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

**Ways to achieve Article 2.1c of the Paris Agreement**

Following the invitation by the CMA3, as per document FCCC/PA/CMA/2021/L.11 paragraph 2, the AILAC group of countries welcomes the opportunity to provide views on ways to achieve Article 2, paragraph 1 c) of the Paris Agreement, including options for approaches and guidelines for implementation.

AILAC would firstly point to the fact that the operationalization of Article 2.1c does not substitute developed country Parties’ obligations of provision and mobilization of finance to the developing world, as per Article 9 of the Paris Agreement, that give continuation and enhance developed countries financial obligations enshrined in the UNFCCC. Article 2.1c), being one of the long-term goals of the Paris Agreement, can act as an enabler and an amplifier of efforts to realize Article 2.1a) and 2.1b) and its operationalization should reflect the interconnection of finance flows to the overall ambition of the Agreement so to keep temperature increases to below 1.5°C and building resilience. From this perspective, Article 2.1c) relates to all financial flows; public and private, domestic and international, green and brown, and all Parties are obliged to promote finance flows to be consistent with decarbonization and resilience.

Thus, the very transition to 1.5°C requires us to delineate how finance flows are made consistent with new models of development and revamp the climate financing system, with an underlying strategy towards effectively stimulating accelerated prototyping and scaling of these new solutions capable of the kind of disruptive innovation urgently required, particularly in the developing world while favouring economic recovery options that are climate compatible.

The climate crisis needs a system designed to marshal the investment, financing, market and consumption choices of relevant stakeholders –governments, development finance institutions, commercial financial institutions, private equity, venture capital, infrastructure funds, institutional investors, credit rating agencies, corporate actors (banks, asset managers, pension funds, insurers, credit rating agencies, accounting firms, shareholder advisory services, enterprises), households and project developers– to foster climate-compatible development pathways.

The 2020 Standing Committee on Finance (SCF) Biennial Assessment Report estimates climate finance flows for 2017-2018 around USD 775 billion, out of which USD 48.7 billion are multilateral and bilateral financing[[1]](#footnote-1) and only USD 14.5 billion have been destined to adaptation[[2]](#footnote-2). Out of these figures, it is relevant to underline that the Green Climate Fund (GCF), the central piece of climate funding of the climate regime, has mobilized only a total of USD 27.2 billion as of 31 July 2021 (3.5% of global climate finance flows). Funding for adaptation remains largely insufficient, and the World Bank points out that without adaptation and good development, climate change could force more than 100 million people into extreme poverty by 2030[[3]](#footnote-3). The global poor -and with it the number of food insecure people- have been estimated to increase by at least 2% for any % point slowdown of the global economy derived from the current health crisis[[4]](#footnote-4). Moreover, the OECD, the World Bank and UNEP estimate that USD 6.9 trillion a year is required up to 2030 to meet climate and development objectives[[5]](#footnote-5). At the same time, the SCF calculates that fossil fuel investments add up to USD 977 billion and fossil fuel subsidies to USD 472 billion per year[[6]](#footnote-6) while losses from natural catastrophes amount to USD 339 billion[[7]](#footnote-7) (Figure 1).

Figure 1. Net Climate Finance

Sources: *2018 & 2020 SCF Biennial Assessment and Overview of Climate Financial Flows*

Current financial flows show a very unbalanced picture, one that illustrates that for addressing climate change, it does not suffice to scale up climate funding, rather a more **comprehensive approach of net climate finance**[[8]](#footnote-8) (the value of climate finance flows minus financial flows to high-emissions and maladaptive activities) would be desirable so as to gradually eliminate financing and investments towards fossil fuels – in accordance with the latest decision made by the CMA in Glasgow “to phase out inefficient fossil fuel subsidies”[[9]](#footnote-9)- and high-emissions activities; and lead to avoiding locking in, while low-emission technologies receive a sustained increase in financing and just transition policies are put into work[[10]](#footnote-10). It also means divesting from activities that create or increase physical risks to communities and society, and proactively supporting or incentivizing activities that directly help adaptation and resilience or enable more climate-resilient development[[11]](#footnote-11). In essence, it is necessary to pursue to transition to what has been called Paris-aligned development cooperation (i.e. that does not undermine the Paris Agreement but rather contributes to the required transformation, that catalyzes countries’ transitions to low-emissions, climate-resilient pathways, that supports the short- and long-term processes under the Paris Agreement and that proactively responds to evidence and opportunities to address needs in developing countries)[[12]](#footnote-12).

