March 2025

Response from UN Trade and Development (UNCTAD) to the call to submit views on the issues to be addressed during the Sharm-El-Sheikh Dialogue's workshops to be held in 2025.

Which topics and issues do you see as most relevant and helpful to be discussed in the context of the workshops in 2025?

This year will see the conclusion of the SES Dialogue at CMA7. With several outstanding questions regarding Article 2.1(c), its interpretation and operationalization, and divergences among Parties on substantive issues, activities this year should focus on establishing the key action areas that can secure the biggest impact towards collective achievement of Article 2.1(c).

In this context, it is crucial to apply a whole-of-Article 2 approach to the scope and operationalization of Article 2.1(c), including that Article 2.2 reflects the foundational principles of equity and common but differentiated responsibilities and respective capabilities in light of different national circumstances (CBDR-RC) under the Convention, recognizing the historical responsibility of developed countries.

This year's work should build on progress achieved during the previous workshops. The repeated recognition that climate finance flows must be scaled up and that barriers to access should be addressed signals that these issues continue to be a central priority for any outcome on Article 2.1(c).

Public leadership, central banks, and regulators

- Considering that Member States form the Parties to the Paris Agreement, public policy is the core focus of Art. 2.1(c), underpinned by policy coordination across fiscal, industrial, trade and financial measures. A discussion on relevant levers within public leadership can explore for example regulatory mechanisms to disincentivise financiers of high emitting activities and frameworks to establish 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.
- To this end, Central Banks (CBs) and other financial regulators can play a more active role in responding to the challenges of climate change and should be explored in this year's Dialogue. Some CBs already have monetary policies and regulatory frameworks that support the alignment of finance and decarbonization and are including climate risks and stress tests into their operations. Building on this foundation, Parties can explore how such institutions can play a market-shaping role, creating favourable financial conditions for green transition and guiding the financial system towards decarbonization.
- Around 536 public development banks and development finance institutions around the world exist, managing $23 trillion in assets and composing 10-12 per cent of annual world investment. These institutions can play a significant role in climate and development action, as their mandates include social and economic considerations beyond short-term profit-maximization, are often deeply rooted in national and local contexts, and have capacity to leverage credit over the funds they receive. Building on developments from the Financing in Common Summits, Parties can explore together the role these institutions can play in achieving Article 2.1(c).

Private Finance Contribution in light of recent development

- The role of private capital in driving climate action is central to the ambition of Article 2.1(c), yet recent months have seen backward movement from major private finance actors in their departure from voluntary net zero efforts, such as the Net Zero Banking Alliance (NZBA) and the Glasgow Financial Alliance for Net Zero (GFANZ).
- The most recent assessment of the $100 billion goal by the OECD showed that private finance mobilized by public climate finance reached $21.9 billion in 2022. This means private finance mobilization represented 19 per cent of what the OECD calculates towards developed countries' climate finance contributions to developing countries. In the six years before 2022, the average proportion made up by private finance mobilization was 17.5 per cent, never exceeding 20 per cent.
- Considering these developments, the SES Dialogue should interrogate these trends and explore efforts needed from Parties and other stakeholders to better align private finance with climate-resilient development.

Improving the Integrity of Climate-aligned Financial Flows

- While donor countries begin to decrease their contributions towards the 0.7 per cent ODA target, the double counting of Official Development Assistance (ODA) and climate finance poses serious challenges to the integrity and accountability of finance flows. The tagging of climate finance in development projects with little climate-relevance artificially inflates registered climate finance flows, while the pressure to meet climate finance targets risks undermining core development needs such as health and education.
- The ultimate ambition of Article 2.1(c) is that all financial flows align with climate goals, yet the example of climate finance and ODA highlights the risks associated with the current approach: overall assistance is stagnating or decreasing while total flows going into high quality climate action is near impossible to measure. This benefits neither development nor climate goals and signals broader risks of greenwashing in the delivery of Article 2.1(c).
- The SES dialogue is an opportunity for Parties to explore these risks and discuss together how to build a higher integrity system for climate finance accounting, ensuring that implementation of Article 2.1c can translate into genuine transformation. This is particularly timely considering the Fourth Financing for Development Conference (FFD4) taking place this year, where Member States are discussing a renewed global financing framework for development.

