



United Nations

FCCC/PA/CMA/2024/11



Framework Convention on
Climate Change

Distr.: General
6 November 2024

English only

Conference of the Parties serving as the meeting of the Parties to the Paris Agreement

Sixth session

Baku, 11–22 November 2024

Item 11(h) of the provisional agenda

Matters relating to finance

**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

Report by the co-chairs

Summary

This report contains information on the work conducted by the co-chairs of the 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, and summarizes the deliberations under the dialogue, including during two workshops held thereunder, in 2024. The report describes the preparations for and proceedings of the workshops, summarizes the deliberations that took place and outlines key findings for consideration by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement.



Abbreviations and acronyms

CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
GHG	greenhouse gas
LDC	least developed country
MDB	multilateral development bank
NAP	national adaptation plan
NDC	nationally determined contribution
SDG	Sustainable Development Goal
SIDS	small island developing State(s)

I. Introduction

A. Mandate

1. 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), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement, and requested the secretariat, under the guidance of the Presidency of the twenty-seventh session of the Conference of the Parties, to organize two workshops in 2023 in this regard and to prepare a report to the CMA on the deliberations at these workshops.¹

2. CMA 5 decided to continue and strengthen 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), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement referred to in decision [1/CMA.4](#), paragraph 68, including with regard to the operationalization and implementation of Article 2, paragraph 1(c), in 2024–2025, and that the dialogue is to be facilitated by two co-chairs, one from a developed country and one from a developing country, appointed, in consultation with the respective constituencies, by the President of CMA 5.²

3. CMA 5 requested the secretariat, under the guidance of the co-chairs of the Sharm el-Sheikh dialogue, to organize at least two workshops per year with a view to engaging a broad range of stakeholders and to prepare a report on each workshop.³ CMA 5 also requested the co-chairs, in convening the workshops, to take into consideration the views submitted by Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and other stakeholders, particularly from the private sector, on the issues to be addressed during the workshops,⁴ as well as the reports on the preceding workshops.⁵

4. CMA 5 further requested the co-chairs of the Sharm el-Sheikh dialogue to prepare a report on the deliberations under the dialogue in 2024 and 2025 for consideration at CMA 6 and 7 respectively, preparing, as part of the report in 2025, a synthesis of all work undertaken under the dialogue for consideration at CMA 7, with a view to CMA 7 deciding on a way forward with regard to its deliberations on this matter.⁶

B. Scope of the report

5. This report summarizes the deliberations under the Sharm el-Sheikh dialogue, including the discussions at and key findings from the two workshops held thereunder, in 2024.

C. Possible action by the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement

6. CMA 6 may wish to consider this report and provide further guidance for the work under the Sharm el-Sheikh dialogue in 2025.

¹ Decision [1/CMA.4](#), para. 68. See [FCCC/PA/CMA/2023/7/Rev.1](#) and [FCCC/PA/CMA/2023/7/Rev.1/Corr.1](#) for the report by the secretariat on the dialogue in 2023.

² Decision [9/CMA.5](#), paras. 8–9.

³ Decision [9/CMA.5](#), para. 10.

⁴ In response to the invitation contained in decision [9/CMA.5](#), para. 11.

⁵ Decision [9/CMA.5](#), para. 12.

⁶ Decision [9/CMA.5](#), paras. 13–14.

II. Work under the Sharm el-Sheikh dialogue in 2024

A. Organization of work

7. After consulting with Parties, Sultan Ahmed Al Jaber, President of CMA 5, appointed Gabriela Blatter (developed country Party) and Mohamed Ibrahim Nasr Salem (developing country Party) as co-chairs of the Sharm el-Sheikh dialogue for 2024–2025.⁷

8. In a message to Parties and stakeholders,⁸ the co-chairs shared their aim for the Sharm el-Sheikh dialogue to be organized and conducted in an inclusive, structured and output-oriented manner in 2024. They noted their aim was to build on the discussions that took place in 2023 and to take into account the open call for submissions. They also noted their intent was to move forward in an inclusive, structured and output-oriented manner through the iterative development of the format and content of the workshops and by providing detailed documentation of proceedings and deliberations under the dialogue through workshop reports and the annual report. The message also reiterated the invitation of CMA 5⁹ for Parties, constituted bodies under the Convention and the Paris Agreement, the operating entities of the Financial Mechanism, climate finance institutions, observers and other stakeholders, particularly from the private sector, to submit views on issues to be addressed during the workshops, encouraging Parties and other stakeholders to focus their submissions on the following questions:

(a) How could the Sharm el-Sheikh dialogue be strengthened in your view?

(b) Which topics do you see as most relevant and helpful to be discussed in the context of the workshops as part of the dialogue?

9. Financial support for conducting activities under the dialogue in 2024 was provided by the Governments of Egypt, Germany and Switzerland.

B. Preparations for the workshops

10. The co-chairs undertook preparatory and outreach activities ahead of each workshop, including by issuing notifications to Parties and other stakeholders, with a view to ensuring an open, inclusive, transparent and participatory dialogue.¹⁰

11. With the support of the secretariat, the co-chairs drafted a message¹¹ setting out the approach for the organization of the dialogue and listing possible discussion topics for the workshops to be held in 2024, as suggested by Parties and non-Party stakeholders in 2023–2024, including through the most recent submissions. In their message, the co-chairs noted that the workshops will address key topics through the sharing of case studies, best practices and experience in implementing Article 2, paragraph 1(c), of the Paris Agreement and they indicated their intent to conduct the discussions in a bottom-up approach, covering the local, national, regional and international level. The aim of this approach is to enable participants to identify areas of commonality and divergence in the scope of Article 2, paragraph 1(c), and its complementarity with Article 9 of the Paris Agreement, including by exploring examples of the operationalization and implementation of Article 2, paragraph 1(c).

