

# *Views on the Organisation of the Veredas Dialogue*

## **E3G SUBMISSION TO THE UNFCCC**

February 2026

E3G is pleased to share our views on the format and content of the Veredas Dialogue on implementing Article 2.1(c). The commitment to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development is fundamental to achieving the goals of the Paris Agreement. The Veredas Dialogue, and the Xingu Finance Talks underneath it, provide a much-needed forum to share best practices, examine challenges and trade-offs, and accelerate implementation of the global economic transformation required to address climate change in an equitable manner.

## **Suggestions on the Dialogue Format**

The final two years of the Sharm el Sheikh Dialogue provide a useful basis for organising the Veredas Dialogue. The following points remark on how the Veredas Dialogue can expand upon that good model, while ensuring that the Dialogue be organised in an inclusive manner that facilitates participation by all Parties and relevant stakeholders. In partnership with the Presidency, the Co-Chairs of the Dialogue should consider who is invited to participate, how the dialogues themselves are structured, and linkages to other processes within and outside the UNFCCC. In doing so, they should take a long-term view to structuring the Dialogue with the aim of progressing implementation over time rather than facilitating one-off conversations on key topics.

### **Invite a range of ministries and organisations**

- ▶ The Veredas Dialogue should **encourage participation, not just presentations, from ministries other than the foreign affairs and environment departments that**

**typically represent Parties as negotiators in the UNFCCC.** This includes finance ministries, central banks, and other financial regulators, as well as representatives from national banks, development and planning ministries. Doing so would facilitate effective best practice sharing and a focus on the work of implementation, which is largely being undertaken by financial and economic ministries.

- ▶ The Xingu Finance Talks should draw on the recommendations made by the Co-Chairs of the Sharm el Sheikh Dialogue and **include high-level representatives from key institutions and groups facilitating the implementation of Article 2.1(c)** such as the IMF, the MDBs, the Coalition of Finance Ministers for Climate Action, the International Sustainability Standards Board, civil society actors, etc.

### Structure dialogues around sharing best practices and resources

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- ▶ The Dialogue should include a focus on sharing best practices, challenges, and lessons learned in implementing Article 2.1(c), expanding upon the presentations to the Sharm el Sheikh Dialogue to host peer workshop sessions where countries can learn from each other directly. **Insights from these workshops should be incorporated into the co-chairs' report, with an aim to identify common sets of priorities and barriers that can feed into other processes (see below) and further addressed in future Veredas Dialogue sessions.**
- ▶ The Dialogue should also **focus on sharing resources, research, and tools to facilitate implementation**, such as green budgeting frameworks, measurement tools for financial flow alignment, etc. The Nairobi Work Programme could be an instructive example in this case.

### Create linkages with other processes within & outside the UNFCCC

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The Veredas Dialogue should **include explicit linkages to the following processes.** This means fostering discussion of how the implementation of Article 2.1(c) is relevant to other strands of work, as well as presenting findings from the Dialogue for inclusion in those workstreams:

- ▶ The Baku to Belem Roadmap to \$1.3 Trillion
- ▶ The Global Stocktake
- ▶ Progress on achieving the New Collective Quantified Goal
- ▶ The Standing Committee on Finance's Biennial Assessment
- ▶ The COP30 presidency roadmaps on deforestation and transitioning away from fossil fuels

## Suggestions on the Dialogue Content

The following represents a non-exhaustive list of some of the key topics E3G recommends for discussion in the Veredas Dialogue and Xingu Finance Talks. It is important that in each case, the special circumstances of SIDS and LDCs are taken into account, along with the safeguards agreed at COP30.

### Transition planning by governments and market actors

Drawing from the discussions held under the Sharm el Sheikh Dialogue in June 2025, the co-chairs' report noted that transition planning is being undertaken by governments, financial and non-financial sector actors to set ambition levels towards low GHG emission and climate-resilient development.

