SUBMISSION BY CHILE ON BEHALF OF THE AILAC GROUP OF COUNTRIES COMPOSED BY CHILE, COLOMBIA, COSTA RICA, HONDURAS, GUATEMALA, PANAMA, AND PERU

Sharm el-Sheikh Dialogue 2025

Following the invitation by the co-chairs of the Sharm el-Sheikh dialogue on the scope of Article 2, paragraph 1(c) and its complementarity with Article 9 of the Paris Agreement, AILAC welcomes the opportunity to provide views on the issues to be addressed during the workshops.

1. Which topics and issues do you see as most relevant and helpful to be discussed in the context of the workshops in 2025?

Throughout the development of the Sharm el-Sheikh Dialogue, workshops have explored the complementarity between Article 2.1(c) and Article 9, with a focus on systemic barriers that hinder financial flows to be directed to sectors and geographies that are consistent with the Paris Agreement, strategies for scaling up climate finance under Article 2, identifying best practices to promote private investment, mitigation and adaptation finance, and more efficient financial mechanisms. AILAC strongly believes that this complementarity must continue to serve as the foundation for the 2025 discussions and workshops, as it will be the final year of the Dialogue. This will be essential in determining how the broader climate finance landscape interacts with and enhances the financing provided and mobilized under Articles 9.1, 9.2,9.3 and 9.5 of the Paris Agreement in the context of sustainable development and efforts to eradicate poverty.

As has been expressed throughout the Dialogue, resources mobilized under Article 2.1(c) complement, rather than replace, the financial commitments made by developed countries under Article 9. Additionally, different stakeholders, such as multilateral development banks (MDBs), international financial institutions, and the private sector, should also aim to make their financial flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

Furthermore, the Dialogue must address the systemic financial barriers that developing countries face in implementing their climate commitments under the Paris Agreement. This includes:

- Ensuring climate finance is effectively delivered to developing countries in a manner that is in line with their national priorities and development pathways.
- Supporting developing countries in transitioning toward low-carbon and climate-resilient economies through financing mechanisms that are accessible, predictable, and non-debt-inducing.
- Providing adequate resources to fund the implementation of long-term strategies (LTS), Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), and other climate plans, ensuring that climate finance directly contributes to achieving national and global climate goals.
- Scaling up and enhancing the quality of adaptation finance and resilience-building efforts, recognizing that without scaled-up financial support, developing countries will face mounting climate-related economic losses, higher costs of capital, and increasing financial instability.

AILAC emphasizes that the final year of the Dialogue presents a crucial opportunity to set a clear direction for ensuring the complementarity of Article 9 with Article 2.1(c), ensuring that climate finance remains equitable, effective, and responsive to the needs and priorities of developing countries. The success of this effort will be instrumental in bridging the existing finance gaps and fostering an international financial system that truly supports sustainable development and climate action. Therefore, AILAC proposes the following two topics to be addressed in the upcoming workshops:

Workshop 1: The operationalization of Article 2.1c, in complementarity with Article 9 of the Paris Agreement, in the current global landscape and its implications for climate finance
During the 62nd session of the Subsidiary Bodies

The world is currently experiencing a rapidly shifting economic and political landscape that is leading countries to reorient their public spending and investment towards priorities that are increasingly distant from climate finance and, in some cases, even towards actions that run counter to global climate goals. This evolving global scenario will undoubtedly pose a challenge to climate finance in the coming years, structurally weakening the targets and objectives set under the Paris Agreement. Given that the operationalization of Article 2.1(c) and its complementarity with article 9 occurs within the context of sustainable development and poverty eradication, and that its implementation should not hamper the development of developing countries, there is rising concern about the growing trend of reducing or even eliminating climate finance as well as other forms of development finance and international cooperation.

This systemic shift poses significant risks to developing countries, threatening to exacerbate poverty levels, increase fiscal constraints, and pushing developing countries deeper into unsustainable debt. The reduction in grant-based concessional finance not only hinders economic growth but also restricts the ability of developing countries to invest in climate action, thereby widening the existing gap between commitments and implementation. In addition, these financial constraints could severely limit the capacity of developing countries to attract private investment for climate-related projects, further increasing financial risks and making investment in these regions even more risk-averse.

