CLIMATE FINANCE STRATEGIES: ANALYSIS OF INTERNATIONAL EXPERIENCES

REGIONAL CLIMATE CHANGE PLATFORM | ECONOMY AND FINANCE MINISTRIES

In collaboration with:

2050 PATHWAYS PLATFORM

IDB

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Acronyms and Abbreviations

IDB	Inter-American Development Bank
JETP	Just Energy Transition Investment Plan
LAC	Latin America and the Caribbean
MRV	monitoring, reporting, and verification
NDC	nationally determined contribution
UNEP-FI	United Nations Environment Programme Finance Initiative

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About the Platform

The Regional Climate Change Platform of Ministries of Economy and Finance of Latin America and the Caribbean is a unique space for knowledge exchange and collaboration. It aims to strengthen economic and fiscal policies in the region to tackle climate change challenges. Established in August 2022 with support from the Inter-American Development Bank (IDB), the Platform is composed of and led by 26 regional bank member countries, which represent over 98 percent of the greenhouse gas emissions of Latin America and the Caribbean (LAC) and over 90 percent of its GDP. This initiative receives financing from the Fund for Fiscal Policy for Climate Change in LAC, which is managed by the IDB and funded by the International Climate Initiative (IKI) of Germany's Federal Ministry for Economic Affairs and Climate Action.

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INTRODUCTION

1. Introduction

The magnitude of resources for financing climate action requires mobilization of capital and investment from both public and private sectors. A study carried out by the InterAmerican Development Bank (IDB) pinpoints the need to redirect the flow of current resources to Latin American and Caribbean countries (LAC) on a scale of between 7 and 19 percent of the gross domestic product (GDP), which amounts to reorienting between US$470,000 million and US$1.3 billion of public and private spending annually (Galindo Paliza, Hoffmann, and Vogt-Schilb, 2022). To implement this change, the challenge is to plan spending and spend in different, more efficient ways, where the roles of Ministries of Finance and Economy would play a central part.

However, the tools for planning and redirecting resources, such as the creation and implementation of climate change finance strategies or investment plans, and where such ministries could play a more important role, are still lacking. Climate change finance strategies enable the ministries to map out a precise vision of the fiscal needs required for meeting the goals of mitigation and facing the challenges of adaptation. In addition, they allow for identifying the multiple barriers to financing to those ends, and the mechanisms for overcoming them, among them counter-incentives, insufficient regulation, the lack of concrete investment objectives, and a disparity in vision and information regarding the classification of climate-sustainable activities.

Climate change finance strategies can be defined as the result of the process via which a country determines how and which financial resources will be mobilized, along with the political and institutional frameworks necessary for steering the transition toward zero emissions and climate resilience (Jaramillo and Saavedra, 2021). They can also be focused on the financial strategy of disaster risk management acting as an instrument used by many countries to direct public and private finance towards climate action, identifying actions and objectives to be met, including specific goals, as detailed by Jaramillo and Saavedra (2021). For example, financial strategies help to define roadmaps for policy and investment decisions, thus meeting climate objectives, such as greenhouse gas reductions. They also serve to increase and disseminate information, by way of methodologies aimed at integrating and incorporating climate change in decision making, such as development of green, social, and sustainable taxonomies, classifiers of public expenditure, and financial disclosure regulations This can lead to international cooperation, the detection of areas of public–private linkage, and the pinpointing of needs and actions. Finally, they canidentify the actions and objectives for achieving compliance of contributions determined at a nationally determined contribution (NDC) level in the framework of the Paris Agreement on the international level, including LAC.

This document draws on questions posed by LAC finance ministries relating to these types of financial instruments, primarily in cases where the instrument is effective in generating mobilization of resources, and where the implementation has been successful; what the benefits are in designing and implementing these climate change financial strategies; and, lastly, what lessons and recommendations can be derived from the experiences analyzed, in view of drawing up and putting in place strategies in the countries which do not yet have one, or in the countries wishing to improve the ones which already exist.

The document provides information, recommendations, and lessons learned based on regional and international experiences in the designing of climate change financing strategies and how to improve their effectiveness going forward. To this end, the experience of 16 countries was systematized through the following: (i) interviews conducted with decisionmakers from 11 LAC countries regarding their expectations on climate finance strategies to identify the needs of the region; (ii) an in-depth bibliographical review on financial strategies published in LAC countries and outside the region and (iii) the amalgamated knowledge and experience of representatives from multilateral organizations, international cooperation agencies, and a think tank of specialists in the field and reflected in the analysis throughout these pages. The document presents 10 main conclusions based on cases per country and the interviews conducted, as well as the lessons learned, best practices, and recommendations for finance ministries.

Among these conclusions, it is worth highlighting the need to prepare data-based diagnoses; incorporate general and specific measures with realistic objectives; and evaluate institutional capacities for implementation, as well as consult with relevant actors, including the financial sector in the preparation of financing strategies. Furthermore, it is important to ensure the coherence and quality of the measures and prioritize strategic instruments, and introduce a mechanism for the yield of accounts and the constant monitoring of results and performance of the implementation process of the strategies.

In terms of best practices, significant advances were found in the LAC region in the identification of public spending on climate change, theme-based bonds and green taxonomies. Nevertheless, it remains unclear as to whether this is related to isolated efforts or the results of a financial strategy. The next logical step is to guarantee the systematic use of this data, enhance its quality and connect it to the financial strategies and national climate goals. Therefore, efforts must continue to ensure data compatibility, developing methodologies not only to identify climate spending, but also to evaluate its efficiency and effectiveness, as well as review decision-making mechanisms over the complete budgetary cycle to verify that public spending correlates with national objectives, such as those established in the NDC.

The following sections present and systematize the results of this analysis and contain conclusions and policy recommendations relevant to the countries of the region. In Section 2 the climate change finance strategies of various countries within and outside the region are analyzed. In Section 3 international climate change finance strategies are itemized. Section 4 presents the main results of the interviews conducted with regional decision makers and multilateral and cooperating organizations. Lastly, Section 5 details the main findings and recommendations of public policies.

This study is part of the Work Plan of the Regional Climate Change Platform of Economy and Finance Ministries, an area for the exchange of knowledge on formulating fiscal policy to face the effects of climate change. Its ultimate objective is to advance initiatives aimed at incorporating climate change in the fiscal policies of governments in the LAC region. Within the Platform, the ministries set up different working groups. Working Group 1, on debt management and green finance in particular, has, as one of its goals, improvement on the understanding of its use, lessons learned , and best practices in design of finance strategies related to climate goals of the countries and their NDC.

1 Argentina, Brazil, Bolivia, Chile, Colombia, Dominican Republic, El Salvador, Haiti, Jamaica, Panama, Paraguay and Panama.
2 Argentina, Belize, Chile, Colombia, Ecuador, Germany, the United States, and the UK.
3 Rabia Transition, NDC Partnership, the UK Embassy in Chile, and the European Bank for Reconstruction and Development.

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COUNTRY CASES: REVIEW OF FINANCING STRATEGIES AND INVESTMENT PLANS AT REGIONAL AND GLOBAL LEVELS

2. Country Cases: Review of Financing Strategies and Investment Plans at Regional and Global Levels

2.1 State of Development of Financing Strategies and Investment Plans

Almost 75 percent of LAC countries are developing a climate finance strategy or already have one in place. According to the analysis published by the NDC-LAC[4] and the bibliography analyzed for this study, 20 LAC countries are actively working on a climate finance strategy.

6 countries have climate finance strategies in place: Belize and Ecuador have had a strategy in place since 2021. Argentina and Cuba completed their strategies in 2023 and 2022, respectively. Chile and Colombia updated their strategies in 2022.

11 countries are in the formulation process: Bolivia, Costa Rica, Guatemala, Honduras, Mexico, Paraguay, Peru,[5] Dominican Republic, Suriname, and Trinidad and Tobago. In addition, according to the Green Climate Fund, Guyana is also advancing this work (GCF, 2020).

10 countries have published financial strategies for disaster management: Bahamas, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Peru.

In both industrialized and developing countries, the last few years have shown a remarkable increase in the development of these strategies. The fastest growing area has been the development of green or sustainable finance strategies or roadmaps for the financial sector. There are over 40 strategies worldwide, including Germany's Sustainable Finance Strategy, Australia's Sustainable Finance Roadmap, Indonesia's Sustainable Finance Roadmap Phase II (2021–2025), Ireland's Sustainable Finance Roadmap, Norway's Green Competitiveness Roadmap (2018), South Africa's Sustainable Economy Financing Assessment (2020), and the United Kingdom's Green Finance Strategy (2019, 2023) (Coalition of Finance Ministers, 2023).

