensuring the resilience of vulnerable communities and ecosystems.

MDBs and IFIs must take a leading role in scaling up concessional finance, deploying innovative financial mechanisms and aligning investments with the SSGs. The reform of IFIs should focus on increasing accessibility, streamlining bureaucratic procedures and ensuring a greater balance between adaptation and mitigation finance.

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[9] For more information, please see the briefs “Rol de las Instituciones Financieras” (REDFIS, 2024): https://www.gflac.org/_files/ugd/32948d_a1f83cc5c2444f3cbef3eb659baf84c5.pdf,
and “Deuda y reforma del sistema financiero ante la crisis climática: Propuestas desde América Latina y el Caribe” (REDFIS, 2024):
https://www.gflac.org/_files/ugd/32948d_b2fc7b20f3034a7ebdd08c487b4e5433.pdf?index=true

[10] For more information, please see “Políticas fiscales y financiamiento climático: Propuestas desde América Latina y el Caribe” (REDFIS, 2024):
https://www.gflac.org/_files/ugd/32948d_7e68f6d96e5e462aa50bc50ad8fb41fe.pdf?index=true
And about the FfD4 and the negotiations on the Tax Convention, the following blog (in Spanish):
https://www.gflac.org/single-post/financiamiento-internacional-en-2025-oportunidades-para-am%C3%A9rica-latina-y-el-caribe

[11] Please see “Relación entre el financiamiento climático y el financiamiento para la biodiversidad: el caso de los bosques” (REDFIS, 2024):
https://www.gflac.org/_files/ugd/32948d_da5e6a7933fb41ae81055f8f13a13dae.pdf

Additionally, the redirection of fossil fuel subsidies, which still account for trillions of dollars annually, toward sustainable development and adaptation finance is an urgent necessity. Fiscal policies, such as tax incentives, should be leveraged to enhance the mobilization of adaptation finance at scale.

In this context, we urge the Co-Chairs of the Sharm el-Sheikh dialogue to build on the progress made in previous workshops and take decisive actions to enhance the role of MDBs and IFIs in supporting adaptation finance. It is imperative to ensure that financial resources are effectively channeled to the most vulnerable populations, and that local banks, PDBs and community-driven initiatives are empowered to deliver climate solutions at the grassroots level.

Bridging the adaptation finance gap, improving transparency in its tracking and reporting, and fostering regional and international collaboration will be key steps toward a more equitable and resilient financial system. These efforts must be pursued with urgency and ambition to protect present and future generations from the escalating impacts of climate change.