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**Sharm el-Sheikh dialogue on the scope of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement**

# Sharm el-Sheikh dialogue on the scope of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement

## Revised report by the secretariat

*Summary*

This report, prepared by the secretariat under the guidance of the Presidency of the twenty-seventh session of the Conference of the Parties, on the Sharm el-Sheikh dialogue between Parties, relevant organizations and other stakeholders to exchange views on and enhance understanding of the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 of the Paris Agreement contains information on the deliberations at the two workshops under the dialogue in 2023 and recommendations to the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement proposed by the Presidency of the Conference of the Parties at its twenty-seventh session.

# Abbreviations and acronyms

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| CMA | Conference of the Parties serving as the meeting of the Parties to the Paris Agreement |
| COP | Conference of the Parties |
| DFI | development finance institution |
| GHG | greenhouse gas |
| LDC | least developed country |
| MDB | multilateral development bank |
| NAP | national adaptation plan |
| NCQG | new collective quantified goal on climate finance |
| NDC | nationally determined contribution |
| SCF | Standing Committee on Finance |
| SIDS | small island developing State(s) |
| UNCTAD | United Nations Conference on Trade and Development |

# I. Introduction

## A. Mandate

1. Article 2, paragraph 1, of the Paris Agreement states that the Agreement, in enhancing implementation of the Convention, including its objective, is aimed at strengthening the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by:

(a) Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;

(b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low GHG emission development in a manner that does not threaten food production;

(c) Making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development.

2. Article 2, paragraph 2, states that the Paris Agreement will be implemented to reflect equity and the principle of common but differentiated responsibilities and respective capabilities in the light of different national circumstances.

3. Article 9 of the Paris Agreement states, inter alia, that developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation in continuation of their existing obligations under the Convention, and that other Parties are encouraged to provide or continue to provide such support voluntarily. Furthermore, as part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts. Further, the provision of scaled-up financial resources should be aimed at achieving a balance between adaptation and mitigation, taking into account the context of developing country Parties that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the LDCs and SIDS.

4. CMA 4 decided to launch the Sharm el-Sheikh dialogue between Parties, relevant organizations and stakeholders to exchange views on and enhance understanding of the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 of the Paris Agreement. In this context, it requested the secretariat, under the guidance of the COP 27 Presidency, to organize two workshops in 2023 and to prepare a report for consideration at CMA 5 on the deliberations at the workshops.[1]

## B. Scope

5. This report has been prepared by the secretariat under the guidance of the COP 27 Presidency and Tosi Mpanu Mpanu, the facilitator of the Sharm el-Sheikh dialogue for 2023, including the two mandated workshops, appointed by the COP 27 Presidency. The organization of work under the Sharm el-Sheikh dialogue and the proceedings of the two workshops in 2023 are outlined in chapter II below. Chapter III below presents a summary of the deliberations at the workshops and the insights identified in the submissions received from Parties and non-Party stakeholders. In addition, recommendations on the issue of the scope of Article 2, paragraph 1(c), and its complementarity with Article 9, based on the

[1] Decision 1/CMA.4, para. 68.

deliberations at the dialogue, proposed by the COP 27 Presidency, are included in chapter IV below.

# II. Work under the Sharm el-Sheikh dialogue in 2023

## A. Organization of work

6. To inform the organization of the workshops under the dialogue and ensure broad and inclusive discussions, Parties and non-Party stakeholders were invited to submit views to inform the scope and focus of the discussions three weeks in advance of each workshop.[2] The submissions received are listed in the annex.[3]

7. In addition, the COP 27 Presidency and the dialogue facilitator engaged in outreach throughout 2023, including through informal consultations with Parties, relevant organizations and stakeholders – three such consultations were held during the fifty-eighth sessions of the subsidiary bodies.

8. The first workshop under the dialogue took place in hybrid format from 19 to 20 July 2023 in Bangkok. Nine submissions were received from Parties and non-Party stakeholders prior to the workshop.

9. The second workshop took place in hybrid format from 3 to 4 October 2023 in Geneva. Four submissions from Parties and non-Party stakeholders were received prior to and one after the workshop.

## B. Proceedings of the workshops

### 1. First workshop

10. The first workshop was co-hosted by the Office of Natural Resources and Environmental Policy and Planning of the Ministry of Natural Resources and Environment of Thailand and the United Nations Economic and Social Commission for Asia and the Pacific.[4] The 140 participants represented Parties, accredited intergovernmental and non-governmental and other organizations, UNFCCC constituted bodies and other stakeholders. The workshop, which was broadcast live via YouTube, included three panel discussions with question and answer sessions, as well as interactive breakout group discussions and open plenary discussions.

11. Mohamed Nasr, COP 27 lead negotiator, and a representative of the secretariat provided welcoming remarks, which were followed by opening remarks by the dialogue facilitator.

12. The first day was focused on eliciting views and perspectives on the scope of Article 2, paragraph 1(c), and its complementarity with Article 9. A scene-setting presentation providing an overview of the work of the SCF on matters relating to Article 2, paragraph 1(c), and its complementarity with Article 9 was made by two SCF co-facilitators, Kevin Adams and Chandni Reina. Three keynote interventions were made on the possible areas of complementarity of Article 2, paragraph 1(c), with Article 9. Mahmoud Mohieldin, high-level champion for COP 27, emphasized the importance of significantly scaling up climate-related investment and climate finance flows towards developing countries in order to bridge the investment gap to achieving the goals of the Paris Agreement. He highlighted that debt is a major challenge for developing countries, which could potentially be addressed through provision of support under Article 9. Masyita Crystallin, Special Advisor to the Minister of Finance of Indonesia on Macroeconomic and Fiscal Policy and Sherpa for the Coalition of

[2] The message to Parties and observers is available at https://unfccc.int/documents/627923.