Debt distress and fiscal space for climate action

- Global public debt has reached a record high of $97 trillion in 2023, and in developing countries it grew twice as fast as in developed economies. This dynamic is largely a result of ongoing economic impacts from events outside the control of developing countries and high borrowing costs which increase the resources needed to pay creditors. Developing regions borrow at rates that are 2 to 4 times higher than those of the United States and 6 to 12 times higher than those of Germany. Today, a record 54 developing countries spend heavily on interest, mainly in Africa. Overall, a total of 3.3 billion people in 48 developing countries live in countries that spend more on interest payments than on either education or health.
- In this context, fiscal space for climate investments is extremely limited. Without collective action, the vicious cycle of climate and debt distress will only deepen, stymieing other efforts to align financial flows with climate resilient development. Scaling up climate finance in the forms of grants, concessional finance, and other non-debt creating instruments is essential and requires further exploration between Parties. This is particularly the case for adaptation investments, since these are primarily focused on preventing future costs rather than generating profits and so will largely require public efforts.
- In the context of the SES Dialogue, Parties will benefit from sharing their experience of creating fiscal space for climate action in this challenging context, allowing discussion of urgent priorities to alleviate debt distress in developing countries, and action to combat other pressures on fiscal space including climate vulnerability and impacts of spillover effects and external shocks.

Which stakeholders do you see as most relevant to participate in and contribute to the workshops in 2025?

- Coordination amongst different ministries, regional and international Government bodies, and public and private sector financial institutions is critical to achieving the ambition set out in Article 2.1(c).
- UNCTAD encourages the participation of a broader range of finance-focused actors, including Ministries of Finance and treasury, Central Banks, national and regional development banks, and influential actors int he financial system such as credit rating agencies into the SES Dialogue process.
- The UN Secretary General's Taskforce on Net Zero Policy established at COP28 is a relevant actor that could share expertise on how non-state actors, including corporations, financial institutions, local and regional governments, can be facilitated in shifting to a net zero emissions future.

Which other processes should we take into account in our work in 2025?

Implementing Article 2.1(c) requires stronger, networked multilateralism that connects different pieces of the puzzle: finance, trade, investment, technology, and development. To this end, we strongly encourage efforts to bridge gaps between policy arenas. Processes of particular relevance to the SES Dialogue in 2025 include:

- The Fourth International Conference on Financing for Development. FFD4 is an opportunity for Parties to agree a global financing framework for development, inclusive of international financial architecture reforms. The outcome is of direct relevance to aligning financial flows with climate-resilient development.
- The International Monetary Fund and World Bank Spring and Annual meetings are an occasion that bring together ministers of finance and development, central banks, private sector, civil society and intergovernmental organisation to discuss global economic governance, the financial system and international development. The Bretton Woods Institutions could enhance conversation on how to include climate-resilient development considerations into their actions and governance, while respecting the ownership of each borrower’s domestic policymaking without the imposition of restrictive conditionalities.
- The Baku to Belém Roadmap to 1.3T is an opportunity provided by the NCQG workstream that is complementary to the discussion on Article 2.1(c). The SES Dialogue should seek clarity on the relationship between the two processes, acknowledging that action on Article 2.1(c) should scale up finance flows from all sources, and therefore contribute towards the achievement of $1.3 trillion.
- South Africa’s G20 Presidency has highlighted climate finance as a key issue in 2025. Briefings from the Finance and Sherpa Tracks on these issues could enrich the Dialogues by connecting them more deeply to the planned outcomes in the G20.
- The Brazilian BRICS Chairship has climate and sustainable development as one of the six areas of cooperation in the BRICS agenda, with specific focus on climate finance. The BRICS Leaders' Summit will take place in July 2025.
- UNCTAD’s 16th quadrennial conference (UNCTAD16) will take place in October 2025, hosted by Vietnam. Under the theme “Shaping the future: driving sustainable economic transformation for a changing world”, it is an opportunity to strengthen multilateral action and deliver tangible outcomes for a new global economy, through work within UNCTAD’s three pillars: research and analysis, technical cooperation and consensus building. Negotiations will produce a final document that will guide the mandate of UNCTAD in the next four years.

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