Amazon rainforest, from Shutterstock.

“Making financial flows consistent with climate-resilient development”: The role of international financial institutions and standard setters

Summary for policymakers

Compounding climate, economic and geopolitical crises following the Covid-19 pandemic produced a consensus on the need for far-reaching reform of the global financial architecture to respond to contemporary challenges, including climate change.

Amid aid cuts, continued fossil fuel investments, backtracking on climate commitments by private financial institutions, geopolitical turmoil and a brewing debt crisis in the Global South — all while planetary boundaries are crossed irreversibly and climate emergencies accelerate — the core aim of Article 2.1c of the Paris Agreement becomes central to achieving sustainable development in this century: **making financial flows consistent with climate-resilient development, and reforming the international financial architecture to enable this**.

Yet, many of the global institutions with the power to govern, (re-)direct and regulate financial flows away from harmful activities and into climate action and a just transition are failing to do so effectively. For a long time they have claimed that climate work falls outside their “purely economic” mandates — especially institutions dominated by Global North countries.

This briefing therefore explores the role of international financial institutions, global economic decision-making fora, and financial standard setters, in setting the conditions for aligning finance with Art. 2.1c in a way that is grounded in justice and equity, both key principles of the Paris Agreement. It covers **the UNFCCC, the G20, Financing for Development, the IMF, central banks and financial regulators, and the World Bank**.

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Key points

To activate its transformative potential, Article 2.1c of the Paris Agreement must be framed within the principles of common but differentiated responsibilities and respective capabilities (CBDR-RC) and wider tenets of distributive, compensatory, procedural and feminist justice. Rather than seeing it as another tool to push Global South countries into creating de-risking enabling environments for private finance within an unchanged status quo of global economic rules and decision-making that systematically disadvantage and exclude them, Art. 2.1c should be leveraged to shift those very rules and structures towards a financial system that enables climate-resilient development.

Country Parties still lack clarity and consensus on what that operationalisation should look like — who needs to act, by when, for what, and through which channels and institutions. This briefing provides a first answer to these questions by translating a justice-based approach to Art. 2.1c into a set of crucial 'consistency makers'[1] that hold considerable sway over financial flows globally: The UNFCCC, the G20, the Financing for Development process (FFD), the IMF, central banks and financial regulators, as well as the World Bank Group (WBG) as the foremost multilateral development bank.

As they are, international financial institutions and decision-making fora are not at the service of climate-resilient development but rather perpetuate injustice: the G20, IMF, World Bank, and regulatory standard setters like the Financial Stability Board (FSB) have executive structures that amplify the voices of the largest and most financially powerful countries (and biggest polluters), while Global South and especially small, climate vulnerable countries have little to no say.

An important step on the way to climate-aligned economic policymaking is to reform these external consistency makers to be more representative of vulnerable countries and communities — or to create new ones altogether, such as UN-based tax and sovereign debt framework conventions. The current multilateral system was created for a colonial, post-WWII world, and many of its core institutions are increasingly unfit for purpose to tackle the global challenges of the 21st century.

UN-based negotiation fora like the UNFCCC and FFD follow a more equitable process where countries have equal representation, and they must be empowered to mandate and reform the IMF, WBG, and FSB. Their foundational principles are rooted in notions of distributive and compensatory justice such as CBDR-RC.

A global justice approach to Art. 2.1c means a fundamental departure from the growing financialisation of development. With the power that Global North countries hold in the global financial system, it is on them to regulate their jurisdictions, align their central banks' mandates, and reform the international rules of debt, trade, tax and finance to centre the Sustainable Development Goals (SDGs) and climate-resilient development in a way that amplifies the policy and fiscal space of Global South countries to do the same.

[1] Watson & Argueta (2023). Putting climate resilient development at the heart of Article 2.1c to further its equitable implementation. ODI Global.

UNFCCC

Justice: Discussions about how to make financial flows consistent with climate-resilient development must be grounded in **CBDR-RC principles**. This must include Global North countries' responsibilities both in providing high quality public finance and creating an enabling environment for climate-resilient development through their actions in international fora to address the structural inequalities (for example in debt, tax and trade) which tilt the playing field against developing countries.