[3] The submissions are available at https://unfccc.int/submissions-from-parties-and-non-party-stakeholders.

[4] The programme for the first workshop, biographies of speakers, presentation slides and YouTube broadcast links are available at https://unfccc.int/event/first-workshop-under-the-sharm-el-sheikh-dialogue.

Finance Ministers for Climate Action, showcased how ministries of finance around the globe are taking action and exchanging best practices in relation to mainstreaming sustainable and climate-related financial policies. She explained how ministries of finance engage in the domestic implementation of NDCs, NAPs and other climate plans, including by incentivizing public and private investment, as well as how developing countries face challenges in relation to high debt levels. Richard Kozul-Wright, Director of the UNCTAD Globalization and Development Strategies Division, elaborated on how progress in the context of Article 2, paragraph 1(c), requires understanding national realities and should be pursued within the framework of an investment push for a just and equitable transition to sustainable development. He stressed the particular role of developed countries in implementation of Article 2, paragraph 1(c), including by providing and mobilizing financial support under Article 9 and engaging in reforms of the international financial system and public development banks in order to coordinate international macroeconomic policy and increase equitable access to capital for all countries.

13. A panel discussion, followed by questions and answers, on Parties' perspectives on the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 among four representatives, from the European Union, Saudi Arabia, South Africa and Switzerland, was followed by breakout group discussions on perspectives on the same topic on the basis of the following guiding questions:

(a) What is the scope of Article 2, paragraph 1(c), to support the Paris Agreement, in particular its complementarity with Article 9?

(b) What are the roles of different actors, Parties and non-Party stakeholders in contributing to the implementation of Article 2, paragraph 1(c), and its complementarity with Article 9?

(c) How do Parties and non-Party stakeholders understand the complementarity of Article 2, paragraph 1(c), with Article 9?

14. The moderators of each breakout group reported a summary of the discussions during plenary, which was followed by an open discussion to take stock of the day.

15. The second day was focused on the role of public and private sector actors and policies, levers and incentives related to the scope of Article 2, paragraph 1(c), and its complementarity with Article 9, as well as measuring collective progress towards achieving Article 2, paragraph 1(c). A panel discussion among representatives of Belize, the Philippines, the Asian Development Bank, the Asian Investor Group on Climate Change, the Network for Greening the Financial System and the United Nations Environment Programme Finance Initiative on public and private sector efforts relevant to making finance flows consistent with the goals of the Paris Agreement, including challenges in implementation and complementarity with Article 9, was followed by breakout group discussions on experience of and perspectives on using policies, levers and incentives towards achieving Article 2, paragraph 1(c), and the complementarity of these measures with Article 9 on the basis of the following guiding questions:

(a) How can government policies and tools support pathways towards low-emission and climate-resilient development, including towards realizing NDCs, NAPs and other national climate plans?

(b) What is the role of fiscal incentives and levers, including subsidies and taxation, in supporting progress on Article 2, paragraph 1(c), and its complementarity with Article 9?

(c) What challenges, and potential solutions, are associated with government efforts related to Article 2, paragraph 1(c), and its complementarity with Article 9 at the domestic and international level?

16. An expert panel addressed potential frameworks for assessing and measuring collective progress towards achieving Article 2, paragraph 1(c), including for government-led actions to align public and private finance flows with the goals of the Paris Agreement and different ways of measuring consistency of finances and policies with those goals. Two presentations by representatives of the Organisation for Economic Co-operation and

Development and the Overseas Development Institute focused on their respective views on assessing and measuring the consistency of finance flows with the goals of the Paris Agreement, while two presentations by the Climate Finance Group for Latin America and the Caribbean and SouthSouthNorth focused on country or regional case studies of domestic and international finance flows. Summaries of the breakout group discussions were provided, followed by an interactive plenary session on the outlook for the second workshop under the dialogue.

### 2. Second workshop

17. The second workshop was co-hosted by the Swiss Federal Office for the Environment in collaboration with Building Bridges, an event organized by Sustainable Finance Geneva. The 245 participants represented Parties, accredited intergovernmental and non-governmental and other organizations, constituted bodies and other stakeholders. The workshop, which was broadcast live via YouTube, included four panel discussions, interactive breakout group discussions and open plenary discussions.[5]

18. Welcoming remarks were provided by Tosi Mpanu Mpanu as the dialogue facilitator; Mohamed Nasr; a representative of the secretariat; Felix Wertli from the Swiss Federal Office for the Environment; and Patrick Odier, Chair of Building Bridges. Two keynote interventions on the state of play of the financial system in relation to achieving the goals of the Paris Agreement, and opportunities for scaling up finance for low-emission and climate-resilient development were delivered by Luiz Awazu Pereira da Silva, former Deputy General Manager of the Bank of International Settlements, and Avinash Persaud, Special Envoy on Investment and Financial Services to the Prime Minister of Barbados. The keynote interventions emphasized that an orderly green transition towards net zero emissions will require a strong increase in the mobilization of global climate-related investment, and that persistent investment gaps in developing countries should be filled urgently through structural changes in the financial system. They noted challenges related to the possible use of carbon pricing and increasing cost of capital in developing countries. Potential approaches to addressing these challenges include increasing public and private capital allocation to developing countries, reducing the cost of capital for developing countries, enhancing investment in climate resilience and making the best use of concessional, blended and innovative financial instruments. It was underlined that there can be no trade-off between sustainable development and climate action, while highlighting also the important role of public, concessional and grant financing for mitigation, adaptation and addressing loss and damage in order to protect developing countries, especially the most vulnerable countries and populations, from climate impacts.