12. In addition to issuing the messages mentioned in paragraphs 8 and 10 above, the co-chairs convened bilateral meetings with Parties and groups of Parties and other stakeholders, on request, ahead of the workshops. The meetings were aimed at seeking Parties' and stakeholders' views on the organization of the dialogue and the two workshops, including their topics, subtopics and format.

⁷ The appointment letter is available at <https://unfccc.int/topics/climate-finance/workstreams/sharm-el-sheikh-dialogue/co-chairs-of-the-sharm-el-sheikh-dialogue-in-2024-and-2025>.

⁸ Dated 7 March 2024, available at <https://unfccc.int/documents/637299>.

⁹ Contained in decision [9/CMA.5](#), para. 11.

¹⁰ In accordance with decision [9/CMA.5](#), paras. 10 and 12.

¹¹ Dated 6 May 2024, available at <https://unfccc.int/documents/638351>.

13. On the basis of the submissions received and consultations with Parties and other stakeholders, the co-chairs, with the support of the secretariat, developed programmes for each workshop and invited a group of resource persons, with a balanced composition in terms of gender and geographical coverage, to participate in the workshops.

C. Proceedings of the workshops

14. Both workshops were open to observers, conducted in hybrid format and webcast to facilitate the participation of all interested Parties and non-Party stakeholders. Representatives of government, public financial institutions, financial regulatory authorities and central banks, MDBs and bilateral development banks, multilateral climate funds, international and non-governmental organizations, academia and civil society, including youth, and financial and non-financial actors from the private sector took part in the discussions.

15. At each workshop, topics of focus were first addressed through panels of experts and practitioners, where resource persons were invited to share practical case studies, examples and experience from their organization or field of expertise. Subsequently, with a view to facilitating interactive and outcome-oriented discussions, participants were divided into breakout groups, each of which included a moderator and one panellist or expert. Participants were invited to share views, best practices and lessons learned in response to the panel discussion and its guiding questions.¹² For each topic of focus, breakout group moderators summarized and reflected on the discussions in a reflection session in the plenary, including by outlining areas of commonality and divergence in the views expressed and the range of approaches taken in relation to the scope of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement.

16. The second workshop also included a session aimed at taking stock of the key findings and lessons learned under the dialogue in 2024, and identifying areas to be further addressed under the dialogue in 2025.

17. Following each workshop, a summary report was prepared by the secretariat under the guidance of the co-chairs.

1. First workshop

18. The first workshop was held in Bonn from 12 to 13 June 2024 in conjunction with the sixtieth sessions of the subsidiary bodies, with 106 participants attending in person and 23 attending virtually.¹³ The topics of focus for the workshop were adaptation investments and the consistency of finance flows with a climate-resilient development pathway, and linkages between Article 2, paragraph 1(c), of the Paris Agreement and broader sustainable development co-benefits and impacts. The workshop was aimed at building on examples of action taken at the national and regional level and enabling stakeholders from different backgrounds to share experience and best practices.

2. Second workshop

19. The second workshop, held in Sharm el-Sheikh from 6 to 7 October 2024 in conjunction with three other UNFCCC events, was co-hosted by the Government of Egypt and the United Nations Development Programme, with 62 participants attending in person and 60 attending virtually.¹⁴ The workshop focused on the role of the international financial system and different actors, under and outside the Paris Agreement, in the context of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris

¹² The guiding questions for each panel discussion are available at the respective workshop web pages.

¹³ Information on the event, including the programme, presentation slides, webcast links and summary report, is available at <https://unfccc.int/event/first-workshop-under-the-sharm-el-sheikh-dialogue-in-2024>.

¹⁴ Information on the event, including the programme, presentation slides, webcast link and summary report, is available at <https://unfccc.int/event/second-workshop-in-2024-under-the-sharm-el-sheikh-dialogue-on-the-scope-of-article-2-paragraph-1c>.

Agreement, and on transparency and credibility of efforts aimed at implementing Article 2, paragraph 1(c), with a focus on avoiding greenwashing and maladaptation, and identifying possible lessons learned. Across these topics of focus, capacity-building efforts and needs for implementing Article 2, paragraph 1(c), were discussed as a cross-cutting issue.

III. Summary of deliberations under the Sharm el-Sheikh dialogue, including key findings

20. The case studies and examples of best practice and lessons learned shared at the workshops by participants and during presentations illustrate that many efforts are under way in relation to implementing Article 2, paragraph 1(c), of the Paris Agreement, including by Governments, public and private financial sector actors, and civil society actors such as academic institutions and non-governmental organizations, at the domestic level, including at the subnational and local level, and at the regional and international level.