For developing countries, UNDP (2021) indicated that 18 countries had an NDC financing strategy and 57 are in the process of preparing one. The NDC Partnership reported that by the end of 2021, it had supported 55 countries in developing climate finance strategies, investment plans, and financial roadmaps, including Burkina Faso, Costa Rica, Ethiopia, Jordan, Mali, and São Tomé and Príncipe (NDC Partnership, 2022).

4 https://ndc-lac.org/es/paises#sub-stage-implementation-facets-block.
5 In addition, in 2021 Peru published its "Financing for Adaptation" strategy, Peru's National Climate Change Adaptation Plan.

2.2 Scope and Approaches

The financial strategies analyzed vary in approach. Some countries have chosen to publish comprehensive or umbrella climate strategies, addressing multiple aspects at public, private, national, and international level to achieve the country's climate objectives, as is the case for example, in Chile, Colombia, Ecuador, Germany, and the United Kingdom. Most green or sustainable finance strategies, led by finance ministries or regulators, are partial in their coverage, focusing on reporting, disclosure, and transparency of companies and financial institutions (Coalition of Finance Ministers, 2023), as is the case in Argentina, Australia, Indonesia, Ireland, Norway, and South Africa. On the other hand, industrialized countries such as the United States, Finland, Ireland, and New Zealand have fully incorporated climate change into finance ministry strategies. In Ireland, the Department of Finance highlights "promoting environmentally sustainable economic progress" in its 2021–2023 Strategy, with actions for policy advice, participation in the Finance Ministers' Coalition for Climate Action, and strengthening of the sustainable finance sector. In New Zealand, "Navigating climate change" is one of the strategic priorities in the Treasury's Strategic Intent 2021–2025. In Finland, the Ministry of Finance prioritizes a sustainable Finland in its 2022 strategy "Securing Future Prosperity," addressing climate and biodiversity. The U.S. Treasury Department has a strategic plan that includes climate action (Coalition of Finance Ministers, 2023).

In developing countries, there has been a broad focus on producing documents aimed at channeling international resources, for example, through climate change investment plans; one of the international institutions interviewed for this study indicated that their demand for support has been mainly for the purpose of developing investment plans. There are also cases such as Belize's climate finance strategy, whose main objective is to gain access effectively to international climate finance for NDC implementation (The Commonwealth, 2021). Along the same lines, the United Nations Climate Change Secretariat launched the Needs-Based Finance project, with support to develop strategies for accessing and mobilizing climate finance (UNFCCC, 2023a). Amongst these briefs, several strategies with a regional focus have been published, for example, strategies for less developed countries including Asia, Melanesia, West Africa, and the Eastern Caribbean (pending publication), as well as the country strategy for Cuba (UNFCCC, 2023b).

Finally, there are experiences of countries that have developed financing strategies or investment plans with a single focus on mitigation, adaptation, or disaster risk. For example, Costa Rica moved forward with an investment plan for its decarbonization strategy. At the 27th United Nations Conference on Climate Change (COP27), South Africa presented its Just Energy Transition Investment Plan (JETP),[6] the first known in this area. This plan has US$8.5 billion in public funding from domestic and international partners and aims to raise US$98 billion to advance its decarbonization commitments and private sector investment. In addition, under the national adaptation plan process, countries such as Peru, St. Lucia, and St. Vincent and the Grenadines have developed specific financial strategies for this issue. Colombia, Ecuador, El Salvador, and the Dominican Republic have Disaster Risk Financial Management Strategies. In El Salvador, this was developed by the Ministry of Finance in coordination with the Secretariat of Trade and Investment and the World Bank, and aims to safeguard fiscal sustainability in the face of disaster risk under the guidelines of: (i) generation of risk knowledge on the potential fiscal impact of disasters, (ii) combination of financial instruments and mechanisms for the prompt mobilization of resources in post-disaster response and recovery processes, (iii) disaster risk reduction through resilient public investment, and (iv) increased efficiency, effectiveness and transparency of public spending on disaster risk management.

6 The JETP finances just energy transitions in partner countries by bringing together a critical mass of development, philanthropic, private, and domestic financing. They aim to accelerate the early retirement of high-emission assets, invest in renewable energy and related grid infrastructure, and support an inclusive and equitable transition for affected communities. The first JETP was launched with South Africa. Indonesia and Vietnam also launched JETPs (with US$20 billion and US$15.5 billion respectively), backed by private sector commitments of US$10 billion and US$7.75 billion through the Glasgow Finance Alliance for Net Zero, matching public funds. Discussions to promote more JETPs are underway with Senegal and India (UK 2023 Green Finance Strategy, 2023).

2.3 Case Studies

To capture experiences, best practices, and lessons learned regarding financing strategies, a sample of countries was selected for in-depth study, focusing on umbrella strategies rather than a single theme. For the LAC region, five countries with a published strategy were chosen: Argentina, Belize, Chile, Colombia, and Ecuador. In addition, Germany, the United Kingdom, and the United States were included, since they incorporate issues of private sector reporting and transparency, and go further than others to cover policy and public investment considerations. Table 1 provides an overview of these strategies, and the following section summarizes the analysis of these strategies based on the literature research.

Table 1. *General Information on the Sample of Financial Strategies Studied*

COUNTRY	TITLE	DATE OF PUBLICATION	VALIDITY	CONNECTION TO THE NATIONALLY DETERMINED CONTRIBUTIONS	CONNECTION TO LONG-TERM STRATEGY/ LONG-TERM GOAL	AUTHOR
Argentina	National Sustainable Finance Strategy Argentina	2023	–	–	–	Ministry of Economy
Belize	Climate Finance Strategy of Belize 2021- 2026	2021	2026	✔	–	Ministry of Sustainable Development
Chile	Climate Change Finance Strategy	2019 2022 (act.)	2025	✔	✔	Ministry of Finance
Colombia	National Climate Finance Strategy - Closing the Gap	2017 2022 (act.)	2030. Intermediate timeframe, 2025¬/ 2030.	✔	✔	National Planning Department
Ecuador	National Climate Finance Strategy	2021	2030. Intermediate timeframes 2023–2026–2023	✔	–	Ministries of Environment and Water, and Economy and Finance
Germany	German Sustainable Finance Strategy	2021	–	(Sustainable Development Goals)	✔	Federal Ministry for the Environment, Nature Conservation and Nuclear Safety; Federal Ministry of Economic Affairs and Climate Action; and the Federal Ministry of Finance

COUNTRY	TITLE	DATE OF PUBLICATION	VALIDITY	CONNECTION TO THE NATIONALLY DETERMINED CONTRIBUTIONS	CONNECTION TO LONG-TERM STRATEGY/ LONG-TERM GOAL	AUTHOR
United States	TREASURY Strategic Plan 2022-2026	2022	2026	–	–	Treasury Department
United Kingdom	Mobilising Green Investment - 2023 Green Finance Strategy	2023 act. 2019	To be updated regularly. Interim seasonalities, 2023/2024	–	✔	HM Treasury, the new Department of Energy Security and Net Zero, and the Department for Environment, Food and Rural Affairs.

Note: In June 2023, Argentina also published a National Strategy for International Climate Finance. The analysis of that strategy is not part of this publication.

2.4 Characteristics of Climate Change Financial Strategies in Latin America and the Caribbean

In the review of the five strategies of the region, common characteristics were detected, revealing the trends and essential elements considered so far in the aforementioned documents. The following are common sections, in terms of structure, and with specific examples of content and themes developed by the countries.