19. A panel discussion on approaches to and challenges in implementing Article 2, paragraph 1(c), at the international level and opportunities for scaling up finance flows for low-emission and climate-resilient development involved the participation of representatives of the International Sustainability Standards Board, the Net Zero Asset Owner Alliance, the Net Zero Banking Alliance and the Swiss State Secretariat for International Finance.

20. Experts representing the Climate Policy Initiative, the Grantham Research Institute on Climate Change and the Environment, the Organisation for Economic Co-operation and Development, and the Securities and Exchange Commission of the Philippines undertook a round-table discussion on mapping the potential intended and unintended consequences of actions, including policies and regulations, to implement Article 2, paragraph 1(c), and specific safeguards in this context. The expert panel presented potential frameworks for conceptualizing the intended and unintended outcomes of actions towards implementing Article 2, paragraph 1(c), as well as insights on and examples of international and national measures towards achieving Article 2, paragraph 1(c).

21. A panel comprising representatives of the Coalition of Finance Ministers for Climate Action, the high-level panel of experts on Africa and the reform of the multilateral system, the secretariat of the Network for Greening the Financial System, UNCTAD and the World

[5] The programme for the second workshop, biographies of speakers, presentation slides and YouTube broadcast links are available at https://unfccc.int/event/second-workshop-under-the-sharm-el-sheikh-dialogue-on-article-2-paragraph-1c-of-the-paris-agreement.

Trade Organization discussed the potential intended and unintended consequences of actions to implement Article 2, paragraph 1(c), and potential safeguards for avoiding greenwashing and ensuring just and equitable pathways towards low-emission and climate-resilient development. Different perspectives on how measures related to Article 2, paragraph 1(c), can have desirable and undesirable outcomes across policy domains, such as financial supervision, macroeconomic, trade and industrial policy and sustainable development, were discussed.

22. Breakout group discussions among all workshop participants were held on the basis of the following guiding questions:

(a) What are potential intended and unintended consequences of actions to implement Article 2, paragraph 1(c)?

(b) How do potential intended and unintended consequences differ across countries, regions and sectors, and what is their impact on the delivery of sustainable development and poverty eradication?

(c) What are key principles and safeguards for implementation to ensure a just and equitable pathway towards low-emission and climate-resilient development and to combat greenwashing?

23. Representatives of the Bank of Africa, the European Investment Bank and the joint MDB group on Paris alignment, Germany's international climate initiative, and the Rwanda Green Fund discussed how to ensure that finance under Article 9 supports country-driven action to realize Article 2 and how Article 2, paragraph 1(c), relates to Article 9 and the NCQG. The same topic was further discussed among all workshop participants in breakout groups on the basis of the following guiding questions:

(a) What is needed to ensure that finance flows are consistent with Article 2 in the context of equitable access to finance and to ensure that no one is left behind?

(b) How can Article 2, paragraph 1(c), enable supporting the scale-up of climate finance, including with a view to realizing the NCQG?

(c) How can climate finance under Article 9 be complementary to or support achieving Article 2, paragraph 1(c)?

24. The moderators of the breakout groups reported summaries of the discussions, which was followed by a session on the linkages to other processes within and outside the intergovernmental process relevant to Article 2, paragraph 1(c), and its complementarity with Article 9, and ways to move forward following the dialogue. In plenary, participants exchanged views on linkages and ways to move forward, which were complemented by closing remarks from UNCTAD Secretary-General Rebeca Grynspan, who emphasized the explicit developmental dimension of achieving the climate goals set out in Article 2. She noted the limited size of the current development finance system, with financing gaps in the trillions to achieving the Sustainable Development Goals, including clean energy transition, in developing countries, and pointed to the inequitable geographical distribution of international finance flows, in particular private finance flows, as well as the elevated costs of capital for developing countries. She highlighted the usefulness of reforming the international financial system for supporting achievement of the climate goals of the Paris Agreement, including by scaling up global investment, increasing the size of multilateral DFIs and focusing on implementation of Article 2, paragraph 1(c), on adhering to the principles in Article 2, including equity and common but differentiated responsibilities and respective capabilities, and promoting nationally led implementation of Article 2, paragraph 1(c). She also highlighted that, without international cooperation to address systemic crises in the development and financial systems and the provision of support to developing countries, achieving consistency with climate-resilient pathways will be challenging. The workshop was closed with an outlook to COP 28 and CMA 5.

# III. Summary of deliberations under the Sharm el-Sheikh dialogue

## A. Scope of Article 2, paragraph 1(c), of the Paris Agreement

25. Participants shared the view that Article 2, paragraph 1(c), is a foundational long-term goal of the Paris Agreement along with the other goals under Article 2 in the context of sustainable development and efforts to eradicate poverty. Several participants highlighted that implementation of Article 2, paragraph 1(c), enables acceleration of progress towards achieving Article 2, paragraph 1(a–b), and several stressed the importance of this for keeping the 1.5 °C temperature goal within reach. Others considered the scope of Article 2, paragraph 1(c), in the context of Article 9 with a focus on scaling up climate finance from developed to developing countries for implementing nationally determined climate action in the context of Article 2, paragraph 1(a–b).

26. It was observed that, while the scope of Article 2, paragraph 1(c), includes pathways towards both low-emission and climate-resilient development, the majority of approaches to Article 2, paragraph 1(c), in the public and particularly in the private sector have focused predominantly on mitigation and decarbonization targets, as well as that there is a lack of consideration for, or consistency with, climate-resilient development pathways, particularly for developing countries.