21. By fostering sharing of current practices and approaches, the dialogue offered a useful platform within the United Nations climate process, enabling deliberation among Parties to the Paris Agreement and other stakeholders and providing the opportunity to take stock of the many ongoing efforts of actors outside the United Nations climate process in relation to Article 2, paragraph 1(c), of the Paris Agreement and to exchange views on enhancing a common understanding of the scope and implementation of Article 2, paragraph 1(c), and its complementarity with Article 9. The deliberations were considered particularly useful in terms of enabling Parties and non-Party stakeholders to exchange views on how current approaches to implementing Article 2, paragraph 1(c), relate to, and support, the goals, principles and provisions of the Paris Agreement, including in the context of sustainable development and poverty eradication, and creating a space that supports building mutual trust and learning in the context of both challenges and opportunities related to implementing Article 2, paragraph 1(c).

22. The rest of this chapter contains insights from the workshop discussions related to several aspects of the scope and implementation of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement, presented by discussion theme. The structure reflects the order in which the topics were discussed during the workshops.

A. Investment in adaptation and consistency of finance flows with a pathway towards climate-resilient development

23. Participants recognized the importance of finance flows to climate resilience and considered them an integral component of achieving the long-term goal set out in Article 2, paragraph 1(c), of the Paris Agreement. Participants noted that approaches to implementing Article 2, paragraph 1(c), should involve increasing the scale of investment in adaptation and resilience-building, in particular in developing countries, thus complementing the existing efforts of public and private sector actors, which initially focus on low-emission pathways or ‘net-zero alignment’ approaches.

24. Although most participants underscored the economic, societal and developmental benefits of climate-resilient investments, it was also highlighted that the clear long-term economic argument for investment in adaptation had not yet translated into sufficient investment and action on the ground and was not yet sufficiently accepted by public and private sector actors. Participants discussed a range of barriers and challenges related to scaling up investment in adaptation and resilience. Many noted the elevated cost of capital in many developing countries, which limits the capacity of public and private sector actors to finance adaptation, and many also noted that high sovereign debt levels and low or sub-investment-grade credit ratings constrain fiscal space for climate-resilient development. Many participants also noted that a high risk perception of investments in developing countries impedes finance flows from international capital markets, owing to different layers of country, political and regulatory risks, project and technology risks, and physical climate risks.

25. The workshops showcased many examples of ongoing efforts at the national, regional and international level to mainstream climate risk considerations in financial decision-making processes, including in relation to domestic financial policies and regulations, and financial supervisory guidelines and practices at the macroprudential and microprudential level, and to efforts within individual public and private financial institutions. Some participants noted that gathering information and data on climate-related physical impacts and risks, and on climate-resilient pathways, is an essential first step in the mainstreaming process, although such information and data are often not available for many developing countries at the regional, national or sectoral level, or for small and medium-sized enterprises and local actors more generally. Studies presented at the workshops highlight a limited understanding of policy or socioeconomic goals and reference points that could be used to determine whether finance flows are consistent with and contribute to climate-resilient development at the global, regional and national level. This is in contrast to the higher levels of methodological maturity in the financial sector with regard to low GHG emission pathways, where emissions scenarios and carbon budgets based on global and national climate goals and best available science are regularly used in approaches for implementing Article 2, paragraph 1(c).

26. In order to scale up climate-resilient finance flows, participants considered it essential to evolve current financial practices, which are often based on the assessment and management of physical climate risks, and complement them with proactive approaches for scaling up investment in adaptation and financing the reduction of physical climate risks and resilience-building measures at the project and systemic level. Examples of such approaches include setting adaptation finance targets in the public and private sector, adopting climate-resilient debt clauses, developing blueprints for climate-resilience finance and applying international and national classification systems or taxonomies, as well as approaches relating to the formulation and financing of NAPs. Some participants highlighted the importance of ensuring that financial risk management approaches to climate change avoid placing undue burden on, and restricting access to finance for, the geographical regions, countries, sectors and communities most exposed and vulnerable to physical climate change impacts, including SIDS and the LDCs. Furthermore, some participants highlighted that implementation of Article 2, paragraph 1(c), should facilitate fair and just transitions in developing countries for climate-resilient and low-emission pathways.

27. In this context, participants discussed the roles and responsibilities of public and private finance actors at the domestic and international level in terms of enabling investment in adaptation and resilience. Some stressed the importance of international, public and grant-based or concessional finance for adaptation action in developing countries, and of public adaptation finance in the context of developing countries that are particularly vulnerable to the adverse effects of climate change, where private sector involvement is limited owing to limited market size, limited development of the economic and financial sectors, high transaction costs and high costs of capital. Some participants also highlighted the role of enabling policy frameworks, clear climate targets and financing plans, pipelines of available projects and strengthened local financial markets, as well as capacity-building initiatives, in incentivizing greater private sector involvement in investing in resilience and improving risk–return profiles. Blended finance models, guarantees and public–private partnerships involving Governments, bilateral and multilateral development banks and agencies, private financial institutions, companies, philanthropic organizations and retail investors were discussed in terms of their potential use in scaling up investment in adaptation. However, participants also noted the importance of equitably sharing the financial risks and benefits of investments between private and public actors, and of focusing on local impacts and inclusivity for underserved and the most vulnerable communities and populations.

28. Finally, some reported that insurance schemes can play a key role in enhancing adaptation and resilience-building efforts. In the context of more frequent and severe climate impacts, the insurance protection gap, the affordability of insurance premiums for Governments, businesses and individuals, and the sustainability of the insurance sector's business models were mentioned as key concerns by many participants. Some called for innovative solutions for improving public and private sector risk-sharing and for increased international support for enhancing access to insurance and improving affordability of premiums, and others pointed to the urgency of scaling up the volume of investment in

adaptation with a view to enhancing socioeconomic resilience to climate impacts, thus mitigating future insured and uninsured losses, including for minimizing and averting climate-induced loss and damage.