Given these global circumstances, AILAC believes that this issue must be addressed as part of the Sharm El-Sheikh Dialogue on the scope of Article 2, paragraph 1(c) and its complementarity with Article 9 of the Paris Agreement. We propose the following key elements for further consideration during the workshop:

- Assessing Global Economic Shifts and Challenges in Meeting Climate Finance Commitments under Article 9. Uncertainty in financial commitments, along with shifting economic and political priorities, risks undermining the timely and effective delivery of climate finance under Article 9. This is a clear interlinkage between article 2.1c and Article 9. The Dialogue should assess how these global trends are affecting climate finance, identify key obstacles to accessing climate finance, and explore mechanisms to ensure that climate finance is predictable, adequate, affordable, additional and accessible for developing countries.

- Addressing Shifting Narratives and Enhancing Private Sector Engagement in Climate Finance Evolving narratives that portray climate finance as excessive or misaligned with economic priorities have affected investor confidence and weakened incentives for both public and private actors to scale up their contributions to climate. This, combined with persistent challenges such as high-risk perceptions, elevated capital costs, and limited access to affordable finance, has further restricted private sector participation in climate-related projects, particularly in developing countries. The Dialogue should examine how these shifting narratives have influenced financial flows, assess their impact on investor confidence, and explore mechanisms to de-risk investments, reduce capital costs, and create stronger incentives for private sector engagement in developing countries.

- Adapting to Shifting Global Dynamics and Strengthening Multilateral response to climate change through finance. The increasing trend toward protectionist policies and a weakening of multilateral approaches have introduced additional constraints on the mobilization of financial resources for climate action, making it more challenging to make financial flows consistent with climate action and sustainable development. A robust and well-coordinated multilateral climate finance architecture is essential to overcoming these challenges. The Dialogue should assess the impact of evolving dynamics on climate finance, explore opportunities to reinforce financial commitments, and identify ways to strengthen multilateral financial mechanisms. Enhancing coordination among international financial institutions and ensuring that climate finance remains a central pillar of international cooperation will be critical to delivering in a scaled-up, predictable, and effective manner.

AILAC underscores the urgency of addressing these issues to ensure that climate finance remains a global priority and that the long term goals of the Paris Agreement and the financial commitments made thereunder are met in a way that supports sustainable development and poverty eradication.

Workshop 2: Operationalization of Article 2.1c, and its complementarity with Article 9, for financing just transitions
Intersessional

AILAC proposes that the Sharm el-Sheikh Dialogue dedicate a focused discussion on how the operationalization of Article 2.1c, and its complementarity with Article 9, could finance just transitions, recognizing that transitioning towards low-carbon and climate-resilient economies requires substantial financial support, particularly for developing countries. This discussion should specifically address the financial barriers and systemic dis-enablers that hinder developing countries from accessing and mobilizing the necessary resources for their transitions.

Key elements to be considered include:

- Reducing financial risks in developing countries: High-risk perceptions, elevated capital costs, and limited access to concessional finance create significant obstacles for just transitions. The Dialogue should explore mechanisms to de-risk investments, lower capital costs, and enhance the financial conditions for climate projects in developing economies.

- The workshop should explore how financing under Article 2.1(c) can complement and scale up financial flows to effectively support the implementation of these national climate and development strategies. Aligning just transition financing with the implementation of NDCs and other national strategies: Many developing countries have already incorporated just transition elements into their Nationally Determined Contributions (NDCs), National Adaptation Plans (NAPs), and Long-Term Strategies (LTSs).

- Strengthening the link between just transitions and Article 2.1(c): While Article 2.1(c) aims to make financial flows consistent with low-emission and climate-resilient development pathways, this goal cannot be achieved equitably without ensuring just transitions in developing countries. The Dialogue should address how the operationalization of Article 2.1(c) prioritizes financial flows towards just transitions in developing countries.

- Ensuring that just transition financing is aligned with the principle of Common But Differentiated Responsibilities and Respective Capabilities (CBDR-RC) and other safeguards. The financing of just transitions must respect the differentiated responsibilities and capabilities of countries, safeguarding that developing countries are not burdened with conditionalities, additional debt, or disproportionate investment requirements. The Dialogue could explore how financial mechanisms should prioritize non-debt-inducing instruments, respect national sovereignty, and uphold environmental and social safeguards, preventing negative impacts on biodiversity, Indigenous peoples, and local communities.

AILAC believes that by incorporating these elements into the Sharm el-Sheikh Dialogue, we can foster a comprehensive and inclusive approach to just transition financing, in the context of Article 2.1c and its complementarity with Article 9, ensuring that all developing countries can achieve a fair and equitable transition without bearing disproportionate financial burdens.