27. Participants considered the scope of Article 2, paragraph 1(c), to include both public and private finance flows at both the domestic and international level. It was widely noted that efforts to achieve Article 2, paragraph 1(c), should be aimed at significantly scaling up and mobilizing finance for climate action in both developed and developing countries, and not have a negative impact on the volume and delivery of climate finance flows to developing countries. Many participants noted the existing gap between available climate finance flows, particularly in developing countries, and the finance flows required to achieve NDCs and the Paris Agreement goals and to address the needs and priorities of developing countries. It was highlighted in this regard that currently, according to reports by the Climate Policy Initiative, the Intergovernmental Panel on Climate Change, the International Energy Agency, the SCF and others, global finance flows are not flowing at sufficient scale and in the right direction in the light of the finance required for climate action and sustainable development, noting that more should be done to enhance public and private finance flows to developing countries.

28. Participants emphasized that climate action and sustainable development go hand in hand, and that Article 2, paragraph 1(c), should be understood and implemented in the context of achieving the Sustainable Development Goals and efforts to eradicate poverty, and some noted that this complementarity will enable enhanced climate ambition and action, particularly in the case of developing countries.

29. Some participants noted that achieving Article 2, paragraph 1(c), could involve system-wide transformations of the financial sector and national economies, including shifting public and private finance flows away from emission-intensive and maladapted activities or activities that are harmful to the environment. Others emphasized that the focus should be on the international financial support needs of developing countries for transformative climate action in line with NDCs in order to achieve, through nationally appropriate efforts, the collective long-term goals of the Paris Agreement. Some others noted that engagement in all sectors is necessary to ensure that climate objectives are achieved while ensuring sustainable development and poverty eradication in developing countries.

30. It was widely acknowledged that, while Article 2, paragraph 1(c), applies to all countries, approaches to implementation will vary depending on national circumstances. Therefore, many participants emphasized that, given the difference in starting points, levels of development and policy mixes, policy-prescriptive or ‘one-size-fits-all’ solutions should not be connected to Article 2, paragraph 1(c), in order to avoid punitive action. Some underscored the role of NDCs in line with Article 3, NAPs and other national plans and strategies as guidelines for the context-specific approach to achieving Article 2, paragraph 1(c), from the bottom up. Others also mentioned the need to ensure implementation according

to the principles of equity and common but differentiated responsibilities and respective capabilities in the light of national circumstances, as well as to ensure just transitions and the right to development. Some participants connected the concepts and principles in Article 2, paragraphs 1–2, to the equitable and fair distribution of the remaining carbon budget for achieving the Paris Agreement temperature goals and being on low-emission pathways, and connected these principles to enhanced climate investment from developed to developing countries.

## B. Complementarity of Article 2, paragraph 1(c), with Article 9 of the Paris Agreement

31. Participants recognized the existing obligations of developed country Parties under Article 9 with regard to the provision of financial support to developing country Parties, but views differed on how these provisions stand in relation to Article 2, paragraph 1(c):

(a) Some stated that, while Article 2, paragraph 1(c), sets out an aspirational finance goal to support achieving the mitigation and resilience goals of the Paris Agreement (Article 2, para. 1(a–b)), it is operationalized through support for means of implementation as outlined in Article 9, including the obligations of developed country Parties and reporting requirements specified under Article 9, paragraph 7. Therefore, the two Articles complement each other through Article 9 representing the provisions to implement Article 2, paragraph 1(c). While the consistency of domestic finance applies to all countries, developed country Parties are obligated under Article 9 to provide and mobilize scaled-up financial support for developing country Parties for their nationally appropriate climate action;

(b) Others noted that climate finance under Article 9 is one subcomponent of the broad scope of finance flows relevant to Article 2, paragraph 1(c), and that specific obligations of developed country Parties under Article 9 are separate from, but complementary to, the efforts of all Parties to achieve Article 2, paragraph 1(c). Owing to this broad scope of finance flows, implementation of both Article 2, paragraph 1(c), and Article 9 can enable the achievement of global mitigation and adaptation goals by making domestic public and private finance flows consistent with nationally determined climate targets, but also by managing and regulating international and cross-border finance flows in support of low-emission and climate-resilient development.

32. Many participants stressed that implementation of Article 2, paragraph 1(c), should not distract from or reduce the provision and mobilization of international climate finance from developed to developing country Parties. Participants highlighted the important role of public funds and grant-based and highly concessional finance, as well as the importance of the delivery of the goal of developed country Parties mobilizing jointly USD 100 billion per year goal through to 2025 and the doubling of adaptation finance from 2019 levels by 2025.

33. Nevertheless, some participants voiced concerns about potential conditionalities on climate finance flows to developing countries as a result of measures to implement Article 2, paragraph 1(c), that could negatively affect the national sustainable development agendas of those countries; for example, unilateral adoption of exclusion lists for activities eligible for financial support under Article 9, integration of climate risks into financial decision-making affecting finance flows to vulnerable developing countries, an overriding focus on mitigation actions over measures for adaptation, climate resilience and/or addressing loss and damage, or exacerbation of the potential disruptive effects of transformational change on local employment, societal welfare and development.

34. Other participants highlighted the opportunities for support under Article 9 to enhance efforts to achieve Article 2, paragraph 1(c), in developing countries, such as capacity-building for mainstreaming climate risks and opportunities in the private and public finance sector, knowledge exchange and policy advice on sustainable financial frameworks, and public–private sector mobilization and matchmaking. Examples were provided of blended finance facilities with the participation of domestic private and public finance institutions with bilateral DFIs and MDBs in the Philippines, Morocco and Rwanda, as well as technical assistance and capacity-building support from bilateral DFIs and MDBs for the development of sustainable finance frameworks and taxonomies in Indonesia, Mongolia and South Africa.

35. Participants touched upon how Article 2, paragraph 1(c), could relate to the NCQG. Some were of the view that an ambitious scale-up of financial support from developed to developing country Parties in the context of the NCQG constitutes the key component of operationalizing Article 2, paragraph 1(c). A few expressed that an agreement on the NCQG should precede further discussion on Article 2, paragraph 1(c), in order to provide clarity in this regard. Others highlighted the limitations of available international public climate finance compared with the scale of climate investment needs, and were of the view that the implementation of Article 2, paragraph 1(c), and its linkage with the NCQG will enhance the mobilization of additional domestic and international sources of finance from the private and public sectors.