Now, besides applying an approach of net climate finance to overall financial flows and in looking for approaches and guidelines for the implementation of Article 2.1c, AILAC considers necessary for the UNFCCC multilateral regime to provide a global framework for finance flows climate consistency. It is argued that accountability under the Paris Agreement will fall upon governments, thus there must be a focus on the levers that public actors create for finance flows, both public and private, by generating incentives and disincentives[[13]](#footnote-13), as presented in Table 1[[14]](#footnote-14). It is also true that the Paris Agreement characterized as international law that has been translated into national law through the respective processes of ratification of the Agreement in 193 countries, also obliges different stakeholders to its accomplishment, hence the full implementation of Article 2.1c must be directed too to all stakeholders in the financial sector.



Table 1. Government-led tools to encourage the consistency of finance flows with climate ambitions

Source: *Whitley et al, 2018*

Despite the great importance that Article 2.1c has in order to enable the very implementation of the Paris Agreement, very little has been done through the United Nations regime to foster its understanding and implementation. Thus, this opportunity to discuss options for approaches and guidelines for its operationalization must take into account each national economy’s level of dependence on fossil fuels or high-emissions activities with regards to public finance (budget, subsidies, imports and exports and/or investments) and private finance (investments, bonds, assets, loans, capitalization, equity), so to foster climate consistency in a manner that acknowledges national circumstances and concrete challenges, particularly in developing countries. In order to exemplify this type of dependences and concrete circumstances, we would like to bring forward a 2.1c) case study for Colombia -summarized below-, where it is shown the enormous task that will represent to shift public and private financial flows towards climate consistency from current minimum levels; the significant lack of knowledge, recognition and awareness around Article 2.1c and its implications on climate consistency in public and private financial flows; the imperative need to address prevalent economic public dependences to climate incompatible financial flows; as well as existing data gaps and level of disaggregation in understanding climate consistency of these flows beyond what is labeled as climate finance or fossil fuel activities, i.e. how to characterize maladaptive activities or financing or how to label “neutral” financing that relates to education, poverty eradication or health.

