Submission by Poland and the European Commission on behalf of the European Union and its Member States

Warsaw, 28/02/2025

Subject: Sharm el-Sheikh dialogue 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

The EU and its Member States welcome the opportunity to submit views on the issues to be addressed during the workshops to be held in 2025 under the strengthened Sharm el-Sheikh dialogue (SeS-D) 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, including with regard to the operationalization and implementation of Article 2, paragraph 1(c).

Considering paragraph 14 of decision 9/CMA.5, aiming at meaningful deliberations at CMA.7 on the way forward on this matter at the end of 2025, the EU suggests focusing this year on:

1. topics relevant to the operationalization and implementation of Article 2, paragraph 1(c) of the Paris Agreement that were not adequately addressed under the SeS-D in 2023 and 2024;

Approaches to achieving Article 2, paragraph 1(c), of the Paris Agreement, including potential guidelines and implementation strategies.

Introduction:

The dialogues in 2024 demonstrated that significant efforts are already underway to implement Article 2, paragraph 1(c), of the Paris Agreement, involving a wide range of public and private, national, and international actors across the economy. Building on the discussions from 2023, the workshops in 2024 provided a valuable platform for Parties and stakeholders within the UNFCCC process to share best practices and approaches.

The workshops highlighted:

1. A growing number of developed and developing countries are implementing policies to achieve Article 2, paragraph 1(c), by establishing frameworks that incentivize private-sector engagement in aligning financial flows with the Paris Agreement goals.
2. Increasing interest from both public and private financial sectors (including end consumers) in investing in financial markets that align with the objectives of the Paris Agreement.

The Sixth Biennial Assessment and overview of climate finance flows (6th BA) of the Standing Committee on Finance highlights the varying interpretations and approaches towards achieving Article 2, paragraph 1(c). Issues arise from diverse finance actors influencing financial flows, varying national priorities, and different understandings of key terms. Significant challenges include data and methodological gaps, fragmented governance frameworks, and high transition costs, particularly in developing countries. Concerns about greenwashing persist due to inconsistent tracking and monitoring methods.

The 6th BA highlights the role of:

1. **Public Sector Initiatives and Policies.** Over 100 jurisdictions implemented climate-related financial policies between 2021-2022, a 40% increase from 2020. These include fiscal policies, subsidies, investment incentives, and regulations from governments, central banks, and financial regulators. Governments are using fiscal policies, public expenditure, carbon pricing, and sustainable finance roadmaps to channel climate-consistent finance flows. **Carbon pricing instruments**, mainly in North America and Europe, raised USD 95 billion globally in 2022, with 40% earmarked for green spending. The EU Emissions Trading System alone contributed 44% of global carbon pricing revenues. Where implemented, domestic carbon pricing instruments have incentivized low-cost emission reduction measures, but have been less effective, on their own and at prevailing prices, at promoting higher cost measures necessary for further reductions. An increasing number of governments have recognized carbon pricing as an effective method for integrating the costs of climate change into economic decision-making, thereby encouraging climate action.

2. **Private Sector Engagement and Finance Flows**. Private sector engagement is growing through climate risk disclosures, net zero commitments, transition plans, and sustainable finance principles. There is a shift towards actual transition and implementation planning. However, private sector actions mainly focus on mitigation, with adaptation and resilience measures still underdeveloped. Diverse methodologies exist within the private sector, differing in ambition, timelines, sectoral coverage, and integration of adaptation or resilience. Financial sector alliances, target-setting initiatives, and guidance documents are emerging to improve interoperability of climate finance approaches.

3. **Global Finance Initiatives and Trends.** Domestic and international finance initiatives have expanded geographically, covering 151 countries by 2024. Private initiatives remain concentrated in Europe and North America, with growing engagement in Asia. Public Development Finance Institutions (DFIs) are increasingly aligning efforts with the Paris Agreement, and international public finance is evolving towards more sustainable and equitable outcomes. International private finance initiatives continue to grow, with a focus on capacity building, climate commitments, and implementation methodologies.

4. **Regional and Sectoral Elements.** Public and private initiatives are present in all regions but are concentrated in Europe and North America. There is an increasing call for global cooperation, but also a demand for regionally and nationally appropriate

approaches, emphasizing the need for social sciences and equity perspectives. The complexity and interconnectedness of finance flows require international interoperability, but tailored approaches are necessary for different regions and sectors.

A shift from high-level commitments to concrete transition and implementation planning is observed, with a focus on mitigation. There is a growing focus on transition finance and pathways, with increased attention from financial sector actors.

However, progress towards aligning finance flows with the Paris Agreement's goals is slow and uneven across regions and sectors.

Continued efforts from both public and private sector actors is needed to close the gap between commitments and implementation.

There is a need for harmonized methodologies, global cooperation, and context-specific approaches to effectively implement Article 2, paragraph 1(c).

The Road Ahead in 2025

2025 is a pivotal moment to advance this exchange of views by developing an outcome report with operational input for the CMA, ensuring meaningful deliberations on the way forward. The two workshops mandated for 2025 will be critical to maximizing the impact of the two-year strengthened SeS-D, by deepening understanding of Article 2, paragraph 1(c), among Parties and stakeholders.

These workshops should continue to be conducted in an open, inclusive, and transparent manner, encouraging and facilitating action by Parties to implement Article 2, paragraph 1(c), according to national circumstances. The goal is to achieve a **substantive outcome at CMA7, including a clear pathway for further work on Article 2, paragraph 1(c) under the CMA**.

Further, the EU expects this workstream to support the development of the relevant work under the IPCC AR7 by Working Groups II and III.

