



Sustainable Finance Index:

A proposal to track the 2.1.c goal of the Paris Agreement

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Motivation

It is urgently needed to reduce 45% of global GHG emissions by 2030 (IPCC, 2018).

The goal of transferring \$100 billion from developed to developing countries has not been met (UNFCCC, 2018). And a new global climate finance target must be created in 2025.

The current Nationally Determined Contributions (NDCs), would lead towards a scenario of more than 3°C (UNEP, 2020).

The health, economic and climate crises put pressure on public finances in developing countries.

Improve the understanding and identification of needs and better connect them with funding streams to increase effectiveness.

It's needed to implement and comply with goal 2.1.c of the Paris Agreement: Make financial flows consistent with low greenhouse gas emissions and climate- resilient development

Private financial flows are increasingly relevant, but the role of the state and public finance are fundamental to policy design and implementation.

Elements needed to operationalise Article 2.1.c:

1. To understand where are we, where we want to be and what are the gaps that need to be fulfilled.
2. To determine the transformational perspective of the 2.1.c. It's not only about more "sustainable" flows, but also less "carbon intensive" flows, and how systems are shifting and transforming their priorities.
3. To define a pathway, milestones, indicators and timelines.



Sustainable Finance Index

It is a tool for monitoring national and international revenues and expenditures of developing countries to address the problem of climate change and the sustainable development objectives associated with it, as well as to identify those resources that could be hindering such progress. The above in order to identify gaps and investment opportunities.

Third edition: Applied to the 20 most emitting countries in Latin America and the Caribbean (by 2021).



Indicators

Variables

SFI



Indicators

They put the countries of analysis in context, since the Index is intended to be applied in regional contexts to compare the levels of sustainable finance in the countries analyzed.



Policy
indicators



Social
indicators



Environmental
indicators



Economic
indicators



**International
financing** indicators



Variables

1. Sustainable Income (SI): full cooperation and funding disbursed from bilateral and multilateral sources dedicated to climate change.

Carbon-intensive revenues (CII): includes revenues from tax and non-tax collection of hydrocarbons and minerals, and the sale of fuel.

SFI

3. Sustainable budgeting (SB): includes budget earmarked for climate change, energy efficiency, renewable energy and natural disasters.

4. Carbon-intensive budgets (CIB): includes the budget allocated to hydrocarbon exploitation, including industrial processes, and the budget for state-owned companies, where they exist.

