The Sharm el-Sheikh Dialogue on Article 2.1(c)

Submission to the UNFCCC

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A. Summary

1. The Sharm el-Sheikh Dialogue on Article 2.1(c) of the Paris Agreement and its complementarity with Article 9 of the Paris Agreement (***SeSD***) aims to play a significant role in the transformation of the global financial system.

2. Though steadily increasing, global climate finance flows remain critically insufficient compared to the needs of developing countries. Multiple bodies, including the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (***CMA***)[1] and the Independent High-Level Expert Group (***IHLEG***) on Climate Finance,[2] estimate climate investment needs to be in the trillions annually before 2030.

3. Parties have agreed to continue the SeSD with two meetings annually until 2025. However the dialogue could be strengthened beyond enhancing understanding between Parties towards the operationalization of Article 2.1(c).

4. A common understanding on pivotal elements of Article 2.1(c) have thus far eluded Parties. This could usefully be addressed in order to advance discussion within the SeSD.

Questions for consideration

- What conditions are necessary for progress on Article 2.1(c)?
- Why have discussions on Article 2.1(c) been so controversial and advanced so slowly?
- What could a common understanding of Article 2.1(c) look like?
- How can progress towards achieving Article 2.1(c) be tracked?
- What is the broader evolution of the SeSD? What would it produce?

B. Introduction and context

5. Though the latest Biannual Assessment by the Standing Committee on Finance (***SCF***) estimates that global climate finance flows reached U.S. $803 billion in 2019–20, the report found that this represents only one-third of the annual investment needed in developing countries for global temperature rise to stay within a well below 2 degree C or a 1.5 degree C pathway.[3]

6. By comparison, the UAE Consensus acknowledged that U.S. $5.8–5.9 trillion is needed to implement developing country Party nationally determined contributions (***NDCs***) in the pre-2030 period,[4] and IHLEG on Climate Finance goes further and estimates a need of U.S. $2.4 trillion annually by 2030 for climate-related initiatives in emerging markets and developing countries.[5]

7. The collective level of public finance flows from developed countries to developing countries currently amounts to some U.S. $40.1 billion annually.[6] Given this, it is clear that the collective ambition of NDCs cannot be realized with public finance from developed countries alone. Much more climate finance for developing countries will need to come from other sources, even if the public finance target under the new collective quantified goal (***NCQG***) were to be significantly increased.

8. The importance of reaching positive outcomes this year for both NCQG and signals to the private sector cannot be stressed enough. The Sharm el-Sheikh Implementation Plan created the SeSD, which, alongside the NCQG process, could play a vital role in identifying and seeking to mobilize climate finance at the scale needed.

9. Initiatives to align financial flows with the goals of the Paris Agreement and assess broader climate consistency of finance are already underway, particularly within the multilateral development banks (***MDBs***)[7] and private sector.[8] However, the multilateral process does not have clear oversight of these efforts, outside of calls to shareholders of MDBs and international financial institutions in negotiated outcomes.[9]

10. Parties seem to lack a common understanding on the context and meaning of Article 2.1(c) and, in the context of the SeSD, risk talking past one another. Honest and frank discussions are needed to hear all perspectives, understand concerns and find a way forward.

11. Underlying trust issues remain regarding the future availability and scale of public finance from developed countries. Assurances could usefully be given that making progress on operationalizing Article 2.1(c) would not supplant finance obligations under Article 9 or impose requirements on developing country Parties.

C. Key mandates and activity under the Sharm el-Sheikh Dialogue

12. At COP21, Parties adopted the Paris Agreement and acknowledged its objectives, including under Article 2.1(c) in "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[10]

13. At COP27, Parties decided to launch the SeSD to enhance understanding of the scope of Article 2.1(c) of the Paris Agreement and its complementarity with Article 9.[11]
    - In 2023, two SeSD workshops were held, culminating in a report prepared by the Secretariat under the guidance of the COP27 Presidency.[12]
    - Key recommendations from the 2023 SeSD report[13] include: (i) the need to develop a common understanding of the scope and implementation of Article 2.1(c); (ii) acknowledgement of the

need to implement Article 2.1(c) in a manner that fosters international cooperation; (iii) an invitation to the CMA to continue the SeSD.

14. At COP28, Parties agreed to "continue and strengthen" the SeSD for two years in order to exchange views on and enhance understanding of the scope of Article 2.1(c) and its complementarity with Article 9, including "with regard to the operationalization and implementation of Article 2.1(c)."[14] The decision mandates:[15]

    - the appointment of two co-chairs, one from a developed country and one from a developing country;
    - the extension of the SeSD through 2025, with workshops to be organized by the Secretariat at least twice annually under the guidance of the co-chairs;
    - summary reports on each workshop;
    - annual reports for consideration by the CMA, including a synthesis of all work undertaken by the SeSD with a view to CMA7 deciding on a way forward.