1. Context: background, commitments, and progress at international and national levels. The five LAC cases include a section presenting the background to the development of the existing climate change strategy and regulatory frameworks at national and international levels. They also present progress made in terms of climate finance in the country. The following topics are also highlighted in this section:

a) There is a connection between the strategy and the NDC or long-term goals. Belize's strategy is focused on resource mobilization for implementing its NDC; Ecuador developed its strategy in line with the timeline of its NDC and conducted a financial analysis connected to the sectors detailed in the NDC. Colombia and Chile framed their work in the context of NDC implementation and the national goal of carbon neutrality and increased resilience by 2050. On the other hand, Argentina's strategy seeks to contribute to achieving economic and social objectives within the framework of the 2030 Agenda, goals within the Paris Agreement framework, and commitments made at the 1992 Rio and Biodiversity Conventions.

b) The five strategies present diagnoses of current finances, though with different methodological approaches and scopes. Argentina developed a diagnosis informed by the results and analysis of the National Survey on Sustainable Finance and Climate Change in 2023, and through interviews with key actors of the Technical Roundtable on Sustainable Finance. Belize informed its strategy with a climate finance landscape study. Colombia presented the status of national climate finances, taking into consideration national and international public and private resources, mainly from its National Planning Department's monitoring, reporting, and verification (MRV) system for climate finance. Chile presented an assessment of the state of progress of goals committed in the first strategy, published in 2019. Ecuador conducted an analysis to identify the amounts invested in climate change and to quantify financing gaps, using a Climate Change Activities Catalog methodology.

c) The strategies also consider estimates of required financing. Belize alone presents an estimate of total aggregate costs by mitigation and adaptation sector for NDC implementation. In addition, it estimates the financing gap, based on the resources already mobilized. Colombia and Chile present aggregate amounts in relation to GDP or dollar figures taken from different national and international studies. The five strategies of the region include considerations for advancements in this area. For example, Argentina is seeking to conduct a diagnosis of needs, technical challenges, and barriers to financing faced by the various productive sectors, with a view to incorporating sustainability criteria, particularly for MSMEs.

2. The strategies consider general and specific objectives. All the analyzed strategies define a general objective. Belize emphasizes access to climate finance. Argentina, Colombia, and Ecuador refer to resource mobilization, including effectiveness and scale approaches. Colombia includes considerations of fairness and equity. Argentina and Ecuador refer to public and private finance. Ecuador also mentions international and national financing. Chile defines the objective of providing tools and policies to address climate change management instruments in terms of financing. On the other hand, Chile, Ecuador, and Belize lay out specific objectives. In addition, Colombia and Ecuador define a vision/mission and, along with Belize, include guiding principles. Common aspects that stand out in these areas are:

a) Considerations to drive/align policies/enabling conditions.

b) Promotion of cooperation and coordination between the public and private sectors.

c) Maximize synergies and co-benefits with sector development plans, growth priorities, fiscal responsibility, and sustainable development.

d) Transparency of information on climate finance and disclosure of environmental, social, and governance (ESG) information.

The strategies are structured in axes, lines of action, and measures. The five strategies' central element defines the strategic axes or lines of action and the corresponding measures or actions for their implementation. The level of detail of the actions, and the definition of goals, indicators, timetables, and parties responsible, varies. Argentina details five strategic axes,[7] each with a description, context, and 46 lines of action. Chile maintains the three axes and 17 lines of action defined in the first version of the strategy, published in 2019, and proposes 46 potential new and expanded measures. Colombia establishes three strategic lines and two cross-cutting lines with their objectives, and 14 work areas or sub-lines. In addition, the action and follow-up plan associated with this strategy details the steps for each sub-line, including specific actions. In total, 65 indicative actions have been identified. The same plan also assigns responsibility for implementing these actions to a working group and establishes a timeline that runs up to 2025 and 2030. Ecuador's strategy comprises three strategic lines, four enabling conditions, 89 indicators, and 83 lines of action. For this, coordinating and implementing institutions are defined, as well as a schedule of measures to be implemented in the short (2023), medium (2026), and long term (2030). Belize defines five cross-cutting lines, seven strategic lines, and actions under each line for the short (one to two years) and medium term (three to five years).

7 The document analyzed for the case of Argentina is the National Strategy for Sustainable Finance. The National Strategy for International Climate Finance was not a part of this study.

There are multiple areas in common in the strategic axes/lines, in particular, the adequacy of the normative, regulatory, and institutional policy framework; management of information, data and analysis; promotion, design, and implementation of financial and economic instruments from public and private sectors; management and access to international funding sources, chiefly focusing on the Green Climate Fund, as well as multilateral banking; generation and strengthening of the capacities of all relevant actors in government and private sectors, and consolidation of climate finance governance. For example, Ecuador seeks to make climate finance attributions an integral part of the legal responsibilities of each ministry and strategic sector by 2030.

Other issues addressed in different areas of the five strategies include taxonomies, MRV systems, working with subnational entities and sectors to access and appropriate resources, working with national development banks, and environmental, social, and governance issues (ESG criteria) with the private sector.

Common measures in the documents which stand out include the following:

a) Developing a project portfolio. This is an essential element in all strategies. For example, Colombia seeks to establish an annual call process with prioritization of strategic projects that contribute to NDC goals and support the structuring of projects and the creation of incubators, following the experience of the Climate Finance Accelerator in Mexico. Ecuador prioritizes technical assistance in project formulation and Argentina, the development of a robust project database. Belize defines the establishment of an integrated project development unit. Colombia and Ecuador also include considerations for facilitating a matching supply and demand to generate green business. Colombia does this through the Climate Finance Corridor.

b) Generation of economic and financial information with climate change considerations. Chile, for example, requires the evaluation of macroeconomic impacts on critical interventions, such as the closure of coal and hydrogen plants and the expansion of electromobility. Ecuador plans to integrate climate finance into the monetary, financial, and macroeconomic reports generated by the Central Bank. Argentina will design a methodology incorporating the climate change dimension into macroeconomic projections.

c) Use of financial and economic instruments such as the following:

i. Sovereign debt: These include instruments such as sovereign green bonds, sovereign sustainable bonds (Argentina, Chile, and Belize); blue bonds (Chile and Belize, where analysis has already been carried out); debt-for-nature swaps (Colombia, Belize, and Ecuador), debt-for-climate action (Argentina and Belize) and debt-for-adaptation swaps (Belize).

ii. Economic and fiscal instruments: For example, Argentina is considering a methodology to internalize climate aspects in the fiscal analysis and, in turn, evaluate and develop proposals for the design of fiscal incentives. Ecuador seeks to generate fiscal guidelines and directives. Colombia's strategy considers regulation of the national program of tradable emission quotas and use of resources derived from the carbon tax. Other economic and fiscal instruments include promoting green taxes and carbon pricing mechanisms.

iii. Subsidies: Colombia seeks to incentivize subsidies on interest rates, insurance premiums, and credit enhancements for investments in technological change with high economic, social, and environmental impact. In turn, Colombia and Ecuador include in their strategies the elimination or modification of existing instruments and incentives that favor investment in projects that are intensive in greenhouse gas emissions or increase vulnerability to climate change.

iv. National public funds and lines of credit: Ecuador's strategy includes creating sectoral funds for combined financing of high-impact climate projects and promoting use of the National Guarantee Fund to support credit products associated with mitigation and adaptation actions. It also seeks to create a climate finance line within the national fund for environmental management.

v. Insurance: Chile considers risk reduction insurance. Similarly, Ecuador and Colombia include climate insurance. Belize is moving toward implementation of the Caribbean Climate Risk Adaptation and Insurance Project (CRAIC II).

vi. National and international carbon markets: Chile includes a system of greenhouse gas emission reduction or absorption certificates. Colombia is considering expanding the supply of carbon certificates to include adaptation processes or certificates with designation of origin or "premium" quality. Argentina is committed to identifying sources of verification of eligibility criteria (certifications, verifications, seals, etc.) for sustainable products.

d) Incorporate climate change into the national budget. The five regional strategies consider some identification or budgetary marking of climate change expenditures. In addition, Colombia calls for developing a technical cost-efficiency analysis to support budgetary decision-making. Argentina seeks to incorporate the sustainability perspective in the definition of the budget of public entities.

e) Unlocking public investment in climate change. Chile is considering a protocol for the technical and methodological support of public investment projects and an analysis of the portfolio of public investment projects. Argentina includes defining, generating, and adapting guidelines and tools for calculating the carbon footprint, and credit and investment portfolios. It also considers defining the role of public procurement in this area. Belize contemplates the development of national guidelines on protecting against climate change in different infrastructures.

f) Climate risks are addressed in the five countries with a climate change financial strategy. Colombia will prepare a technical document to guide the risk roadmap for stranded assets. Belize is considering evaluating climate change financial risks and proposes establishing a system of climate change projections and impact forecasts for financial institutions. Argentina requires a diagnosis of the main physical and transition risks at the national level. Chile will generate regulatory and/or public policy recommendations for various markets to promote the appropriate management of climate risks. Ecuador seeks to promote the consolidation of a financial system that mainstreams risks and opportunities.