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| **Summary of a consistency case study for actions supporting Article 2.1c of the Paris Agreement in Colombia [[15]](#footnote-15)**  Colombia is an upper middle-income developing country with a small contribution to global GHG emissions (0.41%), highvulnerability to the adverse effects of climate change and yet, ambitious emission reduction and adaptation objectives for the mid (51% of GHG emissions reductions by 2030) and long-term (carbon neutrality by 2050) to ensure the mitigation and adaptation long-term goals of the Paris Agreement are achieved.  ***Deforestation and agriculture in Colombia***  By 2014, 51.4% of Colombia’s land territory was covered by natural forests. In the period between 1990 and 2014, this forest area had been deforested in 4.8%, mainly in the Colombian Amazonia which has 66.7% of the country’s forest area (IDEAM, 2020a). After the signing of a peace agreement in 2016, 79% of Colombian Protected Areas experienced increased deforestation, with a dramatic and highly significant 177% increase in the deforestation rate (158,894 ha in 2019). Major drivers of deforestation are the expansion of the agricultural frontier and the transformation of forest into pastures for cattle ranching and land grabbing. In the last decades, illicit activities have also been part of the driving forces behind deforestation, mainly through their relation with illegal crops, mining and logging. Besides these factors, exacerbated deforestation is due to the exit of the Revolutionary Armed Forces of Colombia (FARC) that used to control a large part of the country. Agriculture and its expansion, often leading to deforestation, is a source of emissions, but also a potential mitigation solution (Searchinger et al., 2020). Although in the last couple of years the deforestation rate has started to decline (from 219,973 ha in 2017 to 158,894 ha in 2019) (IDEAM, 2020b), in looking to the future (and awaiting for data for 2020 where the deforestation rate seems to have increased), it would still be necessary to enhance law enforcement, promote rural land use regulation and effective conservation of protected areas, together with an integrative, comprehensive understanding of local communities’ needs, sustainable development, and long-term management (Clerici et al., 2020). The role that public levers play in shifting the incentives and disincentives in agriculture and forestry are important, this includes public agricultural support, social protection and access to green finance (Watson, 2021).  ***Energy transition in Colombia***  The current energy matrix of Colombia has a high share of hydroelectricity (76% of total electricity generation) (Calderón et al, 2016). Notwithstanding this fact, an energy transformation of Colombia’s economy – required to achieve the 2020 updated NDC and the carbon neutrality goal – must address the following issues:   * **The strong dependence of the economy on fossil energy exportation and continuous exploitation.** Exports of fossil fuels and products of extractive industries were in average 60% of the national exports in the last 10 years, corresponding to about 8% of the country’s GDP (DANE, 2020b); 90% of Colombia’s coal is exported and it is the world’s sixth largest coal exporter, with coal mining only representing about 1.3% of the country’s GDP (Strambo and González, 2020). Colombia also has 38 fossil fuel projects operating, divided into 4 LNG terminals, 8 oil pipelines, 3 gas pipelines, and 23 coal-fired units (Browning et al., 2020) and is investing in continuous exploration of oil and gas, including USD920 million in 2020 (70% onshore and 30% offshore) (Asociación Colombiana de Petróleo, 2020). Besides, on the national budget 2019-2022, USD32.1 billion are provided for the energy and mining sectors which can be directly considered not consistent with Paris (11.15% of the total budget) (Congreso de Colombia, 2019); however, an unidentified percentage of this budget is specific to renewable energy. * **The economic relevance of fossil fuels to public investments.** A General Royalties System, GRS is in place whereby individuals pay the right to exploit non-renewable natural resources that belong to the State (EITI, 2019), in this case, mining and hydrocarbons, thus encouraging more favourable environments for the exploration and production of these resources to generate incomes that can be translated into public investment projects in the regions from where the resource is extracted through a regional savings and stabilization Fund (Ministerio de Minas y Energía, 2020b). During the period 2019-2020 (up to July 2020), resources collected and transferred in the General Royalties System amounted to USD3.28 billion, out of which hydrocarbons accounted for USD2.33 billion (71%) and mining USD0.95 billion (29%). This System represents 3.1% of the public budget for the implementation of the National Development Plan 2019-2022 (Congreso de Colombia, 2019) and 20% of these royalties are directed to climate finance (DNP, 2020). * **The current subsidisation of fossil fuels**. Since 2014, USD 33.1 billion have been spent in subsidies completely on petroleum (Ministerio de Hacienda, 2020) and an accumulated deficit of these subsidies amount to more than 1.3% of the country’s GDP (~USD 4.3 billion). At the same time, USD 550 million are spent in annual subsidies to electricity (90% of households) and gas (60% of households) while at least 40% of the subsidized households receiving subsidies do not live under poverty lines (Ortiz Jara et al., 2020). * **The projected intensification in demand of energy for the future decades** due to higher incomes and its consequent impact on increased GHG emissions (Delgado et al., 2020).   The transformation of the Colombian energy system ought to put at its centre the diversification of energy sources. This includes to diversify the economic dependence on fossil fuel exports and to include non-conventional renewable technologies and electricity as the main sources of energy (Ministerio de Minas y Energía, 2020c) so to reduce the economic and energetic share of fossil fuels, including natural gas. Such diversification would require a strong emphasis on urban planning and public transportation, early planning of electrification of public transport systems (Delgado et al., 2020), as well as a framework of just transition that acknowledges the impacts on the economy of reducing, redirecting or better focusing current fossil fuel subsidies**,** diminishing or redirecting the current dependence on fossil fuel royalties to low-emissions social investments/enhance or create industries where Colombia has a comparative advantage and avoiding the risk of fossil fuels related stranded assets (in 2019, the Government reported that non-renewable natural resources assets represented 6.6% of its GDP (Bohórquez Ramírez, P., 2020)).  Like most developing nations, Colombia’s early climate action focussed on the elaboration of National Communications (2001, 2010) as well as the implementation of the Clean Development Mechanism (CDM) of the Kyoto Protocol followed by Nationally Appropriate Mitigation Actions (NAMAs) both aiming to attract international resources to domestic climate action. Nevertheless, in the last decade Colombia has seen an increasing number of public and private climate actions, policies and investments. Amongst these, the most relevant are the Climate Change National Policy (2017) and the Climate Change Law (2018), which have enabled more specific institutional, financial and economic instruments (i.e. the National Strategy on Climate Finance -2017, the Carbon Tax -2017-, Renewable Energy Auctions -2019-, and the Adaptation Fund -2010-). These recent policies and investments are mostly driven by the implementation of the Paris Agreement, which in turn has led to the adoption of a domestic long-term goal to reach carbon neutrality by mid-century (Presidencia de Colombia, 2019) and an updated 2020 NDC with the goal to reduce 51% of its GHG emissions by 2030 (Gobierno de Colombia, 2020)  At the moment, only a small percentage of public and private financial flows in Colombia are consistent with trajectories of low-emissions, resilient development, as per Figures 2 & 3 below.  