B. Linkages between Article 2, paragraph 1(c), of the Paris Agreement and broader sustainable development co-benefits and impacts

29. Participants highlighted that climate action and finance flows that are consistent with national and international climate goals provide important synergies for achieving socioeconomic priorities, including in relation to sustainable development pathways and the SDGs. It was also widely acknowledged that holistic approaches to implementing Article 2, paragraph 1(c), of the Paris Agreement that support sustainable development pathways must involve building on context-specific policy mixes, enabling frameworks and investment approaches that take into account national or sectoral circumstances and priorities and promote just transition approaches.

30. Participants also discussed how the benefits and impacts of implementing Article 2, paragraph 1(c), can vary depending on the time frame or geographical and sectoral development context. Some participants highlighted the short- and medium-term transitional risks faced by countries and regions in redirecting or shifting finance flows away from emission-intensive activities, removing subsidy schemes or instituting pricing and non-pricing mechanisms that may increase the price of goods and negatively impact the competitiveness of domestic industries, underlining the importance of integrating socioeconomic considerations in policy design, including for carbon pricing schemes and fossil fuel subsidy reforms. Others mentioned that the benefits of sustainable development often only materialize in the long run, which traditional investment models, which focus on short-term returns, often do not account for; this challenge may be particularly relevant to adaptation- and resilience-related investments and to broader public services, such as social protection and healthcare.

31. The workshops provided many examples of approaches to Article 2, paragraph 1(c), that integrate sustainable development considerations or are designed to support the achievement of SDGs, including the ‘SDG alignment’ and ‘Paris alignment’ approaches adopted by the International Development Finance Club and the MDBs respectively; SDG and climate budget tagging systems introduced by national ministries of finance; and the use of impact assessments and socioeconomic evaluations when introducing carbon pricing instruments at the national or sectoral level. With regard to transformational adaptation action that benefits wider societies, the Green Climate Fund and the International Monetary Fund support countries in mainstreaming physical climate risk assessments at project level and in macroeconomic and fiscal planning, and promote the introduction of climate-resilient debt clauses and risk buffers to create fiscal space for climate and developmental interventions against the backdrop of rising climate impacts.

32. Participants also presented a range of positive incentives and subsidies, regulations and pricing mechanisms instituted by Governments, as well as voluntary initiatives launched by financial institutions and non-financial companies, that address different sectoral or national concerns and involve different timelines for low-emission development pathways. Some participants suggested that more long-term, systemic and economy-wide cost-benefit considerations and impact analyses in the financial sector could increase finance flows for investment that benefits society.

33. Participants highlighted opportunities for orienting public and private finance towards collective climate goals and targets contained in NDCs and other climate plans, including by scaling up climate investments, and some also noted opportunities for addressing and reorienting public and private finance flows that are currently directed at emission-intensive activities, in particular in the energy sector, or that lead to maladaptation. While supporting the need to develop effective and impactful policies, some participants highlighted the need for a sector- and technology-neutral approach to implementing Article 2, paragraph 1(c). Some participants noted the need to anchor approaches to implementing Article 2, paragraph 1(c), more firmly within the provisions or principles of the Paris Agreement, including in

relation to sustainable development and poverty eradication, equity, common but differentiated responsibilities and respective capabilities in the light of different national circumstances.

34. In terms of how to maximize the sustainable development benefits of implementing Article 2, paragraph 1(c), many participants were in favour of Governments and policymakers taking a guiding role in developing frameworks, guidelines or criteria for identifying finance flows that are consistent with climate outcomes and that take into account socioeconomic or context-specific elements and enhance transparency and credibility of private sector action and investment. The role of enabling frameworks and public sector incentives for private finance was discussed widely by participants, with differing views on the extent to which private financing and voluntary initiatives are adequate in terms of scale and impact for achieving low-emission and climate-resilient development in all regions of the world.

35. With regard to ensuring inclusive development and growth, many participants noted the positive role of interministerial, regional and international coordination between Governments; coordination among public and private sector financial institutions; and stakeholder consultations in terms of informing the implementation of sustainable finance approaches and ensuring inclusive approaches at the national level that encompass potentially impacted communities and segments of society. It was noted that such coordination and consultation supports the sharing of experience and lessons learned and enables finance flows to be scaled up, including through greater replicability of financing models. However, the need to balance regional and international interoperability with context-specific considerations, such as national and sectoral priorities and circumstances, was highlighted. Some participants underscored the need for multilaterally coordinated and agreed action, particularly with regard to mitigating cross-border implications, in order to ensure safeguards and the mutual supportiveness of sustainable development approaches and approaches to the implementation of Article 2, paragraph 1(c).

C. Role of the international financial system and related actors in achieving the goal in Article 2, paragraph 1(c), of the Paris Agreement

36. The case studies and examples shared on the implementation of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement illustrated that a range of bottom-up, nationally tailored and context-specific policy measures and financing approaches are being implemented by Governments, and that private financial actors are developing methodologies that take into account regional, national or sectoral differences. Participants noted that there is a clear role for Parties and Governments in providing signals on the overall direction of the transition towards low-emission and climate-resilient economies to public and private financial actors, thereby informing their investment decisions, including by communicating and implementing nationally determined climate policies and targets. However, the link between national and international efforts to transform the international financial system, making it consistent with a pathway towards low-emission and climate-resilient development, was discussed at both workshops under all themes.