The **Baku to Belem Roadmap** and the **Sharm el Sheikh (SES) Dialogue** must not put the onus on developing countries to create enabling environments to 'attract' investments — instead, they should put the spotlight on how Annex II countries alone can raise (over $5) trillions in public finance for climate action annually with measures toward tax justice, the redirection of public finance away from fossil fuels, and debt cancellation.[2]

Scaling up ambition on IFA reform: The wider remit of the SES Dialogue should enable the development of clear recommendations on the avenues that should be explored for international financial architecture reform. This includes trade rules, debt architecture, tax architecture, governance reform, and a more just global financial safety net, linking the UNFCCC to parallel processes like FfD4. Given the current global debt landscape, it should put a spotlight on the **debt-climate vicious cycle**, the harmful role of debt in contributing to continued fossil expansion (to generate foreign currency for debt repayment), and how debt workout can open up crucial fiscal space for climate action.[3]

Addressing fossil fuel finance: The SES Dialogue complements the Roadmap by enabling an additional focus on reducing harmful financial flows (not only mobilising climate finance) and the need to equitably phase out fossil fuels and end their financing based on just transition principles. Discussing **what, how, and when** this phase out should take place, what regulation is required (including penalties and safeguards for harmful financial flows) and how it can be designed in a just, non-regressive way needs to become much more central to the Dialogue's discussions.
The Dialogue should be much clearer on 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 operationalising Art. 2.1c but do not yet consider climate-resilient development their primary mandate (several of which are covered in this briefing, e.g. the IMF, central banks, or the G20).

Quality and role of public finance and the private sector: The Baku to Belem Roadmap and the SES Dialogue should champion the key role of public, non-debt-creating finance and measures to create fiscal space. They should also be embedded in a realistic assessment of the role that private finance can (not) play, given decades of evidence of poor blended finance leveraging ratios,[4] as well as fundamental limitations and justice implications (e.g. the primacy of profit over development outcomes, the creation of further debt in a context of high distress, the volatility of markets and capital flows vs need for long-term patient investment, investors suing countries if climate regulation threatens their investments,[5] and lack of democratic accountability).

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[2] The $5.3tn is only from Annex II countries. Including all countries, the estimate is $10.3tn. See: Oil Change International (2024). We Can Pay For It.

[3] Latindadd (2023). Climate crisis, debt and recovery in a context of multiple crises. A look from a Climate Justice perspective in Latin. America and the Caribbean.

[4] In relation to blended finance, leverage ratios are consistently far below expectations — evidence shows that one public dollar is only mobilising 70 cents for investments in development, and 85 cents in energy transition finance, dropping to 69 cents in LICs. See: Independent High-Level Expert Group on Climate Finance (2024). Raising ambition and accelerating delivery of climate finance; ODI (2021). Development finance institutions: the need for bold action to invest better; Oil Change International (2024). COP29 Explainer: Why we can't rely on the private sector to finance the energy transition.

[5] Investor-State Dispute Settlement (ISDS) mechanisms enable foreign investors to sue governments over climate policies that affect their investments (especially in fossil fuels). This legal threat has a chilling effect, deterring governments from implementing necessary climate policies and measures to phase out fossil fuels.

To truly succeed in enabling climate resilience and sustainable development, the implementation of Art. 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 financialised capitalism.[6]

Actionability, accountability and accounting: Both processes need to focus not only on the 'what' but also on the 'how': 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, international financial institutions, and other global institutions.

- For the SES Dialogue, this means to start channelling the discussions towards more concrete recommendations that are ambitious and actionable on how to operationalise Art. 2.1c.
- For the Roadmap, it means space in the UNFCCC and COP30 agenda to adopt an action plan for scaling finance to developing countries, rather than just having it be a report.

To effectively monitor the implementation of Arts. 2.1c and 9 of the Paris Agreement, streamlined **accounting and reporting frameworks** are required for each.