Chart, bubble chart  Description automatically generated  **Figure 2. Consistency of public finance flows with climate objectives in Colombia, in the context of wider finance flows**  A picture containing bar chart  Description automatically generated  **Figure 3. Consistency of private finance flows with climate objectives in Colombia**  The main recommendations to foster consistency of public and private financial flows to low emissions and resilient development in Colombia are the following:   1. Public budget destined to climate action (1.15% of the total budget) needs to significantly increase and be mainstreamed at the territorial and sectorial levels while public funding (11.15% of the total budget) and investments on fossil fuels need to be reduced and eventually stopped, in order to accomplish the country’s ambitious mitigation and adaptation goals. 2. A just transition of the Colombian energy system financially requires that current subsidies and investments into fossil fuels are addressed in a way to assess their gradual redirection towards non-conventional renewable energy sources and other low-emissions actions for the transportation and industry sectors; a valuation of how to enable the diversification of the current economic dependence on fossil fuels exports and incomes, as well as to avoid the risk of creating stranded assets. The continued use of measures such as the renewable energy auctions and an increasingly more stringent carbon tax, and the upcoming implementation of an ETS can act as useful public levers to enhanced consistency. 3. There is an important amount of public investment that may be considered carbon neutral (e.g. for health, education or livelihoods) -that was not taken into account in this report- that should be more granularly analysed in order to understand better its consistency with the country’s climate action. It is in this sense relevant that the new green taxonomy -currently under preparation- could enhance transparency of climate finance of public and private flows and, at the same time, set a higher benchmark to climate-compatible investments. 4. This is particularly relevant to adaptation finance flows which often are intertwined with development finance and hopefully will be further clarified by upcoming enhanced adaptation regulation to the Climate Change Law and driven by priorities and vulnerabilities stated in the country’s first Adaptation Communication. The updated NDC already provides with initial estimates for increased annual public investments to adaptation towards 2030 (0.2% of the GDP). Closing the adaptation finance gap could also benefit by transitioning the current Adaptation Fund towards an institution that is dedicated to provide financial resources and incentives to climate resilience and vulnerability reduction to present and future climate events. 5. It is clear that reducing deforestation is one of the most important environmental, social and economic challenges for Colombia. Addressing these challenges holistically has a legal component to it through enhanced law enforcement and the promotion of rural land use regulation, but it also requires financial support to enable local development in a manner that is legal and sustainable. This should be facilitated by providing sufficient public funding to the environmental sector to ensure the effective conservation of protected areas and by enabling *de facto* the use of revenues from the Carbon Tax to foster conservation and reforestation efforts. Additionally, the potential growth of the national carbon market through higher carbon prices that are in line with the country’s mitigation objectives may generate supplementary sources of finance to this end, coupled with irreplaceable international collaboration. 6. Despite some initial positive signals around sustainability and climate action of different private institutions, only a very small percentage (approximately 0.8% of the GDP) of private financial flows is consistent with low emissions and resilient pathways. It appears that climate change is insufficiently understood or mainstreamed as an investment rationale (either as an opportunity or a risk) in Colombian private and financial flows. Sustainability reports -SDGs-aligned- are increasingly being taken into account and most private institutions have to some extent policies regarding ESG. It is important that efforts to raise awareness and capacities of the Colombian financial sector are built and enhanced in the next decade, so to enable the financial system to foster and facilitate a just transition towards net-zero emissions and understanding the importance of including investments in local climate-compatible projects and assets, and providing transitional support to industry. Recognition is to be provided to current capacity building efforts with different financial sector actors by private initiatives like CCADI, PRI, the 2 degrees investing initiative, and others. The financial system has an unparalleled ability to address our current societal and environmental issues; many opportunities for mitigation and adaptation through climate smart investments have always been available but overlooked. Hence, the achievement of the country’s 2030 and 2050 mitigation goals will necessitate of the active and committed engagement of the financial sector with corporate actors developing their own company commitments embedding climate into economic and financial priorities and improving the climate compatibility of their operations as well as managing and disclosing climate, environmental and social risks associated with their financing activities, including by means of introducing investment diversification away from high-carbon assets to protect long-term financial interests of beneficiaries in affected sectors (Robins et al, 2018). 7. As part of the research done for this report, we have identified that the Superintendencia Financiera de Colombia already has an exhaustive financial information disclosure system that collects monthly data from most financial actors. This system could be used to collect additional information such as sectors and subsectors from which financial system borrowers, issuers, subscriptions and clients come from; this could be further accompanied by a thorough taxonomy of financial flows where consistency with low-emissions, resilient development could be identified, hence providing with necessary information to steer a transition of financial flows towards a low carbon economy. 8. Although it is not yet quantified for the updated 2030 and 2050 goals, international cooperation and foreign investments will be critical to ensure the transition towards decarbonisation and resilience in Colombia takes place for both public and private flows consistency. This needs to be taken into account when the first GST happens in 2023 and political ambition as well as implementation by developed and developing countries is assessed, and as a result an enhanced global system of international cooperation is driven by the UN multilateral system on climate change to enable the transition that the Paris Agreement calls for. |