37. Scaling up public, private, domestic and international finance flows that are consistent with climate objectives was considered by most participants to be a critical enabler for achieving the mitigation and adaptation goals set out in Article 2, paragraph 1(a–b), of the Paris Agreement. However, participants acknowledged that, with their current profile, global finance flows are not sufficient to enable global climate goals to be collectively met, and there is a mismatch in the availability of capital in developed financial markets and financial centres, and the urgent need for climate investment in developing countries, in particular the most vulnerable. Furthermore, many participants noted that the rules and governance structures in the international financial system, which includes international financial institutions and MDBs, as well as bodies that guide private finance and cross-border capital flows, should be updated and made more inclusive with a view to improving how climate change impacts and the need to finance urgent climate action, in developing countries and through non-debt-creating financial instruments, are taken into account.

38. In this context, many participants noted the role of Parties in ensuring that ongoing global and regional discussions and initiatives for transforming the international financial system outside the United Nations climate change process consider the goals of the Paris Agreement in the context of sustainable development and poverty eradication. Some participants highlighted the role of work under the Sharm el-Sheikh dialogue and the potential future work and decisions of the CMA in guiding actions and efforts relevant to Article 2, paragraph 1(c), outside the United Nations climate process and in informing collective progress towards the goal set out therein.

39. Participants noted several gaps in the existing international financial architecture, but also opportunities within the financial system, in the context of enabling greater finance flows consistent with a pathway towards low GHG emissions and climate-resilient development.

40. Many participants highlighted the need to ensure that financial decision-making processes reward ambitious climate action by Parties, public entities and businesses, rather than constrain access to finance for climate action through barriers such as elevated debt levels, lower credit ratings, and a mismatch between perceived and actual risk, resulting in high costs of capital. Some participants also mentioned that international investment protection regimes in the energy sector can pose challenges to climate action, for example when restricting the phase-out of fossil fuels owing to long-term investment protection provisions that result in financial penalties for early phase-out measures, or when locking in renewable energy pricing and offtake agreements over a long period of time.

41. Many participants also highlighted that an equitable financial system that is consistent with climate goals should offer greater participation in financial markets and improved access to green transition and development finance from both public and commercial markets to all economic sectors and countries, including SIDS and the LDCs. In this context, participants also identified opportunities for more inclusive governance structures in the international financial system (see para. 38 above).

42. In line with the bottom-up approach to implementing the Paris Agreement, many participants identified opportunities for systematically ensuring that an acknowledgement of different starting points and financial, economic and social systems is embedded in public and private sector efforts related to Article 2, paragraph 1(c), including by applying context-specific pathways and scenarios for low-emission and climate-resilient development, differing expectations for transition timelines, and flexible policies and rules with regard to the economic activities and sectors that can be financed in the climate transition. Some participants argued that the management of international and cross-border flows should be firmly anchored in the Paris Agreement guiding principle of equity and common but differentiated responsibilities and respective capabilities in the light of different national circumstances and be anchored in the wider United Nations climate change process.

43. Many participants voiced concerns with regard to how climate-related physical and transition risks may affect sovereign and private sector credit ratings globally and particularly in developing countries, and, to mitigate this, suggested increasing the evidence base, fostering engagement with credit rating agencies on this topic, and developing internationally applicable safeguards to avoid negative spirals of climate, fiscal and macroeconomic vulnerability.

44. Some participants highlighted a need to exchange views on enhancing multilateral coordination and encourage countries to conduct impact assessments to address the cross-border effects of domestic climate, fiscal, financial and trade policies that are aimed at making finance flows consistent with climate goals, but may have adverse impacts in other jurisdictions, including for sustainable development and just transitions.

45. Participants recognized opportunities for internationally coordinated reform aimed at scaling up climate finance flows within and towards developing countries, with a focus on mobilizing and leveraging both public and private sector finance and using financial and prudential regulation in a targeted way. Examples of such opportunities included increasing the appetite among MDBs for risk-taking, increasing use of guarantees and other blended finance instruments for private sector participation in developing countries, facilitating the standardization and aggregation of climate-related projects in developing countries and amending prudential financial regulation to give institutional investors a greater role in

climate investments. Other suggestions related to increasing international cooperation, technical assistance and capacity-building with a view to developing liquid domestic financial markets and enhancing domestic resource mobilization, including by increasing tax collection and tackling the issue of illicit finance flows at the international level. Many participants also emphasized the importance of improving enabling environments for private sector investment in developing countries, including in relation to macroeconomic and fiscal policy, public governance and law enforcement. Others noted that developed countries' financial and fiscal policies and regulations should be coordinated at an international level with the aim of increasing finance flows towards developing country markets.

D. Complementarity with Article 9 of the Paris Agreement

46. Participants saw the provision and mobilization of climate finance to developing countries as an essential pillar for realizing pathways towards low-emission and climate-resilient development, and as such the workshops reaffirmed that the goal set out in Article 2, paragraph 1(c), of the Paris Agreement is complementary to, and no substitute for, Article 9 of the Paris Agreement, which remains essential for achieving mitigation and adaptation goals in developing countries.¹⁵

47. Many participants shared examples of how public international support provided and mobilized through bilateral and multilateral development finance institutions, climate funds or development agencies is aimed at the development of sustainable finance markets and sustainable finance methodologies and also supports increasing the flow of private finance for climate action within and towards developing countries. Such support, which focuses on technical assistance and institution- and capacity-building, among other things, was seen by many participants as essential for enabling developing countries to implement measures related to Article 2, paragraph 1(c). The lack of institutional and human capacity for adopting approaches to implementing Article 2, paragraph 1(c), in developing countries and the additional challenges associated with attracting international investment, creating liquid domestic financial markets and developing suitable financial instruments for smaller and less developed countries, particularly the LDCs and SIDS, were repeatedly underlined.