## C. Role of actors

36. A broad set of actors covering the public and private sector and civil society within the financial and non-financial (real economy) sectors was noted by participants as relevant to ensuring that finance flows are made consistent with a pathway towards low GHG emissions and climate-resilient development.

37. Evidence was provided in the workshop discussions, presentations and submissions that individual public and private sector actors are undertaking efforts domestically to improve the consistency of finance flows with low-emission and climate-resilient development. Actors are increasingly coordinating approaches and sharing best practices and lessons learned relevant to Article 2, paragraph 1(c), internationally through networks of central banks and financial supervisors, the Coalition of Finance Ministries for Climate Action, sustainable finance working groups of regional or supraregional groups of countries, disclosure standard setting bodies, Paris Agreement alignment initiatives of MDBs, DFIs and private finance institutions, and private sector decarbonization or climate resilience initiatives such as the Asia Investor Group on Climate Change, the Glasgow Financial Alliance for Net Zero, the Principles for Responsible Investment, and the United Nations Environment Programme Financial Initiative.

38. Some participants noted that approaches and efforts under such initiatives do not in all cases align with countries' own understanding of and efforts towards achieving Article 2, including how they reflect the principles of the Paris Agreement such as equity and common but differentiated responsibilities and respective capabilities. They noted potential unintended consequences from implementing Article 2, paragraph 1(c), in particular for developing countries that are highly exposed to physical climate risks, highly commodity-dependent or have less diversified economies, and that are geographically remote or less integrated into international economic markets and thus less able to navigate low-emission and climate-resilient transitions in an orderly way.

39. Participants expressed the view that Governments, as the representatives of Parties to the Paris Agreement, have a responsibility to work towards achieving Article 2, paragraph 1(c), in the context of Article 2. Some participants considered that this should include seeking to enhance a common understanding of its implementation among public and private actors outside the intergovernmental process. Many participants noted that whole-of-government approaches with coordinated action across ministries and other public entities will contribute to a holistic implementation of Article 2, paragraph 1(c), that takes into account financial and socioeconomic and local-level implications. In addition, many participants highlighted the coordinating role of ministries of finance in implementing Article 2, paragraph 1(c), that could be further enhanced in national climate change planning processes to mainstream sustainable finance and economic decision-making at all levels of government and to increase and incentivize public and private investment in climate action.

40. Beyond making domestic finance flows consistent with low-emission and climate-resilient development pathways, many participants noted that Governments should work towards transforming or evolving the international financial system, including MDBs, UNFCCC and international climate funds, and international finance institutions, to contribute to achieving Article 2, paragraph 1(c). Some participants identified a responsibility of developed countries to reform their domestic policy frameworks in order to direct private

finance flows within and between developed countries towards enhanced private finance flows to developing countries that support implementation of NDCs, NAPs, long-term low-emission development strategies and other national plans and strategies.

41. Participants acknowledged the role of monetary authorities, central banks and financial supervisors in managing domestic and international financial flows, also with regard to the integration of climate considerations into financial decision-making. It was noted that central banks and financial supervisors fulfil a mandate to ensure the stability of the financial system through monetary policy and financial regulation, and implement efforts through climate-related stress-testing and capital requirements to account for both physical and transition risks. However, it was also noted that this cannot be a substitute for ambitious mitigation and adaptation action and investment by governments, private finance and non-financial corporations, and households.

42. Participants emphasized the importance of mobilizing climate investment from the private sector to advance the transformation to low-carbon and climate-resilient economies, given that public finances may not reach the scale required to meet the global investment needs for achieving the goals of the Paris Agreement and that global private climate finance remains too low. The finance gap is particularly large in developing countries and in regions such as Africa. Discussions highlighted the diversity of investment mandates of private sector actors, which limits the ability of private banks, insurers and investors to finance climate action in thematic areas with lower rates of return such as adaptation, or in locations and sectors associated with higher financial and climate-related risks. It was acknowledged that finance flows to emission-intensive activities continue to be large in the private sector and often more profitable than climate-related investments, with some participants highlighting the need for engagement strategies between financiers and affected sectors and corporations to reduce emissions rather than for divestment approaches. Some participants expressed the view that implementation of Article 2, paragraph 1(c), should remain under the purview of Governments, as the representatives of Parties to the Paris Agreement, rather than of private sector actors outside the intergovernmental process.

43. It was widely acknowledged that approaches to implementing Article 2, paragraph 1(c), benefit from the active participation of subnational and local public and private actors, including regional and municipal authorities, civil society organizations, non-governmental organizations, Indigenous communities, women, youth and the elderly. Participants showcased how local actors and institutions are important financial intermediaries to ensure context- or place-based approaches to just and equitable transitions, as well as their role in reporting and evaluating efforts and finance flows relevant to Article 2, paragraph 1(c).

## D. Policies and measures and how to address potential negative impacts of their implementation

44. A multitude of policies, measures, approaches and efforts are being implemented by governments and non-governmental actors globally towards achieving Article 2, paragraph 1(c). Often these efforts are not formally referring to Article 2, paragraph 1(c), but may be considered generally as climate-related measures and viewed as contributing to making finance flows consistent with the Paris Agreement goals.

45. Many participants emphasized the role of suitable policy and enabling frameworks established by governments for guiding other public and private actors at the national and international level in making finance flows consistent with low-emission and climate-resilient development pathways, while also considering the cross-border and developmental impacts of such measures.