4. The strategies consider governance for their follow-up and implementation. In most cases, an existing coordinating body dedicated to climate or sustainable finance is defined for implementing and managing the strategy. Prominent among the governance measures is the existence of technical or interdisciplinary green/sustainable finance roundtables, as discussed in Box 1. The governance measures considered for each strategy are presented below:

a) Argentina.[8] Responsibility for implementing the strategy is assigned to the Sustainable Finance Technical Roundtable. The strategy formulation is based on the roadmap drawn up by this technical roundtable in 2020. Furthermore, the commitments assumed in the Joint Declaration of Financial Sector Regulators are considered for promoting the development of a sustainable financial system in Argentina 2021. This declaration aims to promote the development of sustainable finance in

8 *Ibidem.*

Argentina and was signed by the highest authorities of the Ministry of Economy, the Central Bank of Argentina, the National Securities Commission, and the National Superintendency of Insurance (Government of Argentina, 2021).

b) Belize. It is proposed that the National Climate Change Committee regularly update the strategy on the status of, and actions for, access to climate finance. The committee comprises senior members from ministries, representatives of civil society, and academia. It is co-chaired by the Ministries of Sustainable Development, Climate Change and Disaster Risk Management and Finance, and Economic Development and Investment. At the time of the strategy's publication, this committee was not yet fully operational, indicating the need to continue working toward the financial strategy's effective integration in national climate governance.

c) Colombia. The monitoring and evaluation of the strategy's action plan is the responsibility of the Financial Management Committee, whose technical secretariat is exercised by the National Planning Department, through the Climate Change and Disaster Risk Management Subdirectorate. This committee is part of the National Climate Change System, whose highest coordinating body is the Intersectoral Commission on Climate Change. The strategy also foresees that the subgroups defined for each line of action will meet in working groups every three months, coordinating and articulating their activities to achieve the internal goals proposed by each team.

d) Ecuador. Verification of the progress of impact, and result indicators established for each strategic line and enabling condition of the strategy, is the responsibility of the Climate Finance Working Group of the Interinstitutional Committee on Climate Change. This process will be conducted through periodic meetings and the issuance of an annual progress and/or results report to validate the state of execution and obstacles to implementation. The strategy defines 89 indicators (with no defined targets quantified) to follow up on the three strategic lines, and four enabling conditions.

e) Chile. The implementation, evaluation, and updating of the strategy is the responsibility of the Ministry of Finance in conjunction with the Ministry of Environment and other relevant ministries and sectoral bodies. To this end, the Ministry of Finance will interact on a regular basis with the Climate Change Office of the Ministry of Environment, and other ministries whose participation is required to complement and strengthen the strategy, that is, with regulators, and financial and private sectors. In addition, the Ministry of Finance is to be responsible for defining and delimiting the responsibilities within its own structure in fulfilling these functions.

5. Validity and future updates. All the strategies studied in LAC countries, except Argentina, define an effective date for strategy implementation. In addition, a cycle for updating the strategy is established in parallel with the process of updating the NDCs. Belize's strategy proposes a five-year period starting in 2021 and recommends continuous five-year updates in line with the NDC process starting in 2024. The strategies of Colombia and Ecuador have the lengthiest validity period, of up until 2030. Both countries define actions to be achieved in intermediate time intervals. Ecuador defines actions to be achieved in the short (2023), medium (2026), and long term (2030). Colombia will do so in 2025 and 2030. Chile defines 2025 as the year when an update must be made in accordance with the NDC which Chile must submit that year. This will incorporate the measures' progress and additional guidelines considering the updates of the NDC, the TLS, and/or other climate change management instruments.

Box 1. *Green/Sustainable Finance Roundtables*

In recent years, the LAC region has shown increasing interest and commitment to sustainable finance. On one hand, the financial sector has evolved from risk management (environmental and social), to taking advantage of opportunities (financing sustainable products and services). On the other, there has been an evolution from voluntary agreements and incentives, to adopting measures toward regulations.

One of the efforts to promote these actions has been the creation of interdisciplinary green or sustainable finance roundtables, driven mainly by the private and financial sector and, more recently, with the participation and/or leadership of the ministries of economy and finance. These initiatives are voluntary public–private alliances in which the public, financial, banking, and business sectors, and associations—among others—promote strategies and initiatives that contribute to creating a sustainable finance ecosystem in the region's countries. Most focus on the banking and insurance sectors (Comunicarse, UNEP-FI 2020). Argentina, Brazil, Chile, Colombia, and Mexico have shown leadership in these initiatives. Ecuador and Paraguay have also joined in recent years.

Argentina The Sustainable Finance Technical Roundtable was established in 2020 with the initial objectives of: (i) developing a roadmap for the achievement of the National Sustainable Finance Strategy, (ii) agreeing on a joint statement by financial sector regulators to promote the development of a sustainable financial system, (iii) fostering public policy actions for the sector, (iv) promoting the development of incentives and guidelines, and (v) contributing to the development of tools and instruments for resource mobilization.

Brazil created a Green Protocol in 1995 and updated it in 2009. It is a voluntary agreement between the banking sector and the government sector. It addresses three main areas: 1) environmental and social risk analysis, which includes the identification, evaluation, and management of these risks by banks; 2) corporate eco-efficiency in the financial institution; and 3) financing of sustainable products and services.

Chile created the public–private Green Finance Roundtable in 2019, which the Ministry of Finance led in collaboration with the United Nations Environment Programme Finance Initiative (UNEP-FI), the IDB, and the British Embassy in Santiago. Within the framework of the roundtable, it launched a green agreement, an oversight statement and a roadmap (2020–2024). All of these products revolve around climate change and the task force on climate-related financial disclosures. In 2019, the ministry of finance also launched the climate finance strategy.

Colombia in 2012, created a green protocol similar to Brazil's, developed between banks and the ministry of environment, with the impetus of the UNEP-FI. In 2018, the protocol was extended beyond the banking sector and was signed by financial sector associations.

México has had a sustainability protocol since 2016. It also has green bond principles and a taxonomy of green loans, led by the Association of Banks of Mexico. The sustainable taxonomy directed by the Ministry of Finance and Public Credit, was published in 2023. Mexico has a Green Finance Advisory Council, a national multi-stakeholder group which forms part of the Financial Centers for Sustainability.

Ecuador has a sustainable finance protocol led by the Central Bank of Ecuador and recently formed a sustainable finance initiative, a public–private–academia partnership to catalyze the benefits that sustainable finance and impact investment can bring to the Ecuadorian economy in a context of post-Covid19 economic recovery and transition to a sustainable development model (Comunicarse, UNEP-FI, 2020).

Paraguay has had a sustainable finance roundtable since 2012, currently made up of banks that represent more than 90 percent of Paraguay's banking system. In addition, the banks have created several guidelines for the sustainable financing of livestock, agricultural, and agro-industrial activities, with the support of multilaterals, such as the International Monetary Fund and the IDB.

Source: The Coalition of Finance Ministers for Climate Action (2023).

3

INTERNATIONAL TRENDS IN CLIMATE CHANGE FINANCING STRATEGIES

3. International Trends in Climate Change Financing Strategies

This section summarizes trends observed in the analysis of three international strategies; those of Germany and the United Kingdom—of the sustainable finance roadmap or strategy type—and the United States Treasury. Box 2 presents measures typically included in sustainable finance roadmaps or strategies.

A review of the documents of these three countries reveals a structure similar to that developed by the LAC countries presented in the previous section. The strategies include the details of the national and international context; a diagnosis; the presentation of progress, objectives, and a set of strategic axes; and action measures with deadlines and responsibilities defined at the institutional level. As with the strategies in the LAC region, they were developed with input from, or in dialogue with, multiple stakeholders, both public and private.

Box 2. *Measures Typically Included in Sustainable Finance Roadmaps or Strategies*

- Ensure financial stability through stability councils to assess climate impacts and regulatory reforms.
- Increased disclosure of climate risks of private companies, using recognized standards and sustainable taxonomies.
- Improve public and private training, including the revision of school curricula and higher education. Germany and Ireland are considering the creation of centers of excellence.
- Drive product and market innovation, including within the financial, insurance, and pension sectors.
- Improve sustainable data collection and dissemination.
- Evaluate public investments for emissions reduction and resilience.
- Increase the use of green bonds at the sovereign, sub-sovereign, and corporate levels.
- Review and reform incentive and taxation systems to encourage long-term sustainable investment, for example, reducing taxes on investments that qualify as environmentally sustainable according to the relevant taxonomies.
- Improve international climate finance, including from multilateral development banks.