48. Despite acknowledging ongoing efforts related to providing and mobilizing climate finance, many participants pointed to the need to urgently scale up public international climate finance for developing countries commensurate with the evolving needs and priorities of those countries, and to support the financing of NDCs, NAPs and other national climate plans and policies. In the light of this need, many participants underlined the importance of adopting an ambitious new collective quantified goal on climate finance. Other participants highlighted the importance of using innovative financial instruments and formulating ambitious and investable NDCs, by 2025, to identify needs of developing countries, facilitate international participation in domestic climate spending and mobilize international public and private finance on a larger scale.

49. The workshops also revealed that public and private financial sector actors are increasingly coordinating their efforts with a view to ensuring that private finance approaches to implementing Article 2, paragraph 1(c), complement public investments and support measures. Examples of financing instruments and arrangements that combine commercial investments and public financial and policy support referred to during the workshops include country platforms, including just energy transition platforms and national adaptation finance road maps; guarantees and other blended finance instruments and vehicles; and impact investment. Support initiatives for shifting away from emission-intensive activities in the energy sector are accompanied by safeguards, investment and policy support with a view to enabling the phase-in of renewable energies, ensuring a just transition of the workforce and providing socioeconomic relief and welfare programmes.

50. Many participants noted that targeted reform of the international financial architecture could enhance the complementarity of Article 9 with Article 2, paragraph 1(c) (see para. 45 above). Participants identified opportunities for strengthening international coordination with

¹⁵ In accordance with decision [1/CMA.5](#), para. 90.

a view to mobilizing financial support and increasing the flow of capital towards developing countries, including in the areas of promoting guarantee solutions and local currency financing offering and increasing climate- and finance-related data infrastructure for developing country markets, which would reduce real and perceived investment risks; reforming MDB operations in a way that increases their capital base, risk appetite and capacity to mobilize private sector finance; increasing the focus of public and private financiers on climate impact and outcomes, including tracking thereof; and revising global prudential regulations for banks and institutional investors in a manner that facilitates climate investments in developing countries and in markets with lower investment credit ratings.

51. Participants acknowledged that, while the provision of technical assistance and capacity-building efforts have proven effective in some developing countries in terms of supporting the development of sustainable finance markets through green, sustainability-linked or social bonds, climate-relevant taxonomies, and SDG and climate budget tagging systems, the provision of dedicated support and the development of tailored methodologies could be further extended in many country contexts.

52. Participants noted that, in terms of ensuring complementarity between Article 2, paragraph 1(c), and Article 9, public sector financial and supervisory actors, particularly ministries of finance, play an important role. These public financial sector actors can ensure that the transition of global and national financial markets is linked with finance flows that are consistent with climate goals, and with international climate finance flows towards developing countries that include public financial support and means of implementation. Participants also noted the role of finance ministries of countries that provide climate finance in ensuring sufficient and predictable allocation of international public support. Ministries of finance in recipient countries were mentioned with regard to improving enabling environments and institutional capacities for sustainable finance markets that are able to attract and absorb additional capital from international public and private sources. The role of central banks and financial supervisors in setting financial and prudential standards for private financial actors, at the national and international level, which is to reduce existing barriers to increasing investment in activities consistent with climate goals, particularly in developing countries, and to facilitate greater levels of cross-border capital flows and blended finance transactions, was noted.

E. Transparency, tracking and credibility of efforts to achieve the goal in Article 2, paragraph 1(c), of the Paris Agreement

53. The workshops demonstrated that Governments and public and private sector financial actors use a range of tools and methodologies for ensuring transparency with regard to the consistency of finance flows with climate goals, including green and sustainable budget tagging and measurement and verification systems; voluntary or mandatory climate-related disclosure standards; sustainable finance taxonomies focused on green and/or transition activities; transition plans; third-party verified net zero targets; and climate risk stress testing and scenario analysis. International organizations and civil society organizations also publish assessments, using their own methodologies, of the extent to which the actions of financial institutions, including their associated finance flows, align with global climate policy goals. An observation made by participants was that, given the different actors and oversight mechanisms involved, private finance flows are more difficult to track and report compared with public finance flows.

54. Participants acknowledged that, although there is a range of approaches, the current level of information and the existing data infrastructure in the financial and real-economy sectors is not sufficient for assessing collective progress in making finance flows consistent with the goals of the Paris Agreement. Some participants highlighted that this led to difficulties for Parties in comprehensively assessing collective progress towards implementing Article 2, paragraph 1(c), during the first global stocktake. Some noted that, nevertheless, current global finance flows are not consistent with the 1.5 °C temperature goal and that significant investment in emission-intensive or maladaptive activities continues to be made in the private and public sector.

