

# Submission on the organization of the Veredas Dialogue on the implementation of Article 2.1.c of the Paris Agreement and its complementarity with Article 9

## Index

1. Introduction	1
2. Guiding principles for the organization of the Veredas Dialogue	2
2.1 Article 2.1.c as an enabling means	2
2.2 Complementarity with Article 9 as a safeguard	2
2.3 National determination	3
2.4 Transparency and information accessibility	3
3. Key challenges that the Veredas Dialogue must address	4
3.1 The risk of alignment becoming a new form of conditionality	4
3.2 Structural asymmetries in the global financial system	4
3.3 Debt and fiscal space	7
3.4 Marginalization of adaptation in alignment discussions	8
4. Opportunities offered by the Veredas Dialogue	8
4.1 Building a shared political understanding of Article 2.1.c	8
4.2 Linking climate finance and financial system reform	9
4.3 Elevating developing country experiences	9
5. Thematic pillars for structuring the Veredas Dialogue	9
6. The role of indicators in the Veredas Dialogue	10
7. The Xingu Finance Talks as a political anchor	10
8. Conclusions	10

## 1. Introduction

The **Climate Finance Group for Latin America and the Caribbean (GFLAC)**, **Argentina 1.5**, **Climate Action Network América Latina (CANLA)**, **Instituto Talanoa** and **Asociación Ambiente y Sociedad**, as member organizations of the **Latin American and Caribbean Network for a Sustainable Financial System (REDFIS)**, welcome the establishment of the Veredas Dialogue on the implementation of Article 2.1.c of the Paris Agreement and its complementarity with Article 9.<sup>1</sup>

<sup>1</sup> Decision -/CMA.7 is available at:

From the perspective of REDFIS, the organization of the Veredas Dialogue will be decisive in determining whether Article 2.1.c becomes a constructive tool to enable climate-resilient and low-emission development pathways, or whether it is operationalized in ways that constrain policy space, exacerbate financial vulnerabilities, and undermine the legally binding obligations of developed countries under Article 9 of the Paris Agreement.

This submission focuses on how the Veredas Dialogue can be organized to effectively address the challenges and opportunities associated with Article 2.1.c, while reinforcing its complementarity with Article 9, in line with equity and the principle of common but differentiated responsibilities and respective capabilities (CBDR-RC).

## 2. Guiding principles for the organization of the Veredas Dialogue

### 2.1 Article 2.1.c as an enabling means

The Veredas Dialogue should be firmly grounded in the understanding that Article 2.1.c is a means to facilitate the collective achievement of the Paris Agreement’s long-term goals. Financial alignment should therefore be understood as instrumental in supporting mitigation, adaptation, and sustainable development, rather than as a stand-alone benchmark against which countries are assessed.

Discussions under the Dialogue should avoid technocratic or narrow financial interpretations of “alignment” that prioritize balance-sheet metrics, portfolio exposure, or investor preferences over real-economy outcomes, social inclusion, and resilience. In developing country contexts, alignment must also be assessed in relation to development needs, structural constraints, and historical inequalities, rather than abstract models of optimal capital allocation alone.

The Dialogue should also contribute to decoupling flow alignment from country risk metrics that do not account for the ecological debt accumulated by Annex I countries, thereby preventing credit risk models from becoming entry barriers to sustainable investments in the Global South.

The Veredas Dialogues should also consider how Article 2.1.c can promote and enable just transition pathways, in line with the Just Transition Work Programme decision adopted at COP30.

### 2.2 Complementarity with Article 9 as a safeguard

A core organizing principle of the Veredas Dialogue must be the reaffirmation that Article 2.1.c is complementary to, and cannot substitute for, the obligations of developed countries under Article 9 of the Paris Agreement. This safeguard, achieved through difficult negotiations in Belém, should guide both the substance and the modalities of the Dialogue.

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[https://unfccc.int/sites/default/files/resource/CMA7\\_10g\\_SeS%20Dialogue\\_AUV.pdf](https://unfccc.int/sites/default/files/resource/CMA7_10g_SeS%20Dialogue_AUV.pdf)

In practical terms, this implies that:

- Discussions on alignment should not be framed as alternatives to the provision of public climate finance.
- The mobilization of private finance should not be presented as a substitute for predictable, concessional, and grant-based public finance, particularly for adaptation.
- Alignment-related expectations should not be introduced as implicit or explicit conditionalities for access to climate finance.