G20

G20 countries must recognise that it is their responsibility to advance real, bold action on finance flow alignment that goes beyond the failed 'private finance first' mantra,[7] e.g. by picking up the recommendations of the 2024 TF Clima expert group[8] on fiscal-monetary coordination and those made by UNCTAD and the NGFS[9] on central banks and financial regulation in order to **develop a roadmap on actively aligning the financial sector with 1.5°C.**

Nothing prevents G20 countries from going beyond the usually vague and voluntary language of their consensus-based outcome documents and making credible and specific commitments individually or as 'coalitions of the willing.' One such commitment should be phasing out all fossil fuels (not only "inefficient fossil fuel subsidies" as promised but never delivered for the past twelve years)[10] with a justice-oriented, clear timetable in which developed countries and major emitters take the lead.

On debt, given the urgency and close linkage with climate, **the G20 must rise above clinging to the barely effective Common Framework** and to mobilising private finance flows to EMDEs (emerging market and developing economies), and instead put their weight behind a more holistic and permanent UN-based debt workout solution as currently proposed under the FfD process, where many G20 members are acting as detractors.

[6] Gabor (2018). Understanding the financialisation of international development through 11 FAQs. Heinrich Böll Stiftung North America.
[7] Even the World Bank's chief economist and president have admitted that the 'billions to trillions' agenda meant to de-risk private finance into development has been a "fantasy". See Gill (2024). For developing economies, the finance landscape has become a wasteland. World Bank.
[8] G20 TF-CLIMA Group of Experts (2024). A Green and Just Planet.
[9] NGFS (2025). Adapting central bank operations to a hotter world.
[10] In 2022, G20 members provided a record $1.3tn in fossil subsidies. See: Black, Parry & Vernon-Lin. (2023). Fossil Fuel Subsidies Surged to Record $7 Trillion. IMF.

Protesters at COP27 in Sharm el Sheikh, Egypt, in 2022.
Credit: Oliver Kornblihtt / Mídia NINJA, Flickr.

Financing for Development

Civil society demands are long-established, and many of them are now a central part of Global South countries' demands, such as calling for a **UN Framework Convention on tax (now on the way), a UN Framework Convention on sovereign debt, a UN-based credit rating agency, a UN Convention on International Development Cooperation, a UN multilateral agreement to terminate Investor State Dispute Settlements and regulate transnational corporations, a UN review of the systemic risks of an inadequately regulated financial sector and of the development outcomes of the 'private finance first' approaches,** and cross-cutting priorities on ensuring fiscal space, decent work, human rights, and gender equality[11].

Given the urgency of the current debt crisis, the Jubilee Year 2025 and appointment of expert commissions on debt both by the Vatican and the UN Secretary General, and the prominence of debt on the agenda of other key global fora and institutions (e.g. in the G20, the African Union, and various country coalitions), **laying the groundwork for an intergovernmental process towards a UN debt workout mechanism and a Framework Convention must become the focus of advocacy at the FfD4 conference in Sevilla.**[12] Just as the Tax Convention was regarded as a long shot for years, FfD4 can set important foundations for a future process on debt that moves this issue out of the G20's and IMF's primary purview and under UN auspices.

FfD is a unique lever to reflect on, change, and mandate other institutions, such as the IMF, MDBs, or the FSB. **From an Art. 2.1c lens, re-focusing on the systemic issues part to change monetary and financial consistency makers is key, such as mandating a (UN-based, not G20) review of IFIs and MDBs to democratise them and re-orient them towards the SDGs, reforming the global reserve system and the role of Special Drawing Rights (SDRs), as well as advancing necessary financial regulation.** At this moment of democratic backsliding, weakened multilateralism, and acknowledgement that the current Global North dominated financial architecture is not delivering, FfD4 should also be seen as a **key opportunity to re-ignite democratic multilateral spaces** and re-establish the credibility of the UN as well as the 'rules-based international order'.

[11] CSO FfD Mechanism (2025). What should be achieved in FfD4?
[12] Eurodad (2024). UN framework convention on sovereign debt - Building a new debt architecture for economic justice.