In light of the substantial challenges of operationalizing Article 2.1c, AILAC considers it would be useful to determine how Paris Agreement Parties will engage in its implementation, at least through the following approaches and framework:

* + Developed countries must commit to implement Article 2.1c, both in relation to domestic and international financial flows, including, amongst other areas, through enabling carbon pricing, fossil fuel subsidies reform, greening development finance flows, green budgeting and macroeconomic modelling and public levers[[16]](#footnote-16) to drive climate finance consistency,
  + Financial support and capacity building support from developed countries to developing countries in facilitating applying climate finance consistency, *inter alia*, to:
    - Align public and private financial flows to the implementation of NDCs and long-term low emissions, resilient development and just transition strategies
    - Enable public levers to drive climate finance consistency (i.e. monetary/financial policy and regulation (standards, plans, accounting systems and lending requirements), fiscal policy (taxation, levies, royalties, public procurement, price support or controls), information instruments (certification and labelling, transparency initiatives, disclosure requirements), public finance and use of different financial instruments (loans, grants, guarantees, equity, insurance))[[17]](#footnote-17)
    - Set up national MRV systems for climate finance consistency
    - Set up green taxonomies
    - Enhance the ability of national and local environments to attract green private finance and provide incentives to low-emissions activities
  + Enhanced transparency in relation to the implementation of Article 2.1c in order to provide high-quality detailed information to be taken into account in the Global Stocktake, as well as inclusion in the reporting of the provision and mobilization of financial support to developing countries for the specific purpose of enabling climate finance consistency, through an additional column to CTFs of support provided and mobilized for 2.1.c, which should be added up and assessed as an input to the GST.
  + Increased engagement with different financial stakeholders (Figure 4) through a guiding framework and regulatory guidance that provide with concrete signals and benchmarks over climate finance consistency to marshal necessary investments towards climate-compatible, sustainable and resilient infrastructure and technologies, and avoid stranded assets

Figure 4. Relevant actors to direct investments towards low-emissions, resilient development models

This guiding framework for the abovementioned stakeholders should include the mainstreaming mitigation and adaptation climate considerations into investment decisions, policies and planning and align[[18]](#footnote-18) portfolios with the long-term goals of the Paris Agreement starting by **aiming to transition investment and budgetary portfolios to net-zero GHG emissions and climate resilient development by 2050 and to disclose climate-related risks and opportunities, including with regards to the organization’s budgetary/businesses/strategy/financial planning as well as its metrics and targets[[19]](#footnote-19), and the carbon footprint of investment and budgetary portfolios**[[20]](#footnote-20). It should also aim to the following:

**Governments (including subnational, city and local governments)**

* + Align national policies to strong and ambitious NDCs and long-term low-emissions and resilient development strategies and the long-term goals of the Agreement, in order to foster high-quality and meaningful projects, programs and actions
  + Prepare and develop investment programs and projects consistent with NDC plans, Adaptation Plans and the LTS
  + Develop green taxonomies to drive these investment programs and projects
  + Scaling up sustainable, low-emissions, resilient infrastructure investments through the developing of platforms for project preparation that include sustainable criteria and project guidance
  + Increase investment in R&D that can accelerate the deployment of new clean, low-emissions, resilient technologies
  + Work towards measures that can enhance the effectiveness, equity and acceptability of carbon pricing[[21]](#footnote-21) according to national circumstances
  + Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices[[22]](#footnote-22), including through:
    - Foster that mandates of state-owned enterprises, when applicable, cooperation agencies, export credit agencies and public investment funds, national budgets and expenditures are compatible with climate goals[[23]](#footnote-23)
  + Integrating climate-related risk in financial system information through guidance, labelling schemes and mandatory requirements,
  + Strengthen climate-related risk management by integrating environmental factors into oversight, supervision and stress testing[[24]](#footnote-24),
  + Building capacity for and integrating financing for: 1) resilience-building into fiscal policy frameworks, 2) investments in physical resilience and 3) building fiscal buffers to respond to shocks, especially from natural disasters. This financing requires building capacity in fiscal and debt sustainability analyses to integrate:
    1. probabilistic assessments of the frequency and severity of climate-related natural disasters and slow-onset climate-related damages (accounting for how damages are diminished through climate-proofing investment);
    2. comprehensive financing strategies for ex ante fiscal buffers and ex post disaster expenditures;
    3. national budget financing (required beyond external finance) of physical adaptation and mitigation investments[[25]](#footnote-25)
  + Mobilize private sources of climate finance by facilitating investments and the development of a financial sector which supports climate mitigation and adaptation[[26]](#footnote-26), including through showing domestic leadership, stimulate innovation, policy reforms and greater capacity to better align fiscal incentives and pricing and help public and private investments flow[[27]](#footnote-27), including through gradually increasing current spending on research and development of low-emissions and resilient technologies throughout their life cycle; as well as blended finance mechanisms to manage risk and promote private sector involvement.
* Develop and enact coherent policies and incentives across the economic, environmental, social, education, training and labour portfolios to provide an enabling environment for enterprises, workers, investors and consumers to embrace and drive a just transition towards environmentally sustainable and inclusive economies and societies while ensuring that public investments guarantee social development goals and promoting the creation of more decent jobs, including, as appropriate, anticipating impacts on employment, adequate and sustainable social protection for job losses and displacement, skills development and social dialogue[[28]](#footnote-28)
* Assess the establishment of national just transition[[29]](#footnote-29) funds to support activities to address climate action and related employment risks through the implementation of just transition plans for workers and vulnerable communities, including indigenous peoples and local communities, regions and industry sectors, thus investing in vocational education and training, reskilling and retraining, extended or expanding social protections for workers and their families, and grant, loan and seed capital programs for diversifying community and regional economies[[30]](#footnote-30)
* As for subnational, city and local governments, it is recommended to:
* rethink land use and transport strategies and seize the development benefits of low-emission, resilient planning,
* develop capacity to more effectively plan and finance right infrastructure (e.g. clean public transport and greater vehicle efficiency, city cycling infrastructure, energy efficiency for new and existing buildings including sustainable cooling or others in accordance with local realities),
* align national and local fiscal regulations to encourage and enable low-emissions, resilient investment and behaviours
* build climate-related and project analysis and financing capacity at the city and local level
* use of innovative instruments such as green bonds[[31]](#footnote-31)