Source: The Coalition of Finance Ministers for Climate Action (2023).

1. Diagnosis. The United Kingdom informed its strategy through the report Greening Finance: A Roadmap to Sustainable Investing (United Kingdom Government, 2021) and through comments from 134 stakeholders who responded to a public call for evidence, including financial institutions, businesses, trade associations, local authorities, and non-governmental organizations. It also includes an analysis of the commercial maturity of key sectors and technologies, as well as consideration of supporting innovation in new technologies, the commercialization of technologies, growth of green sectors, transition of established sectors to sustainable practices, and encouraging investment in climate change resilience. Germany based its strategy on Shifting the Trillions: A Sustainable Financial System for the Great Transformation (German Federal Government, 2021), which includes 31 recommendations and was developed by the sustainable finance committee established by the government in 2021. This committee comprises members and observers from the financial sector, the real economy, academia, and civil society. The United States Department of the Treasury assessed its operating environment to identify factors affecting the priorities and success of its mission over the next four years through a strengths, weaknesses, opportunities, and threats analysis (U.S. Treasury Department, 2022).

2. Objectives. Germany proposes in its strategy to become a leading center for sustainable finance. The United Kingdom seeks to strengthen and expand its position as a world leader in green finance and investment. The United States aims to respond ambitiously to the challenges of climate change, adapt to climate conditions, mitigate risks, and position the global economy for clean and sustainable growth. In addition, there is a trend toward incorporating nature and adaptation into all three strategies.

3. Pillars of action and measures. Similar to the strategies analyzed for the LAC countries, the four international strategies studied include strategic lines and measures, in some cases with defined timeframes. Germany and the United Kingdom define measures for both the financial sector and the role of public policies and finances. For its part, the United States, under the Treasury strategy, focuses its measures on the corresponding area of public sector functions and responsibilities. The pillars and measures of each strategy analyzed are summarized below:

a) Germany defines 26 measures under eight pillars, each with its respective time horizon (short, medium, or long term). The strategy assigns roles and responsibilities at the institutional level for each measure. The pillars to "strengthen sustainable finance at global and European level"; "improve transparency"; "strengthen risk management and supervision"; and "improve and implement impact assessment methods"; focus on transparency and reporting measures for the financial sector. The pillars on "financing transformation" and "the German government in the capital markets" define measures for the public sector, such as continuing the development of The Kreditanstalt für Wiederaufbau as a transformation bank, considering sustainability in the German Future Fund, explicitly considering sustainability in foreign trade finance and federal guarantees, and improving sustainability and transparency in government equity investments. The pillars "strengthening institutions, generating and sharing knowledge" and "creating structures to implement the Sustainable Finance Strategy"; are more cross-cutting, defining, for example, the integration of sustainability aspects in expert competence examinations, training courses, and a broad offering of advanced training and governance around the strategy.

b) The United Kingdom defines its strategy in two pillars, with multiple measures, including 18 activities to be completed by 2023–2024. The first pillar focuses on aligning green finance, focusing on sustainability disclosure requirements, the green taxonomy, environmental, social and government (ESG) data, financial indicators, and skills education. Measures include the evaluation and possible mandate of new sustainability disclosure standards, adaptation metrics and guidelines to improve climate risk disclosure, consultation on the taxonomy, and changes to pension regulations. The second pillar communicates plans by government and public agencies to use tools such as subsidies, incentives, regulations, and business models, providing clarity to companies and investors on the country's priorities. It defines actions to inform the role of public financial institutions and the Export Credit Agency, and calls for the publication of an investment roadmap by 2024, to be updated regularly. Specific measures include funding up to GBP 20 billion for carbon capture and storage, investment of GBP 700 million in the Sizewell C nuclear plant, and support for low-carbon hydrogen production. The strategy includes plans for carbon and nature markets, a focus on what is defined as transition finance, and support for developing countries, including, for instance, a green finance think tank to share experiences.

c) The United States defines four objectives that encompass 13 strategies, 15 desired outcomes, and 36 measures and indicators of success. For each of these strategies, the Treasury defines lead and support departments. In addition, the strategy proposes 11 critical management initiatives and addresses four key questions that require further learning, for example: How does the Treasury ensure that climate policies protect communities disproportionately affected by climate-related risk?

The four objectives are as follows:

i) The strategy should encourage stronger global action, for example, by integrating climate considerations into multilateral banking and regional and national macroeconomic surveillance; reduce support for international investments in carbon-intensive projects; and eliminate domestic subsidies.

ii) The strategy should incentivize and leverage private sector investment, including fiscal policies and incentives to stimulate investment in climate-friendly projects and activities, and leverage federal resources to support the transition and economic revitalization of communities dependent on coal, oil, and gas (see Box 3 for the case of the U.S Inflation Reduction Act).

iii) The strategy should help identify and mitigate climate-related financial risks, considering their uneven effects on sectors and communities. It seeks to improve the use of data in assessing financial risks and take measures to address identified vulnerabilities. It also seeks to improve the disclosure of climate-related financial risks faced by the financial sector, the economy, and the government in official reports. The impacts of climate-related financial risks and associated policies on households and communities will be assessed, focusing on low-income and communities of color.

iv) Finally, it should improve the sustainability of the Treasury's operations, including facilities, fleet, and energy management, for example, with the acquisition of 100 percent renewable energy, 100 percent electric vehicle fleet, and the definition of procurement policies and processes that prioritize climate change considerations.[9] The Treasury is also implementing climate education programs for its staff.

9 The Biden-Harris administration has also implemented the Federal Buy Clean Initiative to achieve net zero emissions in federal purchases through 2050.

Box 3. *U.S. Inflation Reduction Act.*

The Inflation Reduction Act seeks to reduce energy costs for families and small businesses and stimulate private investments in clean energy solutions in all economic sectors, including strengthening supply chains for critical minerals and efficient electric appliances with positive externalities in international trade. Finally, it aims to generate jobs and open new economic opportunities for fossil fuel workers with retrofits to clean sectors. The measures include the following:

- US$16 billion to combat greenhouse gases and reduce carbon pollution.
- US$7 billion to connect and restore coasts, wetlands, and forests.
- US$3 billion for an environmental justice grant program that allocate resources to community-based organizations to address pollution locally.
- Tax credits for new and used electric vehicles.
- Clean energy tax credits to make deployment of wind and solar power cheaper. The law will indefinitely subsidize new carbon-free electricity until greenhouse gas pollution from the U.S. electricity sector falls 75 percent below its 2022 levels, meaning that these tax credits could remain in effect until the 2060s.
- Funding to develop plans to address the impacts of climate change and build more resilient communities.

According to the Department of Energy, the combination of this Act, the Bipartisan Infrastructure Act, and other measures could enable the United States to achieve a 40 percent reduction in greenhouse gas emissions by 2030 from 2005 levels. It could reduce emissions by more than 1 billion metric tons of CO2e in 2030, equivalent to the combined annual emissions released by all U.S. households.

State, local, and tribal governments play a key role in identifying the unique needs of their communities and aligning them with available funding sources. The federal government performs its work through clear communication, transparency, and specialized technical assistance. Although the main document does not provide specific details, it is reasonable to assume that, given the size of the investments contemplated by the law, the U.S. Ministry of Economy and Finance plays a crucial role in the financial planning and monitoring of resources allocated to implementation of the law.

Source: The White House (2023).

4

INTERVIEWS: EXPERIENCES FROM THE DECISION MAKERS' POINT OF VIEW

4. Interviews: Experiences from the Decision Makers' Point of View

The methodology adopted for this study involved an analysis of climate change and/or disaster management financing strategies, NDCs, long-term climate strategies, and other government documents, from a representative sample of 21 selected countries across different continents. This review examined the various forms of climate finance and most relevant aspects of their strategies; reviewed the objectives of their management instruments; assessed whether these objectives were achieved; and identified the channels facilitating their achievement. (See Section 4 on case studies per country). The review of literature and government documents revealed, among other trends, public–private cooperation mechanisms, interconnection of financial objectives versus climate goals, governance mechanisms, and accountability that various financial strategies have in common, within and outside the region.

Nevertheless, an ample number of interviews were conducted to gain a broader understanding of these instruments. Of particular interest to the finance ministries that form part of the Regional Climate Change Platform, is to register what needs drive the development of these instruments. There is also interest in ascertaining the use or usefulness of the climate change financing strategies once published, and in particular, to what extent they inform, influence, or guide decision-making after publication. For this purpose, 11 LAC countries, three extra-regional institutions, and a think tank[10] were interviewed. This section summarizes the main results of these interviews.