Relevant topics for the workshops in 2025

The EU looks forward to a productive exchange of views in 2025 aiming at a concrete outcome for further work on Article 2, paragraph 1(c) from the two-years strengthened SeS-D. To achieve this, discussions should focus on the following key topics:

1. **Domestic practices (public and private), to re-orient domestic and attract international finance towards low greenhouse gas emissions and climate-resilient development pathways.**

Domestic financial resources constitute the majority of global funding available for implementing the Convention and the Paris Agreement. In the context of Article 2.1(c), Parties and actors should further exchange views on aligning domestic public and private finance flows with low-GHG and climate-resilient development pathways. Discussions should include:

a. domestic actions, policies and measures, and national planning tools (climate investment plans, green budgeting exercises, etc.) to reduce incentives and investments misaligned with low GHG emissions and climate-resilient development pathways, including advancing global effort to phase out fossil fuel subsidies that do not address energy poverty or just transition, as soon as possible; regional and subnational implementation approaches to identify possibilities for action at lower government level;

b. Policy innovation, learning, and diffusion; as well as financing for innovation and for national and sectoral transitions;

c. Policy packages that address coordination and consistency, sequencing of actions, and approaches for progressively increasing ambition and action.

2. Addressing the barriers to climate investment, with a focus on enabling environments and challenges faced by developing countries.

During last year's workshops, participants emphasized the need to further explore the relationship 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, facilitation of cross-border capital flows, and the use of innovative climate finance sources. The EU proposes that in 2025 workshops provide a dedicated space for discussing these barriers and identifying solutions to enhance financial flows toward climate action. This includes identifying suitable processes, fora and institutions outside the UNFCCC that aim to and are in a position to tackle these barriers, incl. international initiatives that target financial reform. There is a need to systematize and deepen the understanding of relevant international initiatives aimed at reforming the global financial landscape, including transnational efforts and those led by the G20. The Dialogue should further explore key takeaways and recommendations from processes outside the UNFCCC related to Article 2.1(c) and assess how they can inform implementation within the UNFCCC process.

3. Capacity building for the implementation of Article 2.1(c).

Capacity-building efforts at multiple levels of government are necessary in developing countries to achieve the objectives of Article 2.1(c) of the Paris Agreement. Therefore, identifying specific capacity building needs will be essential to effectively enhance and align financial flows with the goals of the Paris Agreement.

4. **The role of transition plans to net-zero in pursuing the consistency of finance flows with low GHG emissions pathways in the context of just transitions**

Promoting transparent and credible transition planning to net-zero, both within the public and private sector, plays a crucial role in ensuring that financial flows are consistent with pathways toward low greenhouse gas (GHG) emissions. The Dialogue should delve into the possibility of underpinning transition plans and country platforms for achieving NDCs, NAPs and LTS commitments with effective investment strategies, which consider the context-specific needs and priorities of countries, regions, sectors, and communities—particularly the most vulnerable— and "leave no one behind".

5. Transparency, reporting and tracking progress to ensure accountability on the implementation of Article 2.1(c).

The 2024 workshops have demonstrated that governments, and public and private sector financial actors use various tools and methodologies to ensure transparency regarding the consistency of finance flows with climate goals. However, the current level of information and the existing data infrastructure in the financial and real-economy sectors remain insufficient for assessing collective progress in making finance flows consistent with the goals of the Paris Agreement.

Key gaps include:

- The absence of a comprehensive reporting framework to systematically capture the fragmented landscape of initiatives on financial flows consistent with the Paris Agreement;
- The lack of an analytical model to define future financial needs and solutions to achieve Article 2.1(c), including risks and opportunity assessment at the country and sector-level, with unclear implications for the mitigation and adaption goals if Article 2.1(c) is not reached.
- The lack of frameworks and methodologies to assess the degree of implementation of Article 2.1(c) within a country.

Building on the work done in 2023 and 2024, as well as experiences shared and the principles outlined in the co-chairs 2024 report, the EU suggests that the discussions aim to produce **concrete input for CMA deliberations on transparency and tracking of financial flows contributing to the achievement of a low GHG emissions and climate-resilient development**, and of financial flows going against this objective.

Looking ahead to a meaningful contribution to the co-chairs' report for CMA.7, the final workshop in 2025 could also serve as an opportunity to take stock of progress and clarify what further actions are needed within the UNFCCC process to accelerate the implementation of Article 2.1(c).

Relevant stakeholders to involve

The EU emphasizes the importance of engaging a broad range of stakeholders in the dialogue on Article 2.1(c), including Parties, civil society organizations, multilateral institutions, MDBs and IFIs, regulators, supervisors of the financial markets, credit rating agencies and the private sector.

Some participants noted that the technical complexity of discussions in the workshops posed challenges for certain Party delegates in actively engaging. They suggested enhancing future opportunities for the participation of financial sector experts, including from the Ministries of finance, to improve the quality and inclusivity of discussions.

Specifically, the Coalition of Finance Ministers for Climate Action should be invited to contribute to the SeS-D considering the relevance of their work and sharing of best practices and knowledge for the implementation of Article 2.1c from a technical perspective.

Other processes to take into account in 2025

The EU suggests systematizing and enhancing the structured understanding of relevant international initiatives outside the UNFCCC process during the 2025 workshops. Key initiatives include:

- **The outcome of the G20 Task Force on a Global Mobilization against Climate Change in 2024**, an initiative under the 2024 G20 Brazilian Presidency;
- **The preparation of the Fourth International Conference on Financing for Development (FfD4)**, which represents a unique opportunity to advance financial reform at all levels, including efforts to reform the international financial architecture;
- The work of the **Coalition of Finance Ministers for Climate Action**, whose work and sharing of best practices is highly relevant to the SeS-D, considering the synergies with priorities in their 2025-26 Work Program