55. Participants also noted that available methodologies and tools for tracking and assessing the consistency of finance flows with low GHG emission pathways are significantly more advanced than those for climate-resilience pathways, particularly in the private financial sector. Financial supervisors and financial institutions use physical climate risk scenarios to assess the risk exposure of investments. In addition, some participants noted that there is little understanding of how finance flows actively contribute to resilience-building; few disclosures are available on adaptation and resilience-building action taken, and, compared with methodologies for determining low-emission pathways, there is less clarity on what could be used as reference points for climate-resilience pathways and policy goals at the global and national level.

56. Some participants were of the view that ensuring transparency and credibility of efforts to implement Article 2, paragraph 1(c), is important for ensuring a fair, equitable and orderly transition to low GHG emissions and climate-resilient development that is context-specific and nationally appropriate. The emerging landscape of national and global climate disclosure standards in the financial and real-economy sectors was seen by some as a helpful step towards enhancing information on climate-related risks and opportunities and improving comparability through the use of common metrics, thereby avoiding market fragmentation and facilitating cross-border finance flows towards credible green investments, including in developing countries. Governments, financial supervisors, private financial institutions and real-economy businesses are developing sustainable finance taxonomies and transition plan frameworks with a view to setting credible standards and providing information on how financing and investment contribute to a low-carbon and climate-resilient transition. With regard to these transparency and disclosure frameworks, participants noted the importance of balancing international comparability with context-specific approaches with a view to tailoring climate-related expectations according to regional and national transition pathways, the individual characteristics of structural economic profiles, and the size, capacity and developmental levels of actors in a given jurisdiction.

57. Discussions also addressed the role of safeguards for equitable and nationally appropriate transitions and sustainable development in devising transparency and credibility frameworks related to Article 2, paragraph 1(c). Examples and case studies shared in the workshops provided evidence of how existing frameworks take into account different starting points for regions, countries and economic sectors, including by applying regional, national or sectoral emissions scenarios; factoring in national climate goals as expressed in NDCs, NAPs and other plans; and using different timelines, exclusion policies or phase-in provisions when determining credible climate action. Moreover, a few frameworks used by public and private sector financial institutions actively support the managed and orderly phase-out of emission-intensive activities, taking into account the regional or national context and just transition considerations.

58. Participants noted various principles and overarching considerations related to ensuring transparent and credible implementation of Article 2, paragraph 1(c). Some principles that participants noted include applying the best available science, global climate goals and international standards and norms, as well as nationally determined pathways and climate policies; the principle of equity and common but differentiated responsibilities and respective capabilities in the light of different national circumstances; and fostering just transitions. In addition, many participants noted that credible implementation of Article 2, paragraph 1(c), and assessment of progress towards the goal also involves addressing finance flows that are not consistent with pathways to low GHG emissions and climate-resilient development.

59. Some participants noted that, in terms of facilitating credible action that is aligned with the principles and provisions of the Paris Agreement, the CMA has a role in ensuring that efforts to implement Article 2, paragraph 1(c), especially by private sector actors, are based on science and national contexts, which will prevent greenwashing and maladaptation, and consider national circumstances and different economic and institutional capacities. Some participants highlighted the potential role, within the United Nations climate change process, of the enhanced transparency framework under the Paris Agreement for Parties' reporting on Article 2, paragraph 1(c), and of the Standing Committee on Finance for

enhancing transparency with regard to the consistency of public and private finance flows with pathways towards low GHG emissions and climate-resilient development.

60. Many participants highlighted the need to improve understanding of how the increasing use of climate-related transparency and disclosure practices may negatively affect the financial solvability and creditworthiness of sovereign and private financial institutions, including in developing countries. Many shared concerns that cascading climate risks and associated disclosures of climate risk exposure by Governments and private actors, especially in developing countries, could further restrict access to international and commercial financial markets through credit rating downgrades and heightened risk perceptions, which may lead to an increase in the cost of capital. These concerns were pronounced for all developing countries, including those that are particularly vulnerable to climate change and have low domestic economic and institutional capacities, and for small and medium-sized enterprises, households and the insurance sector in general (from the perspective of both the insurer and the insurance taker), particularly in SIDS and the LDCs.

F. Cross-cutting and other considerations

61. The workshop discussions indicated that many actors involved in efforts related to implementing Article 2, paragraph 1(c), of the Paris Agreement are not Parties to the Paris Agreement (see para. 20 above). Actors represented or discussed at the workshops include national Governments, including ministries of finance, climate, economy, taxation and other sectors; subnational governments, including for cities and municipalities; central banks, financial supervisors and regulatory authorities; public development finance institutions and MDBs; sovereign wealth funds; state-owned enterprises; private financial institutions and service providers, including banks, institutional investors and pension funds; (re-)insurers; impact investors; asset managers; credit rating agencies; environmental, social and governance rating providers; real-economy businesses; industry and trade associations; microenterprises and small- and medium-sized enterprises; households; industry-led global standard-setting bodies or target-setting initiatives; international organizations and United Nations agencies; international financial institutions; multilateral climate funds; international cooperation and knowledge-sharing networks of MDBs, development finance institutions, and central banks and finance ministries; and multilateral decision-making forums for Governments, such as the Group of 20 and the World Trade Organization.

62. Given the range of actors involved in making finance flows consistent with climate goals, participants frequently highlighted the need to improve understanding of the role of the CMA in guiding actors outside of the Paris Agreement in their efforts to achieve the goal in Article 2, paragraph 1(c), and the need to clarify the roles and responsibilities of public and private sector actors that are not Parties to the Agreement in implementing Article 2, paragraph 1(c).