1. Regarding motivation, there are various reasons why countries develop financial strategies for climate change and/or disaster risk management. Countries generally comment that they seek to implement measures to increase climate change financing flows. For example, one of the finance ministries interviewed noted that "The strategy is needed to help address a structural lack of resources." However, the following are some of the important nuances in the responses:

a) Contribute to closing the gaps in investment needs and current financing flows.

b) Generate financial incentives.

c) Capture additional resources from sources such as international cooperation, international funds, and capital markets.

d) Capture additional resources for adaptation, resilience, and disaster management.

e) Better prioritization to align flows to national climate change goals.

2. The strategy helps to strengthen coordination and dialogue mechanisms. For example, 10 of the 15 interviewees highlighted that one of the most outstanding contributions from the climate change financing strategies is an improved coordination within the government and with the private sector. This is attributed to the fact that, during preparation of the strategies, countries generally engage in consultation processes with different organisms, as well as with the national financial sector. This has given rise to relevant work already under way, to possible duplication, and complementarity of actions. In addition to the consultation processes, several financial strategies create or strengthen coordination and decision-making mechanisms between government institutions. For example, Ecuador's National Climate Finance Strategy mandates government institutions, including the Ministry of Economy and Finance, to establish permanent delegates in working groups in the Interinstitutional Committee on Climate Change (Ecuadorian

10 NDC Partnership, Embassy of the United Kingdom in Chile, and European Bank for Reconstruction and Development and Rabia Transitions for South Africa.

Ministry of Environment and Water and Ministry of Economy and Finance, 2021). In the case of Argentina's National International Finance Strategy for Climate Change, the activities under the Sustainable Finance Technical Roundtable form a pillar of work in two of the four strategic axes (Argentinian Ministry of Economy, 2023).

3. The climate change financial strategies studied show varied measures. For example, the Financial Management Strategy for Disaster Risk in El Salvador has four strategic lines and at least 20 measures/activities, including easing access to emergency resources for the Civil Protection, Disaster Prevention, and Mitigation Fund and measures to generate protocols which incorporate risk analysis in the creation of public investment projects (El Salvador Ministry of Finance, 2021). However, the interviews show that certain instruments are often key in development of the strategy, or in delivering results with flagship projects during the implementation phase. Frequently mentioned in interviews were the following instruments:

a) Sustainable finance roundtables.

b) Sovereign thematic bond issues or private sector bond issues.

c) Taxonomies.

d) Financial MRV system, in particular budget markers.

From the interviews alone, it was not possible to clearly establish a reason for this recurrence. It should be noted that these are all areas in which significant progress has been made at global and regional levels. Therefore, it may be that, at least partly, the development of certain instruments is reinforced when a critical mass of countries is working on the same topic, testing the effectiveness of the concept, validating methodologies, and reproducing and exchanging experiences.

4. Monitoring of strategy results. The interviewees generally agree that it is too early to measure the results of the strategies published so far. However, many consider that they have been valuable in terms of ordering, improving coordination mechanisms, and giving signals to economic actors. While this is true of compliance with all the measures and lines of action in the financial strategies, there are also examples of the success of individual instruments or measures. For example, 16 LAC countries have issued thematic bonds in the last 10 years, 7 already have systems of climate change budget markers/classifiers, and 9 are in the process of putting one in place. In 2022, Colombia issued its green taxonomy and Mexico its sustainable taxonomy.

5

FINDINGS AND RECOMMENDATIONS

5. Findings and Recommendations

Based on the review of country cases and the interviews conducted, what follows are the main conclusions, highlighting lessons learned, best practices, and recommendations for finance ministries.

1. A common trend is found in the overall structure of the financial strategies studied; however, the level of detail varies between countries. Financial strategies generally include a diagnosis of the state of finance and its relationship to climate change, a compilation of progress to date, and the definition of a set of measures to advance climate finance within a country (such as developing a framework for catastrophe bond issuance or conducting a cost–benefit analysis of the NDC). These measures are usually organized into strategic axes. The United Kingdom’s financial strategy considers two strategic axes (pillars): (1) align the financial sector through regulatory frameworks, tools, and policy channels (Align) and (2) promote public and private investment in line with climate objectives (Invest). Chile considers three axes in its strategy: (1) greening the system through the generation of information, (2) promoting green finance, and (3) strengthening the competitiveness of the greening system. Colombia considers three strategic lines: (1) development of economic and financial instruments, (2) management and access to sources of financing, and (3) support for the prioritization, formulation, and structuring of projects. There are two cross-cutting lines: (1) generation and strengthening of capacities and (2) knowledge and information management.

In turn, the granularity of information on measures varies between strategies. Some present general statements, while others, such as those of the United Kingdom, identify timelines for their objectives. Financial strategies such as those of Germany, Chile, and Colombia assign specific institutions or departments. Where the financial strategies implemented are more closely monitored, indicators are incorporated, as with the case of Ecuador and the United States.

A wide range of measures may be necessary to achieve the strategies’ objectives. For example, Chile, Colombia, and Ecuador consider 43, 65, and 83 measures, respectively. However, as the number of measures to be implemented increases, so too does the workload for ministries’ technical teams, without an accompanying increase in team size. In the strategies studied, there was no information to show that any analysis had been carried out on institutional needs and capacities in compliance with the lines of action proposed.

Recommendations:

a) Strengthening diagnostics based on data, systematic analysis, and multi-stakeholder consultations is good practice. This helps to better understand the current state of finance and identify key areas for action. For diagnostics, a wide range of methodological approaches might be considered. The United States financial strategy considers a strengths, weaknesses, opportunities, and threats analysis. Argentina conducted surveys to generate information for its diagnosis. Colombia analyzed data from MRV systems associated with financing. The United Kingdom employed a public call for evidence, recommendations from government-appointed or independent expert groups, and an analysis of the commercial maturity of key sectors and technologies, as inputs for its diagnostic.

b) Financial strategies can consider general measures, such as broad strategic lines, combined with specific and realistic measures. Defining global strategic lines acts as a guideline on the major achievements aimed for. For example, Ecuador's National Climate Finance Strategy has as its strategic line 3: access, management, allocation, and effective and efficient mobilization of climate finance. However, these broad lines must coincide with specific measures and their corresponding timelines, as well as the relevant bodies needed for facilitating implementation and monitoring progress. The case is the same for Ecuador; strategic line 3 features specific measures, such as establishing lines to allocate public climate finance, and assigning responsibility to the ministry of economy and finance and the ministry of environment and water for achieving this measure within a maximum of three years.

c) Institutional implementation capacity analysis should be considered during the design strategy process. It is important to ensure that institutional capacity and resources exist to successfully implement the agreed-upon measures, or to include measures to expand these capacities over time.

d) Defining measurable outcomes allows for increased accuracy in tracking progress and evaluation of results to inform future strategy updates. Indicators can also help communicate achievements more effectively to stakeholders and the general public. Having measurable results requires the possible inclusion of quantifiable indicators and measurement baselines.

2. A review of international experiences shows that, unlike those in LAC countries, strategies outside the region, mainly in developed countries, incorporate economic and financial stability and competitiveness approaches. The international strategies studied define objectives focused on growth and competitiveness of financial services, financial stability, and the alignment of global financial flows with climate objectives, as shown in the financial strategies of Germany, the United States, and the United Kingdom. In developing countries, strategies place a greater focus on meeting their NDCs and Agenda 2030, as in the case of Argentina, Belize, and Ecuador. Some strategies, such as those of Chile and Colombia, also consider objectives for long-term transformation in decarbonization (Argentina also alludes to a broader vision of action, but without mentioning a specific target).

Recommendation:

Adopt strategic approaches to combine economic stability and competitiveness with long-term, transformational goals for decarbonization, climate change resilience, and sustainable development, beyond the intermediate goals defined in the NDCs. This could lead to strategies that strengthen the economic base while encouraging investment aligned with climate and sustainability objectives. Many studies have mentioned this intersection with socioeconomic objectives as an international best practice in climate action (OECD, 2017). This may require developing long-term analyses that address the dynamics and intersections of socioeconomic goals with climate goals. [11]

3. Financial strategies can focus on issues of high-priority and relevance to the country in question but prioritize lines of action and measures with the greatest potential for impact. Measures included in the strategies comprise a wide range of actions in response to the international literature on required and existing areas of action. These include budgetary markers, public investment criteria, economic and financial instruments, taxonomies, project structuring, and coordination mechanisms. However, connection of the measures—their scope, timing, and practical application—with the scale of impact they may have on the country's climate and socioeconomic objectives, is not always clear.