In this regard, the Veredas Dialogue should also provide space to assess, in a structured and transparent manner, whether progress on Article 2.1.c is occurring alongside (and not instead of) measurable advances in the provision of financial resources under Article 9. Such assessment would enhance mutual trust among Parties and reinforce the integrity of the legal architecture of the Paris Agreement.

### **2.3 National determination**

Developing countries face highly differentiated circumstances, including varying levels of development, fiscal capacity, institutional maturity, and exposure to climate impacts. Alignment pathways must therefore be country-driven and context-specific.

While the promotion of standardized alignment frameworks or indicators might be an evident next step, insufficient flexibility risks undermining national ownership and eroding trust in the multilateral climate change regime (see section 6). Equity and just transition considerations should be systematically integrated into discussions, including through differentiated expectations and recognition of historical responsibility.

### **2.4 Transparency and information accessibility**

The effectiveness of the Veredas Dialogue will depend on transparent modalities, publicly accessible documentation, and the systematic disclosure of inputs and outcomes. Ensuring timely access to information, including submissions, technical papers, and summaries of discussions, is essential to allow Parties and observers to meaningfully assess progress and identify gaps. Transparency should therefore be embedded as a procedural safeguard that enhances legitimacy, inclusiveness, and accountability.

### 3. Key challenges that the Veredas Dialogue must address

#### 3.1 The risk of alignment becoming a new form of conditionality

One of the most significant risks identified during the Sharm el-Sheikh Dialogue (2023-2025), and repeatedly highlighted by developing countries during COP30, is the potential misuse of Article 2.1.c to introduce new forms of conditionality. These risks may arise through:

- Lending policies and risk frameworks of multilateral development banks (MDBs).
- Credit rating methodologies that penalize countries deemed “misaligned”.
- Trade-related or regulatory measures with extraterritorial impacts, particularly unilateral trade measures that invoke Article 2.1.c to justify protectionist practices, shifting the burden of transition onto developing countries without providing the technological or financial means necessary for alignment.

The Veredas Dialogue should explicitly examine these risks and promote a shared understanding that alignment efforts must be facilitative, non-punitive, and supportive. A dedicated space within the Dialogue should be reserved to discuss the real-world impacts of alignment-related policies on developing countries, without creating duplication with other processes -and therefore blockages-, such as the dialogues on trade and climate change established at Belém.

#### 3.2 Structural asymmetries in the global financial system

Alignment debates often overlook the deep asymmetries embedded in the international financial architecture. Developing countries, including those in Latin America and the Caribbean, face higher costs of capital, limited access to long-term concessional finance, and structural dependence on carbon-intensive sectors for fiscal revenues and employment.

The Veredas Dialogue should explicitly address how alignment can be pursued without exacerbating these asymmetries. This includes examining the responsibilities of developed countries in reforming international financial rules, the role of MDBs in reducing the cost of capital, and the need for coordinated action to address systemic barriers, particularly those related to access to finance.

##### **GFLAC’s Sustainable Finance Index**

The Sustainable Finance Index (SFI) is a tool developed by GFLAC and applied annually to monitor national and international revenues and expenditures related to climate change and sustainable development. It also enables the identification of resources that continue to be allocated to activities that hinder the transition toward low-carbon and climate-resilient economies, particularly those associated with fossil fuels and mining.

The SFI is applied to the 20 countries with the highest greenhouse gas emissions in Latin American and the Caribbean and is constructed based on four variables: sustainable revenues; carbon-intensive

revenues; sustainable budgets; and carbon-intensive budgets, which encompass different components of national and international public finances.

According to the SFI's 2025 results<sup>2</sup>, Latin America and the Caribbean have made moderate, yet still clearly insufficient, progress in the consolidation and alignment of their public finances with sustainability objectives. While some countries exhibit early signs of improvement in the mobilization and allocation of resources toward environmental and climate-related sectors, the region continues to be characterized by a strong dependence on carbon-intensive activities. This situation not only constrains countries' ability to transition toward low-carbon and climate-resilient economies, but also increases their macroeconomic vulnerability to the growing impacts of climate change and biodiversity loss.