**Development finance institutions**

* Strengthen mandates and incentives to deliver transformative and scaled-up climate action including by striving to make their activities consistent with low-emissions, resilient development and reducing or phasing out investments in emissions-intensive technologies[[32]](#footnote-32) and maladaptive activities
* Adopt core definitions and mechanisms to ensure Paris alignment at the system level[[33]](#footnote-33)
* Foster to adopt a shadow carbon price to acknowledge the potential carbon cost including in credit assessments as a means to promote among companies, institutions and other stakeholders the benefits of a low-carbon transition and shift more resources towards sustainable projects[[34]](#footnote-34)
* Develop and implement instruments that attract private actors (i.e. guarantees, capital and loans in domestic currency, debt swaps), new investors and sources of funding and use concessional financing strategically to deliver transformative climate action and build enabling environments and climate markets[[35]](#footnote-35) including by working with governments to develop enabling policies and regulations, environments and markets (strengthening local capital markets to attract working capital and lower the cost of doing business through a greater focus on mobilisation of commercial and private financing[[36]](#footnote-36)) to scale up commercial investment, optimising the risks that development banks carry, and using concessional finance –through blended finance, for example- in cases where investments are critical to achieve climate goals, but cannot be viably financed through non-concessional windows[[37]](#footnote-37), either by commercial banks or other financial institutions, including aimed at local or regional governments.
* Increase the availability of grants and concessional instruments to developing countries governments

**Commercial financial institutions**

* Mainstream climate considerations including through:
  + Building out climate scenario models to support financial risk analysis
  + Developing data and analytics for borrower level climate risk analysis
  + Methodological enhancements to the portfolio of impact assessment
  + Integration of transition risk assessment in each organisation[[38]](#footnote-38)
* Foster products and services that have a lower emissions profile or contribute to GHG reductions and adaptation/climate related risk reduction, and are more competitive, increasing financing demand. Such opportunities for commercial banks to better serve clients include investment in energy efficiency technologies, new energy generation and production sources, low-emissions products and services, low-carbon infrastructure. Banks can therefore position themselves to meet the growing demand for low-carbon corporate lending in such segments and help clients from more carbon-intensive industries adapt to the new environment[[39]](#footnote-39).

**Institutional investors**

* Integrate environmental, social and governance factors throughout operations and embed climate into economic and financial priorities
* Engagement with assets owned to better understand climate impacts and stimulate alignment with the Paris Agreement, by integrating climate factors into capital allocation choices across listed equities, fixed income, property and infrastructure as well as private assets and decarbonizing portfolios by reducing or removing allocations to high-carbon assets and direct flows towards assets aligned with the low-carbon economy
* Policy dialogue with local, national and international policy-makers to put in place the reforms needed to correct the market and policy failures that create the climate problem[[40]](#footnote-40)
* Scale up and issuance of green financial instruments/bonds[[41]](#footnote-41)

**Corporate actors (banks, asset managers, pension funds, insurers, credit rating agencies, accounting firms, shareholder advisory services, enterprises)**

* Develop corporate responsibility for environmental risks to communitiescompany commitments to social dialogue to ensure a just transition d renewplans for the consequences of climate change consistent with the Paris Agreement along with company commitments to social dialogue to ensure a just transition and to foster corporate responsibility for environmental risks to communities[[42]](#footnote-42) thus embedding climate into economic and financial priorities and improving the sustainability/climate compatibility of their operations
* Manage climate, environmental and social risks associated with their financing activities, including by means of introducing investment diversification away from high-carbon assets to protect long-term financial interests of beneficiaries in affected sectors[[43]](#footnote-43)
* Foster to adopt a shadow carbon price to acknowledge the potential carbon cost, in advance to future regulations or actual carbon pricing[[44]](#footnote-44)
* Identify opportunities to support clients in finding, scaling up and issuance of green financial instruments/bonds.
* Adopt measures to adapt to the climate related risks of their respective industries (both existent and expected)

AILAC looks forward to this year’s discussions over this issue, as part of the work of the Standing Committee on Finance as well as part of negotiations of the new collective quantified goal on finance that also will consider climate consistency of financial flows as one of its elements.