46. In this context, many participants highlighted the significance of translating NDCs, NAPs, long-term low-emission development strategies and other national climate plans into investment plans. Participants underscored that governments are engaged in mainstreaming climate plans in national planning processes, green public procurement and climate budget tagging. Participants showcased the usefulness for incentivizing private investment of sustainable and transitional finance frameworks tailored to specific regional or national needs and priorities and respective economic compositions, such as the Association of Southeast

Asian Networks, Colombian, European Union and South African sustainable finance taxonomies, the sustainable finance framework regulations of Indonesia and the Philippines and the Saudi Green Initiative.

47. However, in many developing countries the formulation of climate plans and strategies often does not translate into attracting more finance for climate action, owing to limited public fiscal space, high levels of debt and financial markets' perception of the elevated risk of investment in developing countries. These challenges highlight the need for further understanding of how implementation of Article 2, paragraph 1(c), will lead to achieving the finance flows needed by developing countries. Participants highlighted that global financial markets allocate capital predominantly to large financial markets, although it is urgently necessary to increase international public and private finance flows for climate action to developing economies and countries and regions most vulnerable to the impacts of climate change, noting, inter alia, the particular developmental needs and climate vulnerabilities of SIDS and the LDCs, the African region, Indigenous peoples, women, youth, the elderly and marginalized communities. The use of grant-based or concessional public international climate finance, particularly for adaptation and addressing loss and damage, and the delivery of the USD 100 billion goal were mentioned as measures to improve the financial conditions of developing countries and overcome the private sector financing gap.

48. Some participants highlighted policy and regulatory measures that entail shifting, redirecting and scaling down fossil fuel finance over time and phasing out (inefficient) fossil fuel and other subsidies for emission-intensive activities while ensuring just and orderly transitions. Almost all participants noted that there are no 'one-size-fits-all' policies or approaches given varying national circumstances. Different carbon pricing systems, including taxation, cap-and-trade systems, non-pricing incentives for green investment and technologies and active engagement strategies, rather than divestment, were proposed. Many noted that developing countries are more reliant on emission-intensive and extractive industries and particularly exposed to measures to shift away from emission-intensive finance owing to their economic composition and the structure of their public finances; hence the need for long-term financial, capacity-building, educational and institutional support in countries and subnational regions with financial or economic dependencies on emission-intensive activities was stressed. Nature-based financing instruments such as blue bonds and debt-for-nature swaps, and measures to transition away from flows that finance maladaptation or environmentally harmful activities, such as deforestation or depletion of natural resources, were also mentioned.

49. Participants noted that developing countries face multiple competing policy priorities such as education, health, employment and energy access, in addition to climate action, and that sustainable development and poverty eradication remain a priority. Many participants underlined that implementation of Article 2, paragraph 1(c), should be assessed for its socioeconomic implications for sustainable development and achievement of the Sustainable Development Goals, poverty eradication, debt sustainability, international trade and financial market access in developing countries.

50. While noting international cooperation as a key enabler for implementing Article 2, paragraph 1(c), participants underscored the need for a principled approach, including safeguards, to ensure that unintended consequences, conditionalities or unilateral measures by governments and private sector actors are avoided that could negatively affect the scale of cross-border investments, climate finance flows, trade and sustainable development. Some participants noted examples of unilateral measures with potential unintended consequences, including the use of cross-border adjustment mechanisms, domestic subsidies and international levies, the application of sustainable finance regulations and standards in other jurisdictions that may decrease the ability of developing countries to attract finance for climate action, and the use of decarbonization and net zero scenarios by finance institutions that may be not in line with emission reduction pledges in NDCs. Many participants suggested that one way in which implementation of Article 9 may complement implementation of Article 2, paragraph 1(c), is in ensuring investment in countries where climate risks are higher to reflect where finance is needed most.

51. The need to account for potential negative impacts of action to implement Article 2, paragraph 1(c), was further discussed in the context of the pricing of climate-related physical

risks in the financial system, the elevated debt burden of developing countries, and equitable, just and orderly transitions for scaling down or phasing out fossil fuel subsidies and finance, in both the public and private sector. Participants stressed the importance of long-term support, institutional capacity and financial resources for just and equitable transitions in this context, as well as the need for the financial system to ensure the equitable flow of finance to all regions.

52. Blended finance, guarantees, de-risking and other public–private partnership financing models were noted by many participants as useful instruments for scaling up private climate finance flows by providing catalytic public resources, particularly in the context of developing countries. The role of bilateral and multilateral DFIs, in particular MDBs, was emphasized in strategically employing blended finance for interventions with higher risk profiles and targeting activities that would otherwise not be financed by the private sector such as adaptation, building resilience, or reconstruction in response to loss and damage. Some participants noted that blended finance approaches require careful consideration to ensure that private and societal benefits and costs are balanced in an equitable manner.

53. Public–private partnerships were suggested in the case of multi-stakeholder energy transition financing platforms for combining public international and domestic, philanthropic and private finance flows at the necessary scale to phase out over time in a just and equitable manner emission-intensive activities and scale up low-emission sources of energy. The Just Energy Transition Partnerships were mentioned as an example of best practice in this regard. However, regarding the just and community-centric implementation of such approaches, the challenge of addressing the complex realities and needs and priorities of communities dependent upon emission-intensive industries was noted, as well as the limited geographical scope of such partnerships and the need for equitable access for smaller, less developed, remote or the most vulnerable countries to public–private partnership platforms.

## E. Measuring collective progress towards consistency of finance flows

54. Participants noted that the lack of common understanding of Article 2, paragraph 1(c), among Parties limits them in tracking implementation of action and progress towards the goal of making finance flows consistent with low-emission and climate-resilient development. Such challenges were noted particularly in the context of the global stocktake as well as for domestic and international finance flows. Views differed on whether further work should be conducted in assessing progress related to Article 2, paragraph 1(c), beyond established reporting practices under the enhanced transparency framework.