The 2025 results also highlight the persistence of structural asymmetries in public financial flows. Revenues associated with carbon-intensive activities exceed sustainable revenues by a factor of eleven, while budgets allocated to carbon-intensive sectors are five times larger than those directed toward sustainable activities. In absolute terms, the 20 countries analyzed generated approximately USD 199.5 billion from extractive activities, compared to only USD 17.9 billion in sustainable revenues. On the expenditure side, governments allocated USD 71.3 billion to carbon-intensive sectors, in contrast to USD 13.1 billion directed toward sustainable activities.

Overall, the results indicate that the region faces persistent structural challenges, including reliance on external financial flows, the continued predominance of revenues linked to carbon-intensive sectors, and limited institutional capacity to consistently steer public finances toward sustainability. Although some progress has been observed, the region still has a long way to go to achieve a profound fiscal and financial transformation capable of supporting the transition toward low-carbon and climate-resilient economies, effectively complying with Article 2.1.c of the Paris Agreement.

#### **Subnational Sustainable Finance Index (SSFI) - Mexico**

The 2025 Subnational Sustainable Finance Index (SSFI) - Mexico<sup>3</sup>, also developed by GFLAC, highlights the magnitude of the challenge faced by Mexico's federal entities in transitioning toward more sustainable public finances. At the national level, the analysis of state revenues shows that in 2024, the 32 federal entities generated MXN 24.1 billion in sustainable revenues, compared to MXN 117.8 billion from carbon-intensive revenues, representing a ratio of nearly five to one in favor of the latter.

A similar pattern is observed in the budgetary component. Federal entities allocated MXN 30.3 billion to budgets classified as sustainable, while MXN 105.1 billion were directed toward carbon-intensive budgets. In relative terms, for every Mexican peso invested in sustainability, 3.4 pesos were channeled to sectors that contribute to environmental degradation and exacerbate the climate crisis.

<sup>2</sup> Available (in Spanish) at: <https://www.sustainablefinance4future.org/resultados-ifs-edici%C3%B3n-2025>

<sup>3</sup> Available (in Spanish) at:

[https://www.finanzasclimaticasmx.com/files/ugd/32948d\\_04adb394330345c29fd717485c7527a5.pdf](https://www.finanzasclimaticasmx.com/files/ugd/32948d_04adb394330345c29fd717485c7527a5.pdf)

The findings of the 2025 SSFI confirm that Mexico faces significant institutional, regulatory, and financial barriers to advancing the alignment established by Article 2.1.c of the Paris Agreement at the subnational level.

Moreover, the results are closely linked to the expectations surrounding Mexico's third Nationally Determined Contribution (NDC 3.0), which will need to more clearly articulate the urgency of reorienting public expenditure toward mitigation, adaptation, and biodiversity conservation actions, under a just and equitable transition framework.

In summary, the relevance of the 2025 SSFI for Mexico lies in the fact that this instrument not only enables an assessment of subnational sustainable finance performance, but also reveals the gap between climate commitments and the actual structure of public revenues and expenditures. Bridging this gap will be essential to consolidate more sustainable public finances, strengthen the integration of environmental and climate criteria into fiscal management, and move toward a more efficient, coherent, and responsible allocation of public resources.

### **Subnational Sustainable Finance Index (SSFI) - Brazil**

GFLAC also developed the Subnational Sustainable Finance Index (SSFI) – Brazil, which assesses the degree of alignment of revenues and expenditures of Brazil's 26 states and the Federal District with climate action and environmental sustainability, based on 2024 fiscal data. The results show that revenues from carbon-intensive sectors exceeded sustainable revenues by a factor of thirteen, totaling BRL 82.5 billion versus BRL 6.2 billion, respectively. Dependence on carbon-intensive activities is particularly significant in economically relevant states such as São Paulo and Rio de Janeiro, where revenues linked to fossil fuels and motorized transport play a central role in state fiscal structures.

On the expenditure side, states allocated approximately BRL 32.6 billion to carbon-intensive areas, compared to BRL 21.1 billion directed toward sustainable sectors, meaning that spending on carbon-intensive activities was about 1.5 times higher. This allocation pattern indicates that sustainability-related expenditures remain secondary when compared to traditional sectors that reinforce emission-intensive development models and contribute to environmental degradation.

The results of the SSFI Brazil indicate that, at the subnational level, the transition toward sustainable public finances faces significant structural challenges. Continued reliance on carbon-intensive revenues, combined with the limited prioritization of sustainable expenditures, constrains the capacity of states to effectively support national and international climate goals. As Brazil plays a prominent role in the international climate agenda and has advanced important federal-level climate policies, it is essential that subnational fiscal frameworks align with these commitments to enable the country to meet its climate targets.