1. *UNFCCC Standing Committee* on Finance, *2020 Biennial Assessment and Overview of Climate Financial Flows,* 2021, UNFCCC [↑](#footnote-ref-1)
2. UNFCCC Standing Committee on Finance, *2018 Biennial Assessment…,* p. 6, 13, 54, 63, 64, 80 [↑](#footnote-ref-2)
3. World Bank Group - WBG, *Shock Waves: Managing the impacts of climate change in poverty*, 2016, p. 20. [↑](#footnote-ref-3)
4. Rob Vos, Will Martin and David Laborde, *How much will global poverty increase because of COVID19?*, International Food Policy Research Institute, retrieved from <https://www.ifpri.org/blog/how-much-will-global-poverty-increase-because-covid-19> [↑](#footnote-ref-4)
5. OECD, UNEP, WBG, *Financing climate futures. Rethinking infrastructure*, 2018, p. 1 [↑](#footnote-ref-5)
6. UNFCCC Standing Committee on Finance, *2020 Biennial Assessment…,* pp. 12 & 13 [↑](#footnote-ref-6)
7. UNFCCC Standing Committee on Finance, *2018 Biennial Assessment…,* p. 13 [↑](#footnote-ref-7)
8. The concept of net climate finance represents the value of climate finance flows minus financial flows to high-emissions and maladaptive activities, which are currently heavily skewed toward dirty investments. Paul Bodnar, Caroline Ott, Joe Thwaites, Laetitia de Marez, Bianka Kretschmer, *Net Climate Finance. Reconciling the Clean and Dirty Sides of the Finance Ledger*. Discussion Paper, Rocky Mountain Institute, 2017, p.1. [↑](#footnote-ref-8)
9. Decision 1/CMA.3, paragraph 36 [↑](#footnote-ref-9)
10. OECD, *Aligning Development Cooperation and Climate-Action: The only way forward*, OECD 2019, p. 13 [↑](#footnote-ref-10)
11. OECD, *Framing paper on climate-resilient finance and investment*, 2021, p. 18 [↑](#footnote-ref-11)
12. OECD, *Aligning Development Cooperation and Climate-Action: The only way forward*, OECD 2019, p. 13 [↑](#footnote-ref-12)
13. Lopez Carbajal, A., Rojas Squella, X. And Watson C. (2021), *Consistency case study: actions supporting Article 2.1c of the Paris Agreement in Colombia*. Part of Climate-consistency of finance flows: iGST case study series. Retrieved from: <https://www.climateworks.org/wp-content/uploads/2021/03/iGST_21c_Case_Study_Colombia.pdf> [↑](#footnote-ref-13)
14. Shelagh Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals…*, p. 8 [↑](#footnote-ref-14)
15. Lopez Carbajal, A., Rojas Squella, X. And Watson C. (2021), *Consistency case study: actions supporting Article 2.1c of the Paris Agreement in Colombia*. Part of Climate-consistency of finance flows: iGST case study series. Retrieved from: <https://www.climateworks.org/wp-content/uploads/2021/03/iGST_21c_Case_Study_Colombia.pdf> [↑](#footnote-ref-15)
16. Shelagh Whitley, Joe Thwaites, Helena Wright and Caroline Ott, *Making finance consistent with climate goals…*, p. 8 [↑](#footnote-ref-16)
17. *Idem* [↑](#footnote-ref-17)
18. Alignment means ensuring that development pathways are low-emissions and climate-resilient and as a result, sustainable in the face of the multi-layered challenges that developing countries now face. In OECD, *Aligning Development Cooperation …*, p. 19 [↑](#footnote-ref-18)
19. Task Force for Climate-Related Financial Disclosures (TCFD), *Final Report, Recommendations of the Task Force for Climate-Related Financial Disclosures*, June 2017, p. v It is to be noted, however, that the recent 2021 guidance of the TCFD does not cover adaptation and resilience [↑](#footnote-ref-19)
20. IMF, *Fiscal Policies*…, p. 18 [↑](#footnote-ref-20)
21. The Coalition of Finance Ministries for Climate Action, *Helsinki Principles*, retrieved from: <http://pubdocs.worldbank.org/en/600041555089009395/FM-Coalition-Principles-final-v3.pdf> [↑](#footnote-ref-21)
22. *Ibidem* [↑](#footnote-ref-22)
23. UNEP Finance Initiative, *Extending our horizons*, UNEP, p. 66 [↑](#footnote-ref-23)
24. IMF, *Fiscal Policies for …*, p.18 [↑](#footnote-ref-24)
25. *Ibidem*, pp 38, 39 [↑](#footnote-ref-25)
26. The Coalition of Finance Ministries for climate Action… [↑](#footnote-ref-26)
27. OECD, UNEP, WBG, *Financing climate futures…*, p. 106 [↑](#footnote-ref-27)
28. ILO, *Guidelines for a Just Transition towards environmentally sustainable economies and societies for all*, 2015, p. 6 [↑](#footnote-ref-28)