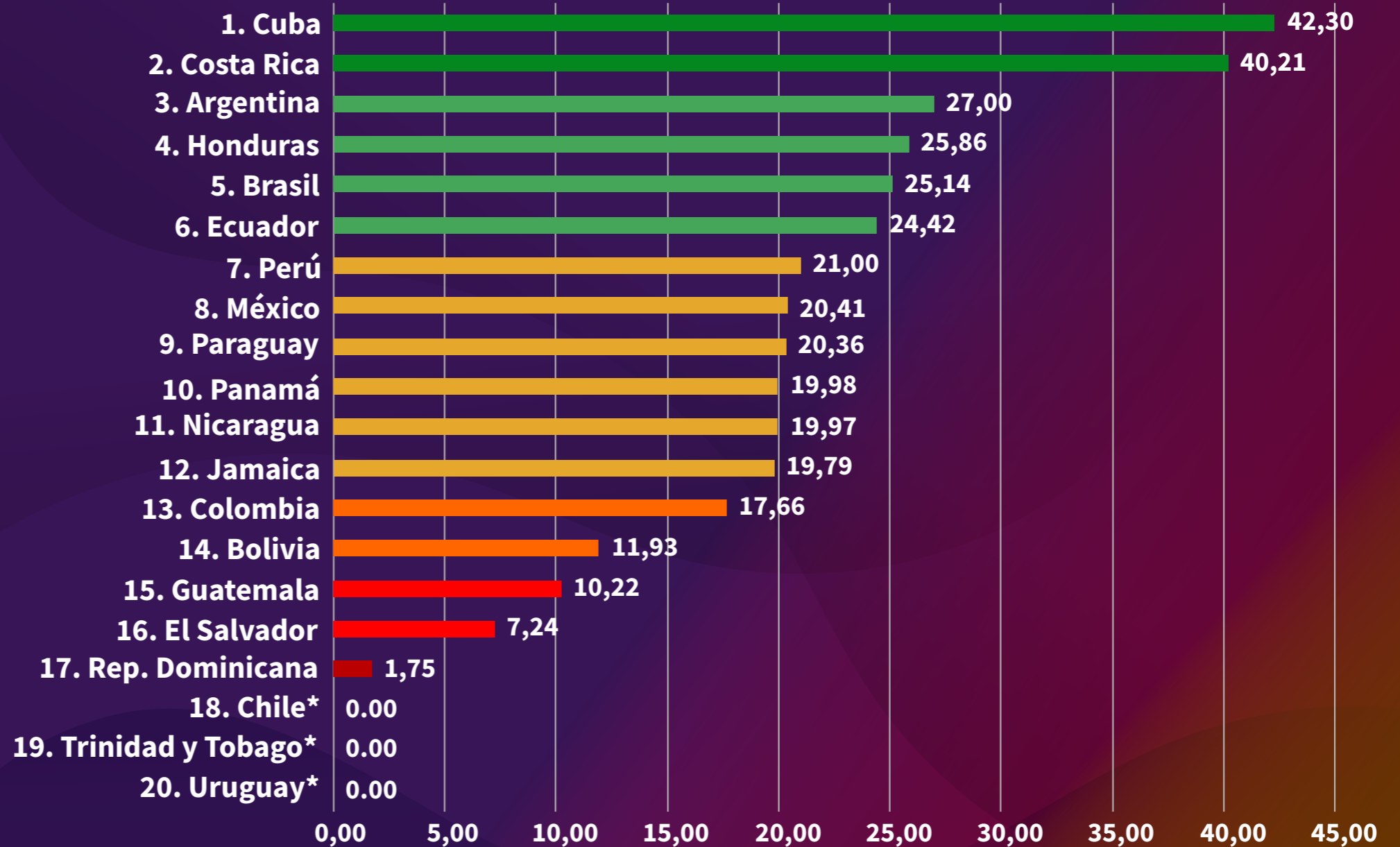


Methodology

- Each variable is worth one point and is scored according to the percentage obtained by each country in each variable. Positive variables tend to 1 and negative variables tend to 0.
- A country with sustainable finances would have 4 points.
- Once qualified, they are classified in one of the 7 categories according to their levels of sustainable finance:
 - **Very High**
 - **High**
 - **Medium High**
 - **Medium**
 - **Low Medium**
 - **Low**
 - **Very Low**