IMF

The Sharm El-Sheikh (SES) Dialogue could be the perfect space to develop a framework and mandate that makes the IMF consistent with the Paris Agreement. In 2025, the IMF is starting the next iterations of its Comprehensive Surveillance Review (CSR) and the Review of Conditionality (ROC), which will provide the framework for how it conducts its two most important activities over the next few years. These processes are taking place in the context of the US' recent call for the IMF to stop working on climate, and the Fund leadership downplaying its climate work as a result.

The contradictions between policies pursued under 'traditional' IMF programmes and new ones under the Resilience and Sustainability Trust (RST), emblematic of wider incongruence between the IMF's standard approach and the goals of the Paris Agreement, need to be resolved. For example, in the case of Senegal, the strategy to regain macroeconomic stability relied on increasing fossil fuel exports, while at the same time promoting mitigation as one of the objectives of the RST.[13] For the 2021 CSR, a coalition of civil society organisations had developed a proposal[14] aimed at limiting the IMF's engagement to a **'do no harm'** approach. Rather than actively steering countries' climate policies, where the Fund lacks both expertise and legitimacy, it should guarantee its overall activities do not undermine climate objectives.

Debt Sustainability Analyses should be reformed more fundamentally to stop locking countries into fossil extraction for debt repayment and recognise the public financing requirements for (and long-term benefits of) climate-resilient development. So far, the Fund has been standing in the way of large-scale debt restructuring and cancellation, insisting that the current debt situation is "not a crisis" in strictly economic terms, the derailing of climate and development goals for billions of people notwithstanding.[15]

To properly align with Art. 2.1c, the IMF must build up external collaboration with UN bodies (such as the UNFCCC secretariat) and the scientific community (IPCC, IPBES, IUCN) who hold real expertise on climate and explore how it can help create a macro environment that enables their work. The IMF's principal collaborator on climate has been the World Bank — another institution whose governance is skewed towards the wealthiest countries, and the main global champion of the private finance and 'enabling environment' agenda of which the IMF has also been a vocal backer.

Calls to reconceptualise the IMF's reserve asset, Special Drawing Rights (SDRs) as a tool for development and climate finance are long-standing in civil society. In 2021, the IMF issued a $650bn general allocation of SDRs, to provide countries with debt-free liquidity to weather the Covid-19 pandemic shock, which effectively buttressed global financial stability. Recently put back in the international spotlight through the Bridgetown Initiative and early drafts of the FfD4 document, these call for new, regular, and more equally distributed SDR issuances to tackle the climate emergency. The upcoming RST review should **make rechannelled SDRs more accessible** by removing the qualification criteria that limits access to the RST to countries under a 'traditional' IMF arrangement.

Lastly, although currently unrealistic as geopolitical tensions continue escalating rather than abating**, IMF governance (quotas) should be reformed to become more aligned with a CBDR approach in that countries most impacted by climate change are given larger decision-making power.**

[13] Kentikelenis & Stubbs (2024). Greening IMF lending: Elusive prospects, mixed evidence. Recourse.
[14] Action Aid et al. (2021). A Proposed Framework for IMF Engagement in Country-level Surveillance on Macrostructural Issues; Inequality, Gender and Climate Change.
[15] UNCTAD (2024.: A World of Debt.

Central banks and financial regulators (CBFRs)

The existing climate work of these institutions and associated coordination bodies needs to adopt the double materiality framework and take on a pro-active approach to supporting an orderly and just green transition, including the full spectrum of available monetary and financial policy levers that actively disincentivise or restrict financial flows to harmful activities. Beyond the existing policy arsenal of CBFRs, policymakers should use fora like the NGFS (Network for Greening the Financial System) and the Coalition of Finance Ministers to explore avenues of fiscal-monetary-financial-industrial policy coordination.

Central banks (CBs) need to adopt a precautionary approach to considering the impact of climate- and nature-related risks on their own balance sheet as well as the potential impact of their policy choices on climate- and nature-related outcomes. CBFRs need to acknowledge that 'market neutrality' cannot be sustained when particular industries and asset classes threaten macroeconomic stability, planetary boundaries, and human survival.