29. The Preamble of the Paris Agreement underlines that “the imperatives of a just transition of the workforce and the creation of decent work and quality of jobs in accordance with nationally defined development priorities” are to be taken into account on its implementation. Also, the International Labour Organisation provides guidance on a **just transition** to environmentally sustainable economies and societies; signalling that enabling a just transition will represent a series of major challenges including, among others: i) economic restructuring, resulting in the displacement of workers and possible job losses and job creation attributable to the greening of enterprises and workplaces; ii) the need for enterprises, workplaces and communities to adapt to climate change to avoid loss of assets and livelihoods and involuntary migration and iii) adverse effects on the incomes of poor households from higher energy and commodity prices; whilst if well managed, it may create potential opportunities in a) net gains in total employment from realizing the potential to create significant numbers of additional decent jobs through investments into environmentally sustainable production and consumption and management of natural resources; (b) improvements in job quality and incomes on a large scale from more productive processes, as well as greener products and services in sectors like agriculture, construction, recycling and tourism; (c) social inclusion through improved access to affordable, environmentally sustainable energy and payments for environmental services, for instance, which are of particular relevance to women and residents in rural areas; in ILO, 2015, *Guidelines for a Just Transition...*, p. 5. [↑](#footnote-ref-29)
30. Just Transition Centre, *Just Transition…*, pp 17, 18 [↑](#footnote-ref-30)
31. OECD, UNEP, WB, *Financing climate futures…*, pp 16, 117, 119, 120 [↑](#footnote-ref-31)
32. *Ibidem*, p. 105 [↑](#footnote-ref-32)
33. OECD, *Aligning Development Cooperation …*, p. 16 [↑](#footnote-ref-33)
34. César Gabriel Espinosa García, *Shadow Carbon Pricing and the role of development banks*, LSE & NAFIN, March 2018, p. 1, 2, 16 [↑](#footnote-ref-34)
35. OECD, UNEP, WB, *Financing climate futures…*, p. 16 [↑](#footnote-ref-35)
36. *Ibidem*, pp 102 & 105 [↑](#footnote-ref-36)
37. *Ibid.*, pp 110 & 111 [↑](#footnote-ref-37)
38. OECD, UNEP, WB, *Financing climate futures…*, p. 64 [↑](#footnote-ref-38)
39. UNEP Finance Initiative, *Extending our horizons*…, p. 7 [↑](#footnote-ref-39)
40. Nick Robins et al., *Investing in a just transition…,* p. 6 [↑](#footnote-ref-40)
41. A good example of those instruments are the [Blue Bonds for Conservation](https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/) which were created as an opportunity for island and coastal nations to reinvest in their natural resources by refinancing their national debt in a way that secures funding for conservation work that also benefits their economies. The countries’ governments commit to protect at least 30 percent of their near-shore ocean areas, including coral reefs, mangroves and other important habitats for climate resilience, and engage in ongoing conservation work such as improving fisheries management and reducing pollution. Then, organizations such as TNC leverage public grants and commercial capital to restructure the nations‘ sovereign debt, targeting lower interest rates and longer payment periods. A portion of those savings fund the new marine protected areas and the conservation activities to which the country has committed. Retrieved from The Nature Conservancy Playbook for Climate Action: <https://www.nature.org/en-us/what-we-do/our-insights/perspectives/playbook-for-climate-action/?tab_q=tab_container-tab_element_975944242> https://www.nature.org/en-us/what-we-do/our-insights/perspectives/playbook-for-climate-action/?tab\_q=tab\_container-tab\_element\_975944242 [↑](#footnote-ref-41)
42. Just Transition Centre, *Just Transition…,* p. 9 [↑](#footnote-ref-42)
43. Nick Robins et al., *Investing in a just transition…*, p. 26 [↑](#footnote-ref-43)
44. César Gabriel Espinosa García, *Shadow Carbon Pricing …*, p. 16 [↑](#footnote-ref-44)