**E3G recommends that the Veredas Dialogue explores how national level and entity-level transition planning can underpin finance flows to support Article 2.1c.** Parties could discuss:

- ▶ Case studies of why governments and regulators have put in place transition planning guidance and rules for market actors, and their expected impact on mobilising finance.
- ▶ How Parties can strengthen the link between private sector transition planning and national transition planning, for example to inform NDC development and implementation.
- ▶ Case studies of national level transition planning and the link to country platforms.
- ▶ The suite of policies and approaches Parties can employ to support credible transition planning from market actors, such as standards development, capacity building and encouraging the implementation of transition plans.

### Investor-state dispute settlement (ISDS) provisions

During the Sharm el-Sheikh dialogue workshops in 2024 and 2025, the need to reform investment treaties with ISDS was raised multiple times and was recognised as one of the issues that need to be further addressed within discussions on the scope of Article 2.1(c). Investment treaties with investor-state dispute settlement (ISDS) provisions allow foreign investors to sue governments if their business interests are undermined by states' policy measures, including legitimate policy objectives such as climate mitigation and adaptation.

ISDS creates a barrier to making finance flows consistent with a pathway towards low greenhouse gas emissions by insulating fossil fuel investors from transition risks, which can create the wrong expectations and lead to over-investment in fossil fuels. Discussions on scaling down fossil fuel investments are necessary to achieve Article 2.1(c) and ISDS

provisions need to be considered along with fossil fuel subsidies or export finance as a policy tool that encourages inconsistency of finance flows with a low-emission pathway.

**E3G recommends that the Veredas Dialogue discuss how investment treaties ISDS affect finance flows and what action states can take to address this.** Parties could discuss:

- ▶ Research and analysis on how ISDS makes finance flows inconsistent with Article 2.1(c) and how ISDS regime is misaligned with other efforts to support Article 2.1(c).
- ▶ Case studies of countries that have moved away from ISDS mechanisms.
- ▶ A menu of reform options to address ISDS issues in the context of climate finance Investments in adaptation and resilience to boost long-term debt sustainability.

### **Debt vulnerabilities and fiscal space for climate finance**

Many developing countries face a double-edged sword of steep financing needs for sustainable development and debt pressures limiting fiscal space and hiking up the cost of new investments. Adding to that challenge, institutions responsible for monitoring sovereign debt, the IMF and World Bank, have been working to enhance the realism of their tools, which includes fine-tuning overly optimistic outlooks on countries' vulnerability to climate shocks. While this realism is much needed (internalizing an overlooked but worsening risk) and can provide early warning signals of potential risks of debt distress, in the short-term many countries already facing liquidity pressures may see elevated risk of debt pressures.

**Given these findings, E3G recommends that the Veredas Dialogue discuss early financing options to strengthen resilience and break away from a debt-climate trap before issues snowball into potential solvency challenges.** This includes:

- ▶ Showcasing countries' successful resilience-building and adaptation measures and their effects on long term fiscal stability.
- ▶ Identifying best practices and tools to overcome barriers to early action, engaging with public and private investors centring around investment pipelines and targeted capacity needs.
- ▶ Evaluating trade-offs needed between short- and long-term debt levels.
- ▶ Bridging expertise between technical experts, who can quantify benefits of adaptation investments with fiscal stability gains (or identify areas of needed research), with policymakers conscious of political and capacity challenges including parliamentarians and ministries of finance, infrastructure, development, energy, agriculture, and other relevant fields.

Such discussion could also inform the IMF and World Bank's debt sustainability assessment (DSA) methodologies to better capture the growth and resilience-enhancing returns of countries' investments in adaptation, boosting their credit rating scores and creating a virtuous investment cycle.

### **Strengthen global understanding of macro-fiscal impacts of physical climate risks**

As the Veredas Dialogue brings together high-level stakeholders to identify shared priorities for strengthening global climate and financial resilience, an important area for collective attention is the alignment of central bank climate-risk scenarios with macro-fiscal analysis in ministries of finance. This linkage is particularly critical for climate-vulnerable countries, where escalating physical risks and constrained fiscal space require integrated approaches to budgeting, risk management and investment planning. Strengthening this bridge would enable a more coherent understanding of climate-related risks across monetary and fiscal authorities, better inform national resilience strategies, and support more effective mobilisation of public and private finance.