The taxonomies to define 'sustainable' finance should not be left to the private sector; CBFRs should set clear standards for decarbonisation as well as conditionalities that include justice criteria. For example, companies that reduced their emissions by relying on materials (e.g. 'transition minerals') extracted in exploitative conditions or by buying carbon offsets that displace Indigenous communities through land grabbing should be treated differently from those whose approaches respect labour and land rights.[16]

For this, the expansion of central bank mandates should be explored, for which lawmakers and especially finance ministers should use their core role in financial regulation, their interface with both CBs and National Development Banks and ability to update their remits, and their role as shareholders in IFIs and MDBs to advance this agenda.[17] 'Green' CBFR policy cannot happen in a vacuum — it needs to go hand in hand with, and help reinforce, 'real economy' actions by governments, the private sector, civil society and other (global) external consistency makers.[18]

Given the lack of wide representation of Global South countries in G20-dominated international coordination and standard setting bodies like the FSB, it is doubtful whether they will embrace the regulation required from a developmental, green transition, and global financial stability perspective. While an institution with similar regulatory and jurisdictional powers but more equitable representation is still outstanding, these institutions and CBFRS in the Global North need to grapple with the justice ramifications of their actions and develop ways to counter-balance negative repercussions. For example, if a country is judged riskier, it should automatically be given higher debt relief, not just suffer the consequences of worse credit ratings. Penalties for carbon-intensive activities need to focus on rich industrialised countries to give Global South ones — especially in Africa — room to develop and phase out more gradually.

[16] Dafermos (2025). Climate finance and global justice. Climate Policy, DOI: 10.1080/14693062.2025.2482104.

[17] In NGFS (2020): Survey on monetary policy operations and climate change: key lessons for further analysis, the "highest-ranked prerequisites and constraints identified by respondents are the need for a legal clarification of the interlinkage of climate goals with their primary objective, and the fact that environmental sustainability is not part of their mandates." Changing these mandates needs to come from lawmakers and governments. For example, in 2021 the UK Treasury updated its remit letter to enable the Bank of England to explore the implications of the government's net zero commitment for its operations.

[18] Oman et al. (2023). Three tales of central banking and financial supervision for the ecological transition. WIREs Climate Change: Volume 15, Issue 3.

The World Bank Group

Properly mainstreaming a climate justice, human rights and gender lens in the WBG approach is crucial, including in macroeconomic policies, but needs to be preceded by a critical, independent review of the WBG's development impacts. The Bank's 'Evolution Roadmap' process failed to do this.[19] The Sharm el Sheikh Dialogue could initiate a proper assessment of the effectiveness of WBG's Paris alignment methodologies, which must be consolidated and enhanced, to enable financial flows to be consistent with the 1.5˚C goal.[20]

Rather than backtracking, the WBG should make a public commitment to end support for all fossil fuels (including fossil gas) and for 'false solutions' that prolong fossil infrastructure and carry high environmental risk (such as nuclear energy, carbon markets, and carbon capture and storage (CCUS). The Bank should instead put all its financial weight behind the development of renewables — especially decentralised solutions that are rooted in communities and local energy access needs.[21] The Paris Alignment Methodology and upcoming Energy Policy should be the processes to address this. Such projects should incorporate comprehensive just transition metrics such as affordability, equitable distribution, and community ownership.

Moreover, the international community and in particular the WBG's largest (Global North) shareholders must properly scale up efforts to reduce MDB financing costs, massively increasing the amount of concessional and grants-based financing and moving away from blended finance models that use scarce public resources to safeguard private profits. This also means putting policies in place for MDB financing to be included in debt restructuring processes (which require adequately financing the Debt Relief Trust Fund) and prioritising climate-resilient development.

Lastly, the push for more streamlined MDB operations should not undermine sustainability frameworks, which should reflect international best practice and existing human rights standards and principles. Remedial frameworks and independent accountability mechanisms should be empowered to effectively protect communities.

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[19] Bretton Woods Project et al. (2023). Civil Society calls for rethink of World Bank's 'evolution roadmap' as part of wider reforms to highly unequal global financial architecture.
[20] Recourse (2024). The Big Bank Theory? Why MDBs need to rethink what it means to be "Bigger, Bolder and Better" development banks
[21] Recourse et al. (2024). Banking on Renewables criteria for public investment in renewable energy.

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