2. Which stakeholders do you see as most relevant to participate in and contribute to the workshops in 2025?

Workshop 1: The operationalization of Article 2.1c, in complementarity with Article 9 of the Paris Agreement, in the current global landscape and its implications for climate finance

The first workshop could aim to provide a comprehensive understanding of how the current global economic and political landscape will influence climate finance flows, particularly for the operationalization of Article 2.1c and its complementarity with Article 9. We believe that the workshop would benefit from the participation of government stakeholders, both from developed countries and developing countries to understand how these global changes will impact international climate finance, as well as to understand what measures should be considered to ensure that climate finance commitments by developed countries remain on track despite economic uncertainties, particularly in the context of the operationalization of Article 2.1c and its complementarity with Article 9.

To enrich the discussion, leading development and economic research institutions could provide broader inputs of how these global economic dynamics could impact financial markets and increase the vulnerability of developing economies. These institutions can offer insights into how economic and investment trends are evolving, particularly in key sectors relevant to climate action. Additionally, they can provide insights as to how these shifts may affect the flow of resources toward climate finance and propose strategies to mitigate potential disruptions.

The participation of representatives from multilateral development banks, international financial institutions, and capital markets would capture their perspectives, which are crucial to understanding how these shifts in the global economic and political environment affect financial stability indicators and sustainability metrics. Furthermore, it is necessary to explore the implications for investment risk perception, credit ratings, and financial flows to developing countries. These institutions can provide valuable insights into strategies that can be deployed to maintain financial flows toward climate action, even in the face of economic downturns, which is important in the operationalization of Article 2.1c.

Workshop 2: Operationalization of Article 2.1c, and its complementarity with Article 9, for financing just transitions

To comprehensively address the financing of just transitions in the context of the operationalization of Article 2.1c and its complementarity with Article 9, it is essential to expand the discussion beyond the energy sector and labor market to include key transitions in agriculture, forestry, land use change, and technology transfer. Just transitions in these sectors are critical for achieving climate resilience, protecting livelihoods, and ensuring equitable economic transformation in developing countries. A holistic approach to financing just transitions requires consideration of economic, environmental, and social dimensions while ensuring that the transition process is inclusive and just.

To facilitate a well-rounded and inclusive discussion, representatives from developing and developed country governments should be involved. These actors can provide perspectives on the policy, regulatory, and financial needs for financing just transitions across diverse economic sectors, as part of the operationalization of Article 2.1c. Additionally, multilateral development banks (MDBs) and international financial institutions (IFIs) can share experiences in financing and supporting just transition projects beyond the energy sector. Their involvement is crucial in identifying opportunities for climate-smart agriculture, reforestation, and land restoration, while also addressing financial constraints and investment gaps.

Operating entities of the Financial Mechanism can provide their perspectives on the socio-economic implications of just transitions across sectors. Their expertise can help design strategies that promote equitable policy measures and minimize the risks of economic and social disruption. Similarly, private sector representatives from the agri-food industry, forest-based industries, and financial institutions should be included in the discussion to share perspectives on investment needs, financial instruments, and risk mitigation strategies that support a fair transition.

A crucial dimension that must be addressed is the impact of new tariffs and unilateral trade measures on developing economies. Organizations such as the World Trade Organization (WTO) and trade research institutions should analyze how carbon border adjustment mechanisms (CBAMs) and other trade-related climate policies could affect exports and development in developing countries. These discussions should propose strategies to mitigate negative impacts and ensure that international trade policies do not further marginalize developing economies in the transition process.

Technology transfer and innovation must also be prioritized. The UNFCCC Technology Executive Committee (TEC), the Climate Technology Centre & Network (CTCN), and private sector innovators should provide insights into mechanisms for scaling up technology transfer in developing countries. Ensuring accessibility and affordability of low-carbon and climate-resilient technologies is essential to enabling a smooth transition while preventing technological divides between developed and developing nations.

AILAC believes the discussion on the operationalization of Article 2.1c, and its complementarity with Article 9, for financing just transitions should be broadened to reflect the multiple dimensions of economic transformation required for a sustainable and equitable future. The process must ensure that climate action does not disproportionately burden developing countries but rather enables them to build resilient economies while addressing socio-economic inequalities.

3. Which other processes should we take into account in our work in 2025?

We believe that at the conclusion of each workshop, there should be a discussion on the next steps within the framework of the Dialogue, particularly regarding the expectations of Parties and stakeholders on how the outcomes of the Dialogue will be incorporated into finance negotiations and taken by the CMA. This discussion should also address the opportunities and challenges involved in that process, ensuring that the Dialogue's results contribute meaningfully to shaping climate finance discussions and decision-making.