55. Some participants noted the lack of harmonization and transparency of climate-related financial reporting and the absence of guidance for the public and private financial sector to report on whether finance is consistent with the goal in Article 2, paragraph 1(c). Many pointed to the risk of potential greenwashing of finance flows and the limited accountability of efforts associated with Article 2, paragraph 1(c), in particular regarding the private financial sector voluntary decarbonization and net zero commitments.

56. Some participants shared ways to measure collective progress in relation to Article 2, paragraph 1(c), including economy-wide framework analysis of the levels of public and private finance with regard to both consistent or ‘aligned’ and non-consistent or ‘misaligned’ finance flows, as well as qualitative assessment of policies or measures implemented.

57. Participants highlighted the role of the enhanced transparency framework and established reporting arrangements under Article 9 in measuring progress towards achieving Article 2, paragraph 1(c), noting that the transparency of the mobilization and provision of climate finance flows to developing country Parties should be improved as a way to operationalize and assess progress in relation to Article 2, paragraph 1(c). This could be achieved through, for example, a common understanding of Article 2, paragraph 1(c), a single climate finance definition, systematic reporting on a grant-equivalent basis and achieving clarity on the accounting scope and boundaries of financial instruments and of private finance mobilized from public interventions.

58. The particular challenge of measuring the consistency of finance flows with climate-resilient development pathways was stressed. Private sector participants elaborated that, while the established GHG emission metrics facilitate the integration of mitigation actions into the operations of financial institutions, such measurements are underdeveloped for adaptation. MDB and DFI participants noted that their climate resilience approaches rely on labour- and data-intensive climate risk and vulnerability assessments for individual projects. Recommendations for methodological improvements were made for, inter alia, developing climate resilience related policy reference points, including moving beyond physical and financial risk approaches to developing metrics and definitions of climate resilience finance, as well as to incorporate financing targets for climate resilience, in particular for developing countries. Other participants highlighted that actors within the financial system should increase investment in countries where climate risks are higher and hence finance is needed most.

## F. Linkages and areas for further work

### 1. Linkages within the intergovernmental process

59. Many participants noted that, within the intergovernmental process, the Sharm el-Sheikh dialogue offers the opportunity to enhance understanding of the assessment of collective progress in implementing Article 2, paragraph 1(c), under the first and future global stocktakes. The role of the SCF was mentioned in contributing to enhancing understanding of Article 2, paragraph 1(c), and its complementarity with Article 9 through its technical work, including its Biennial Assessment and Overview of Climate Finance Flows.

60. With respect to Article 9, participants highlighted with varying emphasis the key role of international public finance and the NCQG in funding climate action in developing countries, as well as the potential of efforts related to Article 2, paragraph 1(c), to increase mobilization of climate finance in developing countries from a variety of sources.

61. Views were expressed on how the understanding of the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 can be enhanced within the intergovernmental process and how implementation of Article 2, paragraph 1(c), should be addressed under the CMA.

62. Some participants supported the idea of including an item on Article 2, paragraph 1(c), in the CMA agenda in order to establish a formal process under the CMA for enhancing the understanding and implementation of Article 2, paragraph 1(c), which may also take the form of a work programme or be supported by the technical work of the SCF. Some of those participants suggested that discussions under that agenda item cover topics including, but not limited to:

(a) A common understanding of Article 2, paragraph 1(c);

(b) Principles for implementation of the goals of the Paris Agreement in the context of its Article 2;

(c) Developing guidance for implementing Article 2, paragraph 1(c), including on best practices for policies and measures, as well as for achieving consistency of finance flows with the goal, taking into account geographical scope and timelines for implementation;

(d) Fostering climate-resilient development pathways;

(e) Transparency arrangements;

(f) Increasing available finance for implementing NDCs, NAPs and other national plans and strategies;

(g) Mobilization of private finance;

(h) Reducing the cost of capital for developing countries;

(i) Support needs for implementation of Article 2, paragraph 1(c), including capacity-building and information exchange, and complementarity with Article 9.

63. Other participants did not see the need for an agenda item on Article 2, paragraph 1(c), underscoring that implementation of the Article will most efficiently proceed through implementation of Article 3 with adequate, scaled-up and predictable delivery of financial means of implementation to developing countries under Article 9.

### 2. Linkages outside the intergovernmental process

64. Participants discussed the nature of the relationship and linkages between Parties and the provisions of the Convention and the Paris Agreement and other actors outside the intergovernmental process that may be relevant to the regulation of finance flows and the implementation of Article 2, paragraph 1(c). Such outside actors include national, subnational and local governments and agencies; ministries of finance, including the Coalition of Finance Ministers for Climate Action; central banks and supervisory authorities, including the Network for Greening the Financial System; international finance institutions such as the International Monetary Fund, MDBs, public development banks, private finance institutions and net zero alliances or initiatives in the financial sector; standard-setting bodies; credit rating agencies; real-economy actors and households; as well as academia, think tanks and non-governmental organizations. Linkages to these actors were referred to in the context of policies, approaches and principles for implementing Article 2, paragraph 1(c), as well as in the context of assessing consistency of finance flows with the Paris Agreement goals.

65. Many participants noted the limited understanding of how coordinated actions and efforts towards achieving Article 2, paragraph 1(c), can be facilitated among the network of actors, and what role the CMA could play in fostering appropriate efforts by the variety of public and private financial sector stakeholders that are in line with the goals and principles of the Paris Agreement.