11 Examples of this type of analysis include cost-benefit analyses developed in Costa Rica (http://dx.doi.org/10.18235/0002870) , Colombia (http://dx.doi.org/10.18235/0004502) and Peru (http://dx.doi.org/10.18235/0003286).

Recommendations:

a) Safeguard coherence of the measures implemented, prioritizing those with a significant and tangible impact on transformations necessary for achieving the objectives of decarbonization, resilience, and sustainability. For example, it is important that countries consider the development of taxonomies within their strategy,[12] as these help discriminate between projects that only reduce emissions in the short term, from those consistent with net-zero emissions pathways in accordance with the Paris Agreement targets.

b) Prioritize strategic instruments. Strategies benefit from focusing on the set of measures, projects, policies, or actions of highest priority to the country and which can have the greatest impact on decarbonization and resilience thereby helping to generate tangible momentum and credibility in achieving the strategy's goals, generating demonstrable effects, and leveraging resources. More is not always better.

4. Participatory processes such as sustainable finance roundtables and roadmaps have proven key for the design of a range of financial strategies and for achievements attained during their implementation. Sustainable finance roundtables commonly involve actors from across the spectrum of the financial system and, in some cases, the corporate sector and academia. Roundtables facilitate collaboration, enabling the sector to identify its needs (and opportunities) regarding decarbonization, building resilience, and protecting against climate-related market shocks. The collaboration of governments, banks, and regulators shows the commitment and political will to drive change through concessions. This enables regulators to give clear signals to the market and obliges financial institutions to take responsibility for sustainability commitments, such as strengthening capital mobilization toward green investments, training institutions, developing quantitative analyses of risk relevance and sector exposure, and improving disclosure.

Recommendations:

It is good practice to build strategies through participatory processes involving, among others, the financial sector. Financial institutions have a role to play in the transition to carbon neutrality. Participatory processes linked to developing sustainable roadmaps can help coordinate the financial sector and provide a clearer direction on the policies, tools, and partnerships needed to change capital flows. These achievements enable the co-construction of actions, goals, and instruments—among others—with multiple public and private stakeholders. This includes strengthening governance mechanisms, coordination, and mainstreaming the agenda and actions between ministries of economy and finance, ministries of environment, and sectors with the most significant potential for transformation (for example, agriculture, livestock, industry, mining, energy). Co-construction mechanisms can be applied to other policy instruments and measures which form part of climate change financing strategies, such as frameworks for thematic bond issuance, cost-benefit analyses of NDCs, methodologies for evaluating public climate expenditure, and green taxonomies.

12 Argentina, Chile, Colombia, Ecuador, Germany, the United States, and the United Kingdom.

5. An issue still pending is determining to what extent financial strategies have impacted climate finance flows. The strategies analyzed define lines of action and activities, but do not define a measure of success. The lack of a measure of success limits the possibility of evaluating the impact of these types of instruments and therefore, of making more concrete recommendations. One reason is that these instruments are relatively recent, with, on average, less than a decade of implementation and in many cases much less than that. The interviewees confirmed this aspect, stressing that it is too early to assess their achievements adequately. However, it can be said that the countries consider that the usefulness (that is - not the impact) of these instruments is so far partial, or at least incipient.

The countries interviewed usually agree that a financial strategy helps to organize the agenda of certain sectors, improve dialogue, and send signals to economic actors. One study finds that countries with a financial strategy have mobilized more domestic and international finance to fund their NDCs (UNFCCC, 2019). However, in both interviews and the grey literature, no causal empirical evidence was found—that is, linking strategy to achievements—on how strategies have continued to inform decision-making once published.

Noteworthy is that during interviews it was found that the authorities with greater clarity on progress, achievements, and delays in implementation, have an updated version of the strategy. In such cases, responsibilities continue to be assigned for following up on the commitments established, demonstrating that financial strategies are interactive processes to be constantly improved upon.

Recommendations

a) Strategies must have accountability mechanisms, making information on the financial strategy's achievements transparent to citizens and stakeholders. The accountability mechanisms for the strategy should establish goals at the activity and measure levels, identify the entities responsible for their implementation, and outline the time frame (short and medium term) in which results should be reported. It is good practice to avoid introducing general goals, for example, "evaluate fiscal management alternatives for transition risks," and opt instead for a specificity that guides decision-making going forward, for example, "identify the vulnerability for public finances of a lower demand for the country's oil production," "quantify the risk," "evaluate the channels through which the impact is distributed," and "prepare a management plan that considers short-, medium- and long-term actions."

b) Financial strategies must incorporate outcome indicators. Impacts will require both quantitative monitoring of flows or trends and qualitative assessments in multiple dimensions. The following are some types of indicators:

i) Measure the flow of capital mobilized for both carbon-intensive and climate mitigation, and adaptation projects using instruments such as green bonds, loans, and equity financing.

ii) Track public and private financial flows over time.

iii) Assess the broader economic impacts of green finance through macroeconomic modeling and analysis, which could include metrics such as GDP growth, job creation, and productivity gains.

iv) Assess the number of financial institutions to have adopted climate risk management tools or portfolio decarbonization targets.

v) Review the quality of climate-related financial disclosures following best practice benchmarks, such as those outlined by the Task Force on Climate-Related Financial Disclosures.

vi) Assess whether financial flows are aligned with climate-vulnerable sectors and communities and with a just transition—that is, whether they are reaching underserved segments. To do this, it is essential to have a definition of the financial flows which are to be accounted for and thus be able to measure and compare these capital flows.

6. In numerous countries, having a financial strategy has allowed for a strengthening of the legal framework and institutionalizing instruments and processes related to public finances. Chile's Climate Change Financial Strategy, first published in 2019 (Chilean Ministry of Finance, 2019), has now been institutionalized as one of the instruments required by the Framework Law on Climate Change (Chilean Ministry of Environment, 2022). The second version of the strategy has shown institutional advances (Chilean Ministry of Finance, 2022). With a clear role and strategy objectives to fulfill, the Ministry of Finance now has, as of 2022, a Green Finance Office, dedicated exclusively to green development and financing matters. On the other hand, the budget law of 2022 took a first step by giving a legal character to the commitment to incorporate periodic analysis of public spending for combatting and preventing climate change, by requiring reporting for the period 2021 (Chilean Ministry of Finance, 2021).

Recommendations

The strategies can be used to define a pathway to building a comprehensive policy framework over time, to include strengthening decision-making mechanisms (climate governance). Developing financial strategies with legal back-up at an early stage of the ministries of economy and finance' involvement, can bring benefits, even if the institutional structure or roles of such agencies are not fully defined at the outset. The strategy can offer guidelines concerning any gaps and indicate the way forward for resolving them.

7. Although there appears to be general agreement on the importance of costing investment needs, this point is not addressed in detail in the strategies analyzed at regional and international levels. It is not clear what level of granularity is necessary for defining the costs associated with a financing strategy. Chile and Colombia present only aggregate figures for transition costs, although they propose to go deeper in the future with a cost–benefit analysis. In contrast, Belize presents estimated costs by sector for its NDC. The United States and the United Kingdom present amounts earmarked for investment promotion in line with the strategy's objectives. Still, a comparison is not made with the estimated costs of needs and benefits.

Recommendations:

For policy decision-making, it must be determined which are the interventions that generate greater net social, economic, and outcome benefits with long-term strategy and NDC objectives, rather than only estimating the gross cost. Every development action carries a cost, regardless of whether or not it includes climate change actions. For example, focusing on the total cost of an NDC in isolation may give the impression that addressing climate change is costly, whereas in fact it refers to services such as water, electricity, and public transport, among others, services which must be provided, regardless of the country's NDC. On the other hand, evidence shows that designing these same investments with climate change considerations in mind generates significant net benefits. A development model consistent with carbon neutrality is projected to generate an additional 1 percent growth in the LAC region (Vogt-Schilb, 2021) and US$15 million net new jobs by 2030 (Saget, Vogt-Schilb, and Luu, 2020).