**E3G recommends that the Veredas Dialogue include discussions on climate risk and macro-fiscal planning.** Discussions could include:

- ▶ Bridging expertise between central bank climate-risk scenarios and fiscal analysis, enabling ministries of finance, especially in climate-vulnerable countries, to integrate climate risks into budgeting, debt management and public-investment planning.
- ▶ Ways of expanding disaster-risk protection by improving coordination among regional risk-pooling and solidarity mechanisms, and by supporting scalable coverage solutions for vulnerable populations.
- ▶ Showcasing initiatives for improving access to open-source risk data and modelling to underpin sustainable insurance markets, building on advances made by meteorological and early-warning initiatives such as the Met Office and CREWS.
- ▶ Ways to enhance the role of MDBs, regional development banks and bilateral development finance institutions in de-risking adaptation investment through credit enhancement, concessional risk-sharing and project-pipeline development. This includes support for public development bank (PDB) programmes that provide premium support or resilience-funding models for low-income and high-exposure communities.
- ▶ Workshopping challenges and solutions to creating enabling environments for investment in EMDEs through policy stability, transparency, forward-looking climate-risk

governance, and structured dialogue between PDBs, investors and credit rating agencies to evolve methodologies in line with climate realities.

- ▶ Ways to promote cooperation among global standard-setters (e.g., Basel Committee, IAIS, FSB) to ensure emerging prudential norms support, rather than constrain, investment in resilience and climate-aligned development to avoid pro-cyclical capital effects that raise financing costs for vulnerable countries

### **Expansion of fiscal space through redirection of outstanding international inefficient public support for new fossil fuel energy projects towards clean energy**

International public finance continues to represent a significant source of support for new oil, gas, and coal projects, despite support for clean energy increasing year on year. This presents not only significant transition risks through stranded assets, undermining incentives for the clean energy transition, but is a counter-productive use of public finance at a time of growing scarcity and need for purposeful, targeted resources. There has been a small amount of progress at the global level, where public finance support for fossil fuels fell one-tenth in 2024 to US\$0.92 trillion, significantly bolstered by activities of the Clean Energy Transition Partnership whose 40 members are down 86% on pre-2021 support for fossil fuels. But the remaining support, still elevated relative to historical averages, remains unaligned with the principles of Article 2.1(c), as was raised through the workshops held under the Sharm el Sheikh Dialogue in 2025.

**E3G recommends that the Veredas Dialogue explores what actions countries and institutions can take to transition financial flows and incentives away from fossil fuels while mitigating adverse economic or development impacts, and re-channelling this finance towards clean energy.** Discussions can include:

- ▶ Lessons learned from examples of successful near-elimination of fossil finance out of public portfolios from across the Clean Energy Transition Partnership while still pursuing ambitious investment strategies in support of national strategic priorities. For example, in UK Export Finance's first full year operating a fossil-fuel-free export policy, it was able to support £7.4 billion in fossil-fuel-free exports, the second highest in 30 years.
- ▶ Evidence-based, technology neutral policy strategies to gradually green existing investment portfolios such as portfolio emissions standards and target setting.
- ▶ Mitigation of producer country just transition and energy security risks, and support for Paris-aligned economic pathway planning.
- ▶ Most effective uses and levers for public finance to deliver new clean energy projects at the scale needed to be consistent with 1.5 degree scenarios, particularly in EMDEs

where investment is lagging – and with Africa currently attracting only 3% of global energy investment.

- ▶ Concrete actions countries are and can take to deliver on existing COP commitments (at COPs 26, 27, and 28) to phase out fossil fuel subsidies that do not address energy poverty or just transition.
- ▶ Methods to improve transparency and tracking of public finance flows to better assess progress towards the overarching objectives of Article 2.1(c), equipping the different actors involved in implementation with the ability to take coordinated and informed actions.

## Conclusion

Article 2.1(c) is one of the most powerful levers in the Paris Agreement to catalyse the transformation of the global economic system to deliver a safe climate for all. Building on the strong work under the Sharm el Sheikh Dialogue, the Veredas Dialogue has the potential to accelerate this vital action by giving Parties and external actors a platform to learn from each other and identify shared priorities moving forward. E3G looks forward to supporting its success.

### ABOUT E3G

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E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

More information is available at [www.e3g.org](http://www.e3g.org)

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