### 3. Potential substantive areas of further work

66. Many participants underscored potential areas of work for establishing a common understanding of Article 2, paragraph 1(c), including:

(a) Potential requirements for support for achieving Article 2, paragraph 1(c), and the role of Article 9 and the NCQG in this regard;

(b) How approaches to implementing Article 2, paragraph 1(c), by public and private finance actors can duly take into consideration different national contexts and circumstances while making finance flows consistent with a pathway towards low-emission and climate-resilient development;

(c) How the concept of just transition(s) can be embedded in the implementation of Article 2, paragraph 1(c), to ensure that the context-specific needs and priorities of countries, regions, sectors and communities, including the most vulnerable, are taken into account;

(d) Appropriate policy approaches and measures relevant to Article 2, paragraph 1(c), at the national and global level, and the interaction and coordination thereof with a view to avoiding potential negative impacts for the scale and quality of finance flows, debt sustainability and access to international financial markets for developing countries, international trade and economic competitiveness, as well as for sustainable development and poverty eradication;

(e) Equitable geographical representation and leaving no country or region behind in approaches to implementing Article 2, paragraph 1(c), taking into account the privileged position of integrated and large financial markets for attracting finance flows, and the challenges faced by many developing countries given their higher exposure to transition risks and macroeconomic shocks, particularly small or remote countries, SIDS, the LDCs and other climate-vulnerable countries or countries dependent on commodities or fossil fuels;

(f) Nationally appropriate transition pathways and approaches that reduce differences in the cost of capital and increase fiscal space and reduce debt burden for developing countries;

(g) Work to make finance flows consistent with a pathway towards climate-resilient development in a manner that would result in a significant scale-up of adaptation finance from the public and private sectors;

(h) How to avoid potential greenwashing and enhance the credibility of efforts and commitments, in particular by private sector actors, related to Article 2, paragraph 1(c);

(i) How to avoid negative impacts on international trade, investment flows and development finance in implementing Article 2, paragraph 1(c), and Article 9.

## IV. Recommendations by the Presidency of the twenty-seventh session of the Conference of the Parties

67. The CMA is invited to consider the following recommendations from the COP 27 Presidency based on the deliberations under the Sharm el-Sheikh dialogue:

(a) Acknowledge the differences in interpretation of Article 2, paragraph 1(c), including its complementarity with Article 9 of the Paris Agreement, and the need to develop a common understanding of the scope and implementation of Article 2, paragraph 1(c);

(b) Acknowledge the importance of implementing Article 2, paragraph 1(c), of the Paris Agreement in all countries to enable the achievement of the long-term goals of the Paris Agreement in Article 2, paragraph 1(a–b);

(c) Note with concern the significant gap between current climate finance flows and the finance flows required to achieve the goals of the Paris Agreement and to address the needs of developing countries for sustainable development and climate action and *urge* Parties to identify ways to achieve Article 2, paragraph 1(c), including areas of complementarity with Article 9 of the Paris Agreement and a transformation of the financial system, to close the finance gap;

(d) Note with concern the limited understanding of and progress towards making finance flows consistent with a pathway towards climate-resilient development and encourage Parties and non-Party stakeholders to enhance their efforts to advance methodologies for making finance flows consistent with a pathway towards climate-resilient development, and to scale up such flows in particular towards developing countries;

(e) Reiterate that the Paris Agreement, including its long-term goals expressed in Article 2, paragraph 1, will be implemented in accordance with the principles of equity and common but differentiated responsibilities and respective capabilities in the light of national circumstances;

(f) Acknowledge the need to implement Article 2, paragraph 1(c), of the Paris Agreement in a manner that fosters international cooperation while ensuring equitable and just transition pathways towards low GHG emissions and climate-resilient development and avoiding potential adverse impacts in developing countries on sustainable development and poverty eradication, cross-border finance flows and trade, and debt sustainability and emphasize the role of NDCs and nationally appropriate pathways, as well as the provision and mobilization of financial support to developing country Parties for achieving Article 2, paragraph 1(c), and addressing the potential negative impacts of its implementation;

(g) Recognize the importance of developing and applying safeguards when considering the operationalization of Article 2, paragraph 1(c), of the Paris Agreement to ensure that sustainable development, international trade and investment flows are not negatively affected by implementation of the Article;

(h) Recognize the need for further work be conducted by Parties to ensure complementarity between Article 2, paragraph 1(c), and Article 9 of the Paris Agreement;

(i) Invite the CMA to continue the Sharm el-Sheikh dialogue between Parties, relevant organizations and stakeholders in 2024 to enhance understanding of the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 of the Paris Agreement and request the secretariat to prepare a summary report on the dialogue, under the guidance of the Presidency of COP 28, for consideration by CMA 6.

# Annex

## Submissions from Parties and non-Party stakeholders on the organization of the Sharm el-Sheikh dialogue

The annex lists submissions received by Parties and non-Party stakeholders in response to a message dated 24 April 2023 from the COP 27 Presidency on the organization of the Sharm el-Sheikh dialogue. The submissions have been considered in this report (see paragraph 5 of this document).[1]

| *Party/group of Parties/non-Party stakeholder* | *Date submission received* |
|---|---|
| Arab Group | 6 July 2023 |
| Argentina, Brazil and Uruguay | 19 July 2023 |
| Canada | 28 September 2023 |
| Convention on Biological Diversity | 28 June 2023 |
| ECODES | 20 June 2023 |
| Environmental Defence Canada | 28 June 2023 |
| European Union | 28 June 2023 |
| European Union | 2 October 2023 |
| Like-minded Developing Countries | 10 July 2023 |
| Russian Federation | 7 July 2023 |
| Third World Network | 23 September 2023 |
| United Kingdom of Great Britain and Northern Ireland | 28 June 2023 |
| United States of America | 23 October 2023 |

[1] All submissions are available at https://unfccc.int/topics/climate-finance/workstreams/sharm-el-sheikh-dialogue/submissions-from-parties-and-non-party-stakeholders#Submissions-by-non-Party-stakeholders.