8. Two issues relevant to the region but which do not figure large in regional financial strategies are: managing risks to public finances due to stranded assets; and eliminating fossil fuel subsidies. Unlike physical risks, transition risks relate to regulatory and technological changes associated with a low-emission or carbon-neutral economy. Transition risks imply that currently, productive assets may be stranded in the future, with negative implications for public revenues, such as royalties from fossil fuel extraction, gasoline taxes, and additional fiscal pressures from contingent liabilities (Delgado et al., 2023). Simulations of future gas demand consistent with different climate scenarios find a scale fromS$42 billion up to US$200 billion in cumulative public revenues from gas extraction in LAC countries up to 2035 (Welsby et al., 2022). The lower estimate reflects the reduced gas demand consistent with a scenario in which global warming does not exceed 2˚C relative to preindustrial values and where around 50 percent of proven, probable, and possible reserves would remain stranded and unextracted.

To date, few financial strategies make explicit reference to stranded assets. In the region, the updated version of Colombia's financial strategy does include it in its line of action on management and access to sources of financing. Specifically, this considers evaluating the investment risk in stranded assets to include them in the public investment analysis. For this purpose, one of the indicative actions proposed is the preparation of a technical document to guide the roadmap for risk analysis in stranded assets.

Fossil fuel subsidies have a negative effect on climate action and climate financing, since they lend economic support to the use of polluting technologies and carry a significant fiscal burden. For example, in 2022 alone, LAC countries granted fossil fuel subsidies totaling US$56.7 billion (Black et al., 2023). Reforming such subsidies is important for aligning public spending with climate action and discouraging the use of polluting technologies. However, policies to reform or eliminate subsidies generate distributional impacts, which can provoke strong public opposition (Funke and Merril, 2019).

Recommendations

Financial strategies can be an important tool to identify, quantify, and manage the impacts of the transition to zero net emissions at the macro-fiscal level and on public finances, including stranded asset risk and distributional impacts. These can review fossil fuel subsidy policies in areas where reforms aimed at rationalizing and/or phasing out fossil fuel subsidies are needed and can support the identification of sectors and communities that will face difficulties due to the energy transition and changes in subsidy policies (Delgado et al., 2023).

9. Good practices are observed in areas such as identifying public spending on climate change, the issuance of thematic bonds, and green taxonomies; however, it is unclear whether these are isolated, successful efforts or an outcome of the financial strategy. Transitioning to a sustainable, decarbonized economy requires action across all sectors and significant investments. In the capital markets, this has given rise to a variety of financial instruments aimed at providing environmental and social benefits in addition to financial returns, most notably thematic bonds. In the LAC region, thematic issuance figures doubled between 2020 and 2021, from US$27 billion in 2020 to US$63 billion in 2021 (Climate Bond Initiative Database). Sovereign issuers support this growth in thematic issuance and represent almost a third of the total issued; in 2022, the countries with the highest volume were Chile, Mexico, and Brazil (ECLAC, 2023). This has been accompanied by the development of best practices and reference taxonomies developed by the market and to which countries have aligned themselves. Examples include the Climate Bonds Initiative taxonomy (2020) and several guidelines which have significantly reduced transactional costs and preparation times for thematic bonds.

More recently, the development of taxonomies has become a key action in the finance market and is a way of seeking to realign public and private financing flows toward sustainable investments. Colombia was the first country in the region to publish the Green Taxonomy in 2022, followed by Mexico, with the publication of the Sustainable Taxonomy in 2023; Chile, the Dominican Republic, Brazil, and Uruguay are working on their own classification tools. Other countries such as Peru, Panama, and Costa Rica have also initiated the modernization of their public investment system by incorporating the use of taxonomies, taking the common framework as a reference, to facilitate the alignment of public investment projects with environmental, climate, and sustainability commitments. While these are significant advances, they are not necessarily linked to the existence of a financing strategy. Two positive examples are Chile and Colombia, where progress appears more systemic, probably because the strategies have elements of accountability. In the case of Chile, the financial strategy for climate change incorporates the development of a national and international sustainable debt market as a line of action to encourage the alignment of financial flows toward a low-carbon and climate-resilient economy (Chilean Ministry of Finance, 2019). In the case of Mexico, for example, the Ministry of Finance and Public Credit has stated that its thematic issues and taxonomy development will form part of the Sustainable Finance Mobilization Strategy currently under development.

Recommendations

a) Integrate development of a sustainable debt market into financial strategies and support it with existing regulations, laws, and broader strategies, including the NDC and long-term strategies in line with the objectives of the Paris Agreement. This would require the design and incorporation of this section in financial strategies with specific and sequential objectives: minimum level of thematic emissions, identification of the type of emissions (for example, green, sustainable, or sustainability-linked bonds), the types of project to be financed, or the performance indicators associated with emissions. Similarly, good practices should be noted. For example, Chile's Green Bond Framework is aligned with broader strategies and regulations, such as the Framework Law on Climate Change and the National Plan for Climate Change. Mexico's Sovereign Bond Framework serves as a guide for selecting projects and programs with social and environmental impact and is aligned with the country's sustainable development agenda and the sustainable financing mobilization strategy led by the ministry of finance.

b) Consider principles of interoperability and comparability in designing taxonomies, using common guidelines and frameworks available for the region. Best practices in aligning investments with decarbonization strategies indicate the importance of robust green taxonomies since, among other objectives, they help to avoid investments which could become stranded assets, or that reduce emissions in the short term but restrict more comprehensive decarbonization over subsequent years (greenwashing). However, it is important to consider design elements that ensure comparability and interoperability of sustainable finance taxonomies in the region and internationally. To this end, there are already tools that can support ministries of finance, regulators, and investors among others in this process, such as the common taxonomy framework recently launched by the United Nations Environment Programme Finance Initiative (UNEP-FI), Inter-American Development Bank (IDB), World Bank, International Finance Corporation, United Nations Development Programme, Economic Commission for Latin America and the Caribbean, Development Bank of Latin America and the Caribbean, Food and Agriculture Organization, and the European Union, all of whom provide a reference framework for taxonomy developments based on international and European Union best practices.

c) Integrate thematic emissions tools and taxonomies in a broader sustainability policy matrix, reinforcing individual instruments. Both instruments are important in sustainability policies but are insufficient to promote rapid scale-up of climate action and sustainable finance. Finance ministries could integrate these elements into their financing strategies along with other actions to leverage and mobilize the full capacity of public and private sector capital toward sustainable investments, such as those described in other recommendations in this section, for example, public budget labeling strategies, among others.

10. The LAC region has made progress in identifying public spending on climate change. The next natural step is to ensure systematic use of the data, maximize its quality and connect it to national financial strategies and climate targets. Establishing climate change budget markers is an area of work apparent in many financial strategies. The LAC region has made significant progress in this area; seven countries already have a marker[13] and a further nine countries are in the process of implementing one[14]. The opportunities for advancing this agenda lie in at least three action areas: (i) comparability and robustness, (ii) evaluation, and (iii) alignment with climate and sustainable development objectives.

Recommendations

a) Progress at the regional level to converge with expenditure classification/marking systems to ensure a greater comparability of data. This requires the standardization of concepts such as emergency expenditures, disaster risk management, adaptation, and negative expenditures (or expenditures inconsistent with achieving climate goals). The adoption of more detailed functional classifiers would also help to identify budget expenditure to be consolidated into more robust values, cover all sectors and not just the environmental sector, and be more efficient and based on better quality data.

b) Develop methodologies to assess the efficiency and effectiveness of climate change spending. Types of indicators to consider include:

i) Determine the magnitude and patterns of climate-related spending throughout the government and assessing the extent to which spending matches established priorities (for example, strengthening the resilience of critical infrastructure).

ii) Assess the cost per climate adaptation outcome achieved through spending programs.

iii) Evaluate implementation rates and results achieved, compared to the original budget and target setting (identify inefficient expenditures and programs which do not achieve objectives).

iv) Evaluate the relationship between current spending and investment spending on climate change.

v) Assess whether different types of expenditures strengthen the achievement of climate goals or, on the contrary, neutralize each other.

c) Review decision-making mechanisms throughout the budget cycle to ensure public spending is consistent with climate goals, such as those defined in the country's NDC. One area of advocacy is to incorporate climate change criteria in the cost–benefit evaluation processes of public investment programs and projects.

13 Costa Rica, Dominican Republic, Ecuador, Honduras, Nicaragua, Mexico, Peru, and Peru.
14 Argentina, Bahamas, Brazil, Chile, El Salvador, Guatemala, Jamaica, Panama, and Paraguay.

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