In this context, the SSFI positions itself as a strategic tool for diagnosing, monitoring, and comparing subnational public finances, providing information that makes it possible to identify gaps, priorities, and fiscal prioritization pathways. By making financial flows and their degrees of alignment with climate action and sustainability visible, the index provides concrete evidence to support the formulation and

revision of public policies, strengthens climate fiscal governance, and supports the development of fiscal structures compatible with Article 2.1.c of the Paris Agreement, contributing to Brazil's more consistent progress toward a low-carbon and resilient economy.

Overall, the SFI results demonstrate that the inertia of the national budgetary systems incentivizes carbon-dependency. The Veredas Dialogue could therefore address the technical correction of these implicit subsidies that the global market grants to fossil sectors in the Global South due to the lack of concessional alternatives.

### 3.3 Debt and fiscal space

Debt sustainability has emerged as a central constraint on climate action in many developing countries. Climate investments -particularly for adaptation- are often financed through loans, contributing to rising debt burdens and shrinking fiscal space.

The Dialogue should therefore integrate debt considerations as a cross-cutting theme, including:

- The role of debt relief and restructuring in enabling alignment.
- The importance of grant-based finance for developing countries, particularly those most vulnerable, including supporting transition-related investments.

According to **GFLAC's SFI** –and based on data from the Organisation for Economic Co-operation and Development (OECD)-, in 2023 Latin America and the Caribbean received a total of USD 70.6 billion in development finance. Of this amount, USD 17.9 billion (25.45%) was allocated specifically to climate change and biodiversity-related initiatives, with USD 17.1 billion directed toward climate action and USD 817 million toward biodiversity protection.

The results indicate that, while international finance has become a key instrument for advancing fiscal and environmental sustainability in the region, its allocation remains uneven and predominantly oriented toward mitigation. Indeed, of total climate-related resources, USD 11.8 billion (65.82%) was allocated to mitigation actions, whereas only USD 5.3 billion (29.64%) was directed toward adaptation initiatives. This distribution highlights a structural gap in the regional climate finance architecture, whereby emissions reduction continues to be prioritized over resilience-building, despite Latin America and the Caribbean being among one of the most vulnerable regions to the impacts of climate change.

An additional key finding is the high dependence on loans as the primary source of international finance. In 2023, loans accounted for 92.1% of the total resources received, underscoring persistent constraints on access to non-reimbursable and highly concessional finance. This situation places additional fiscal pressure on countries with already limited fiscal space, constraining sustained investment in adaptation, ecosystem restoration, and energy transition.

The current structure of climate finance, in which adaptation is largely financed through loans, risks creating a self-reinforcing dynamic: as countries borrow to respond to climate impacts, debt pressures

increase and future climate finance becomes more expensive. In this context, efforts to align financial flows under Article 2.1.c may inadvertently constrain the capacity of developing countries to pursue resilient pathways. The Veredas Dialogue should therefore consider how debt sustainability can be integrated into alignment discussions, including through the incorporation of climate-resilient debt clauses in IFIs lending practices, ensuring that alignment remains facilitative and does not weaken the financial obligations established under Article 9 of the Paris Agreement.

Taken together, these findings reaffirm that the quality of finance is as important as its volume. For countries in Latin American and the Caribbean, strengthening access to concessional resources, improving transparency and traceability in their use, and ensuring a more balance allocation between mitigation and adaptation are critical steps toward achieving a just, fiscally sustainable transition aligned with Article 9.1 of the Paris Agreement, which establishes the provision of financial resources to developing countries.

### 3.4 Marginalization of adaptation in alignment discussions

In general terms, discussions on financial alignment have been skewed toward mitigation. The Veredas Dialogue should explicitly address this imbalance by ensuring that adaptation finance, resilience-building, and loss and damage considerations are central to its work.

In this context, the Veredas Dialogue should explicitly address the marginalization of adaptation by:

- Recognizing adaptation and resilience as central dimensions of financial alignment, rather than ancillary considerations.
- Ensuring that alignment-related frameworks, tools, and discussions do not disadvantage countries whose primary climate priority is adaptation.