15. Parties were invited to submit their views on the issues to be addressed during the workshops via the submission portal by 31 March 2024.[16]

D. Areas for discussion

16. For the SeSD to fully operationalize Article 2.1(c), several pivotal elements that have thus far hindered understanding between Parties could usefully be addressed:

    - Should a broader evolution of the SeSD be considered in addition to the mandate to enhance understanding of Article 2.1(c)? This might include objectives such as a negotiated outcome on the SeSD proceedings, concurrence on methodologies, or taxonomies for the purpose of tracking progress on the alignment of finance flows.
    - Given the whole of government approaches needed to operationalize policies in line with possible SeSD outcomes, would it be prudent to extend and define a role for other Party actors—namely ministries of finance—to be involved in SeSD workshops?
    - How can the SeSD address uncertainties and trade-offs around domestic economic shifts anticipated to align finance flows with the Paris Agreement? In order to move forward SeSD discussions productively, these barriers must be addressed.
    - Given that domestic conditions are instrumental to shifting finance flows into the trillions, how might the SeSD highlight best practice?
    - The significant shift needed in global climate finance flows, in particular to developing countries, is a critical barrier to climate ambition and implementation. Assessments from the IHLEG,[17] Glasgow Financial Alliance for Net Zero (GFANZ),[18] United Nations Environment Programme Financial Initiative,[19] and many other institutions have found a persistent misalignment in financial flows with respect to the Paris Agreement's goals.
    - It will be essential for Parties to further catalogue barriers that might keep financial flows from shifting to developing countries. Some challenges are well documented, for example the limited public fiscal space of some countries given high levels of sovereign debt. Others might include the predictability of private flows.
    - Would normative signals from other fora (e.g. G20 or G7) to increase international finance flows aligned with low greenhouse gas emissions and climate-resilient development to developing countries boost confidence?

[1] Decision -/CMA.5, para 67. https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf
[2] IHLEG on Climate Finance, "A climate finance framework". (November 2023). https://www.lse.ac.uk/grantham institute/publication/a-climate-finance-framework-decisive-action-to-deliver-on-the-paris-agreement-summary/
[3] UNFCCC Standing Committee on Finance, "Fifth Biannual Assessment and Overview of Climate Finance Flows." (2022) https://unfccc.int/sites/default/files/resource/J0156_UNFCCC%20BA5%202022%20Summary_Web_AW.pdf
[4] Decision -/CMA.5, para 67. https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf
[5] IHLEG on Climate Finance, "A climate finance framework". (November 2023). https://www.lse.ac.uk/grantham institute/publication/a-climate-finance-framework-decisive-action-to-deliver-on-the-paris-agreement-summary/
[6] UNFCCC SCF Fifth Biannual Assessment (2022), above
[7] World Bank. "Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment." (June 2023). https://www.worldbank.org/en/publication/paris-alignment/joint-mdb-paris-alignment-approach
[8] For example, private sector risk disclosure frameworks put forward by the Task Force on Climate-Related Financial Disclosures (TCFD) (as provided in https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf) or guidelines for financial institutions created by the Glasgow Financial Alliance for Net Zero (GFANZ) (as provided in https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf)
[9] Decision 1/CP.26, para 14, 28. https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf
Decision 1/CP.27, para 37-38. https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf
Decision -/CMA.5, para 83, 95. https://unfccc.int/sites/default/files/resource/cma2023_L17_adv.pdf
[10] UNFCCC, Paris Agreement. https://unfccc.int/sites/default/files/english_paris_agreement.pdf
[11] Decision 1/CMA.4, para 68. https://unfccc.int/sites/default/files/resource/cma2022_10_a01E.pdf
[12] UNFCCC, Revised report by the secretariat, Sharm el-Sheikh dialogue (November 2023). https://unfccc.int/sites/default/files/resource/cma2023_07r01.pdf
[13] Ibid.
[14] Decision -/CMA.5, para 8. Matters relating to the Standing Committee on Finance. https://unfccc.int/sites/default/files/resource/cma5_auv_10a_scf.pdf
[15] Ibid, para 6-14.
[16] Ibid, para 11.
[17] IHLEG on Climate Finance, Finance for climate action (November 2022). https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/11/IHLEG-Finance-for-Climate-Action-1.pdf
[18] GFANZ, 2023 Progress Report (December 2023). https://assets.bbhub.io/company/sites/63/2023/11/GFANZ-2023-Progress-Report.pdf
[19] UNEP FI, State of Finance for Nature 2023. (December 2023). https://www.unep.org/resources/state-finance-nature-2023