63. As many participants allocated a leading role to Governments and policymaking processes in guiding public and private sector actors in efforts to implement Article 2, paragraph 1(c), and its complementarity with Article 9, many participants noted the important role of ministries of finance in directing finance flows towards climate outcomes in a nationally determined manner. Many participants noted that ministries of finance are in a position to coordinate financial, economic and other policy responses for implementing Article 2, paragraph 1(c), across government ministries, can lead the development of national financing strategies for NDCs and NAPs, and can ensure, in collaboration with financial supervisory authorities, that the actions of public and private financial sector actors are transparent, credible and consistent with national and global climate goals.

64. However, many participants also noted that approaches to implementing Article 2, paragraph 1(c), can benefit from a combination of policy-led, market-shaping strategies, and voluntary or principle-based approaches, which enables the financial industry and private sector actors to adjust methodologies and approaches according to the regional, national or sectoral context, and allows approaches to be developed in an iterative, incremental manner.

65. Many participants from the private and public financial sector, including representatives of financial institutions, expressed the view that aligning finance flows with

climate objectives requires action not only within the financial sector, but also action by Governments, in terms of developing ambitious climate targets and implementing climate and sectoral policies, and by real-economy businesses, in terms of implementing emission-reduction and resilience-building measures. Some noted that a disconnect between climate-related expectations and target-setting for the financial sector, on the one hand, and national or real-economy climate action, on the other, could lead to undesirable impacts, such as portfolio divestment in the geographical regions or sectors with the greatest physical or transition risks.

G. Stocktake of the Sharm el-Sheikh dialogue in 2024 and outlook for 2025

66. During the last session of the second workshop in 2024, participants shared a range of views on the main takeaways and lessons learned from the Sharm el-Sheikh dialogue in 2024, and on issues to be further addressed under the dialogue in 2025.

67. With regard to organization and format:

(a) Participants extended appreciation to the co-chairs of the dialogue for their able steering and organization of the dialogue, including the workshops in 2024;

(b) Most participants noted with appreciation the format of the workshops in 2024, which focused on the interactive exchange of examples, case studies and best practices regarding the implementation of Article 2, paragraph 1(c), of the Paris Agreement and its complementarity with Article 9, provided by a range of countries, regional and international organizations, and financial sector and civil society stakeholders;

(c) Some participants noted that the level of technical detail of the discussions at the workshops led to challenges for some Party delegates in meaningfully engaging in the discussions and suggested enhancing future opportunities for the participation of financial sector experts in the workshops, including from ministries of finance. In addition, some participants encouraged the co-chairs to increase the number of country-level presentations at the workshops, aimed at representing the perspectives of developing countries with less developed financial markets, including the LDCs and SIDS.

68. With regard to issues to be further addressed under the dialogue in 2025:

(a) Most participants highlighted the need to further address the critical but underexplored role of adaptation and climate resilience in public and private sector efforts towards achieving the goal in Article 2, paragraph 1(c), of the Paris Agreement. Some participants noted that an increased focus on making finance flows consistent with a pathway towards climate-resilient development will also contribute to making Article 2, paragraph 1(c), more relevant in the context of countries and regions that have low-emission profiles but are highly vulnerable to climate change impacts;

(b) Reflecting on the context-specific and bottom-up manner in which countries are responding to implement the goal in Article 2, paragraph 1(c), of the Paris Agreement, many participants noted a further need to address how public and private sector approaches to implementing Article 2, paragraph 1(c), can better take into account different starting points and nationally appropriate pathways, as well as just transition considerations;

(c) Many participants suggested that the dialogue should continue to focus on scaling up financial flows to be consistent with a pathway towards low-emission and climate-resilient development, as well as on increasing the demand for finance, with a view to redirecting financial flows where they are considered not consistent with climate objectives, and improving domestic and international enabling environments for public and private investment;

(d) Some participants suggested a further focus on developing and increasing the use of transparent and credible transition plans in the private sector;

(e) Some participants recognized the importance of the transparency and credibility of collective progress towards achieving the goal in Article 2, paragraph 1(c), of

the Paris Agreement and suggested a further focus on how to improve such transparency and credibility and how to effectively track public and private finance flows;

(f) In the light of the numerous actors outside the UNFCCC process engaging in fostering a sustainable financial system, many participants noted that further discussions under the dialogue and by Parties are required on the role of the CMA in sending overarching signals and guiding public and private sector responses in relation to the implementation of Article 2, paragraph 1(c);

(g) Many participants highlighted a further need to explore the linkages between Article 2, paragraph 1(c), of the Paris Agreement and the international financial system. Some participants suggested focusing on issues such as addressing the cost of capital, debt levels and fiscal space in developing countries, facilitating cross-border capital flows, using innovative sources of climate finance, reducing illicit financial flows, implementing global reforms to investment protection regimes that do not support climate action, and avoiding adverse impacts of unilateral financial, economic or trade measures implemented in other jurisdictions;

(h) Many participants noted important opportunities for enhancing discussions on international capacity-building and technical assistance for the development of sustainable financial systems in all countries and regions, with a particular focus on developing countries, including the LDCs and SIDS, as well as the need to explore measures for achieving the goal in Article 2, paragraph 1(c), of the Paris Agreement that seek to include small businesses and underserved segments of society. A few participants proposed a work programme under the CMA dedicated to capacity-building and technical assistance for implementing Article 2, paragraph 1(c).