## 4. Opportunities offered by the Veredas Dialogue

### 4.1 Building a shared political understanding of Article 2.1.c

The Veredas Dialogue offers a unique opportunity to consolidate a shared political understanding of Article 2.1.c that reflects the safeguards agreed in Belém. By fostering open and inclusive exchanges among Parties and non-Party stakeholders, the Dialogue can help prevent fragmentation and reduce the risk of unilateral interpretations, including those that could overlook the alignments' social and development dimensions.

## 4.2 Linking climate finance and financial system reform

The Dialogue can serve as a bridge between climate finance discussions under the UNFCCC and broader financial system reform processes, including MDB reform, debt architecture debates, international tax cooperation, and the outcomes of the Fourth International Conference on Financing for Development (FfD4), among others.

In particular, discussions could engage with issues such as cost of capital disparities, debt sustainability constraints, international tax cooperation, and reform of IFIs, positioning Article 2.1.c as a bridge between the UNFCCC and broader global economic governance debates.

## 4.3 Elevating developing country experiences

A key opportunity lies in systematically elevating experiences from developing countries, including national approaches to aligning public budgets, development banks, and fiscal policies with climate objectives, while safeguarding social and development priorities.

## 5. Thematic pillars for structuring the Veredas Dialogue

- **Public finance:** This pillar should focus on how predictable and adequate public finance enables developing countries to pursue alignment consistent with national priorities, with particular attention to the quality of finance and the needs of adaptation.
- **MDBs and international financial institutions (IFIs):** This pillar should critically assess MDB and IFI practices, including portfolio alignment claims, risk assessment frameworks, and the balance between mitigation and adaptation finance.
- **Private finance:** Engagement with the private sector should recognize both its potential role and its limitations, addressing the need for public instruments to de-risk socially valuable investments, ensuring that the derisking does not result in the privatization of gains and socialization of losses, but in a real reduction of the cost of capital for adaptation.
- **Debt and fiscal policy:** This pillar should explore interactions between debt dynamics, fiscal policy, and alignment efforts, including subsidy reform, tax policy, and international cooperation on tax and debt relief.
- **Adaptation:** A dedicated pillar on adaptation should examine how financial flows can be aligned with resilience-building needs, including support for local communities, Indigenous Peoples, women, and youth, among other groups.
- **Just Transition:** The Dialogue should consider how the implementation of Article 2.1.c can support and enable just transition pathways, in line with the Just Transition Work Programme decision adopted at COP30.

## 6. The role of indicators in the Veredas Dialogue

The question of indicators is central to the implementation of Article 2.1.c and warrants explicit attention. While indicators can support transparency, learning, and accountability, they also carry significant risks if applied in a prescriptive or standardized manner.

The Dialogue should therefore:

- Clarify the purpose of alignment-related indicators, emphasizing learning and facilitation rather than compliance.
- Avoid universal indicators that could fail to capture national circumstances.
- Promote qualitative and process-oriented indicators alongside quantitative metrics.

In that regard, lessons can be drawn from recent experiences under the Global Goal on Adaptation (GGA) and its indicators, particularly the tensions observed at COP30 between their technical robustness and political feasibility.

Moreover, indicators could address “flow progressivity” (who bears the financial cost) and “adaptation intensity” per dollar invested, so as to contribute to achieving a balance between mitigation and adaptation finance (Article 9.4 of the Paris Agreement). However, the effectiveness of such indicators ultimately depends on the governance context in which they operate. Integrating transparency and information-access obligations into the organization of the Veredas Dialogue would strengthen its credibility and procedural integrity, while enabling a more informed assessment of whether climate finance commitments -particularly under Article 9- are being predictably and adequately delivered.

## 7. The Xingu Finance Talks as a political anchor

The Xingu Finance Talks should serve as a high-level political space to address unresolved tensions related to Article 2.1.c and its complementarity with Article 9. To be effective, they should:

- Maintain strong links with the technical work of the Veredas Dialogue.
- Ensure balanced participation from developed and developing countries, including academia, IFIs and the private sector.
- Avoid declaratory outcomes disconnected from UNFCCC mandates.

## 8. Conclusions

The Veredas Dialogue represents a critical opportunity to shape the effective implementation of Article 2.1.c of the Paris Agreement.

If organized in a transparent, inclusive, and balanced manner, the Dialogue can help ensure that financial alignment becomes a tool to enable climate-resilient development, rather than a new

source of constraint for developing countries. REDFIS remains committed to contributing constructively to this process and to supporting a Veredas Dialogue that advances climate justice and the objectives of the Paris Agreement.