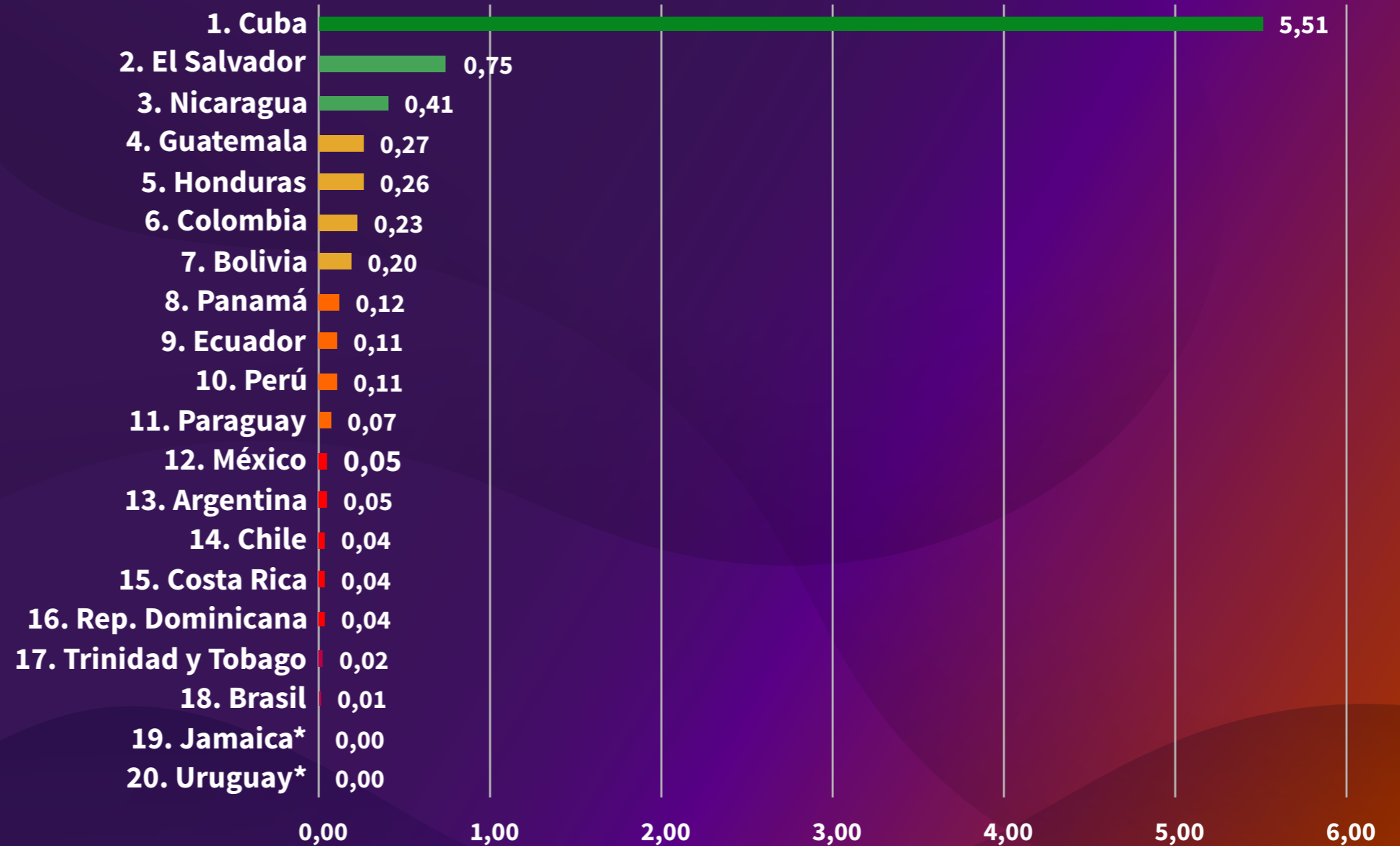


Sustainable Income Ranking 2022 (% of the total) Data for 2020



(*) Sin datos

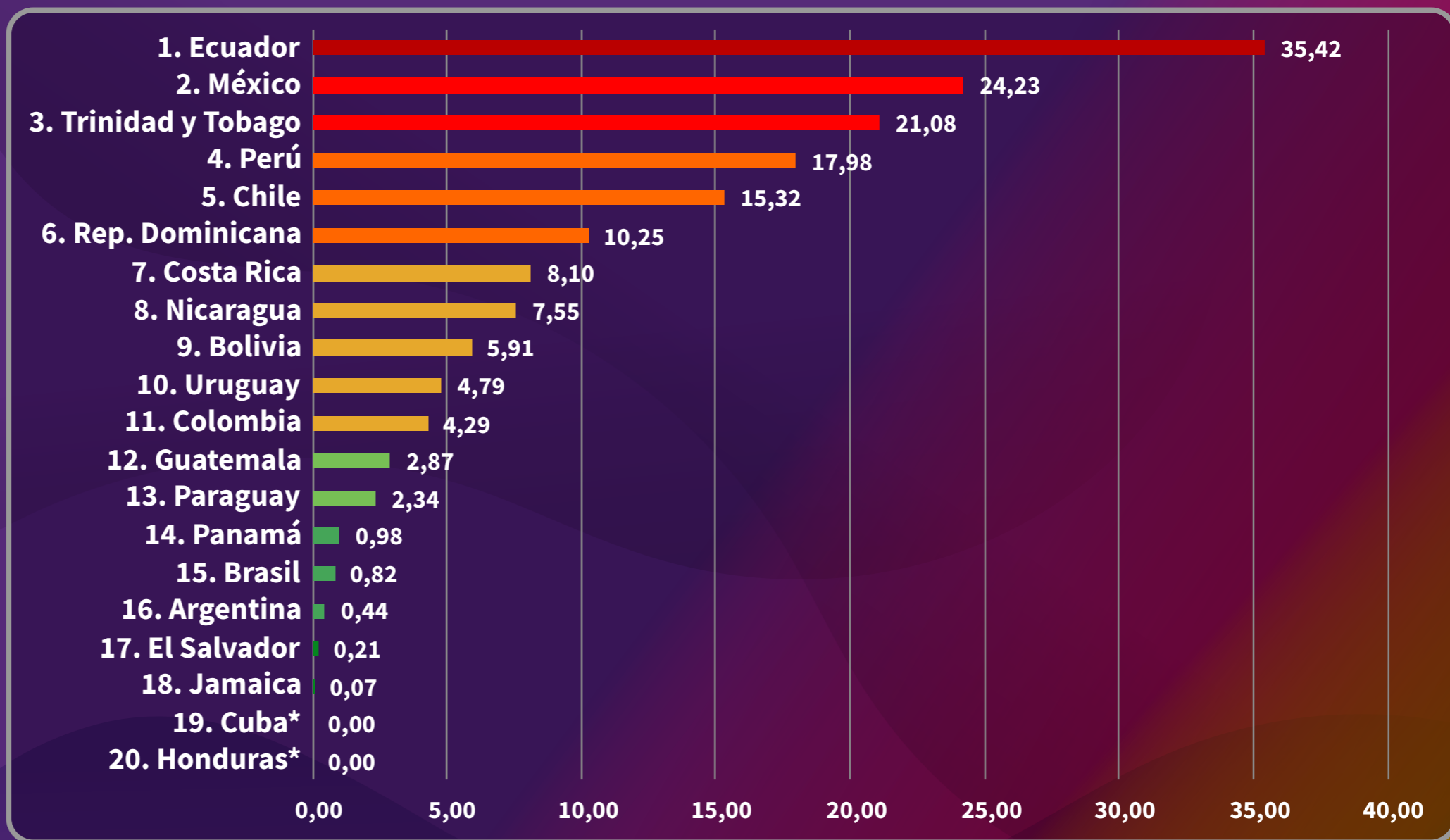
Sustainable Budget Ranking 2022 (% of the total) Data for 2021



(*) Sin datos



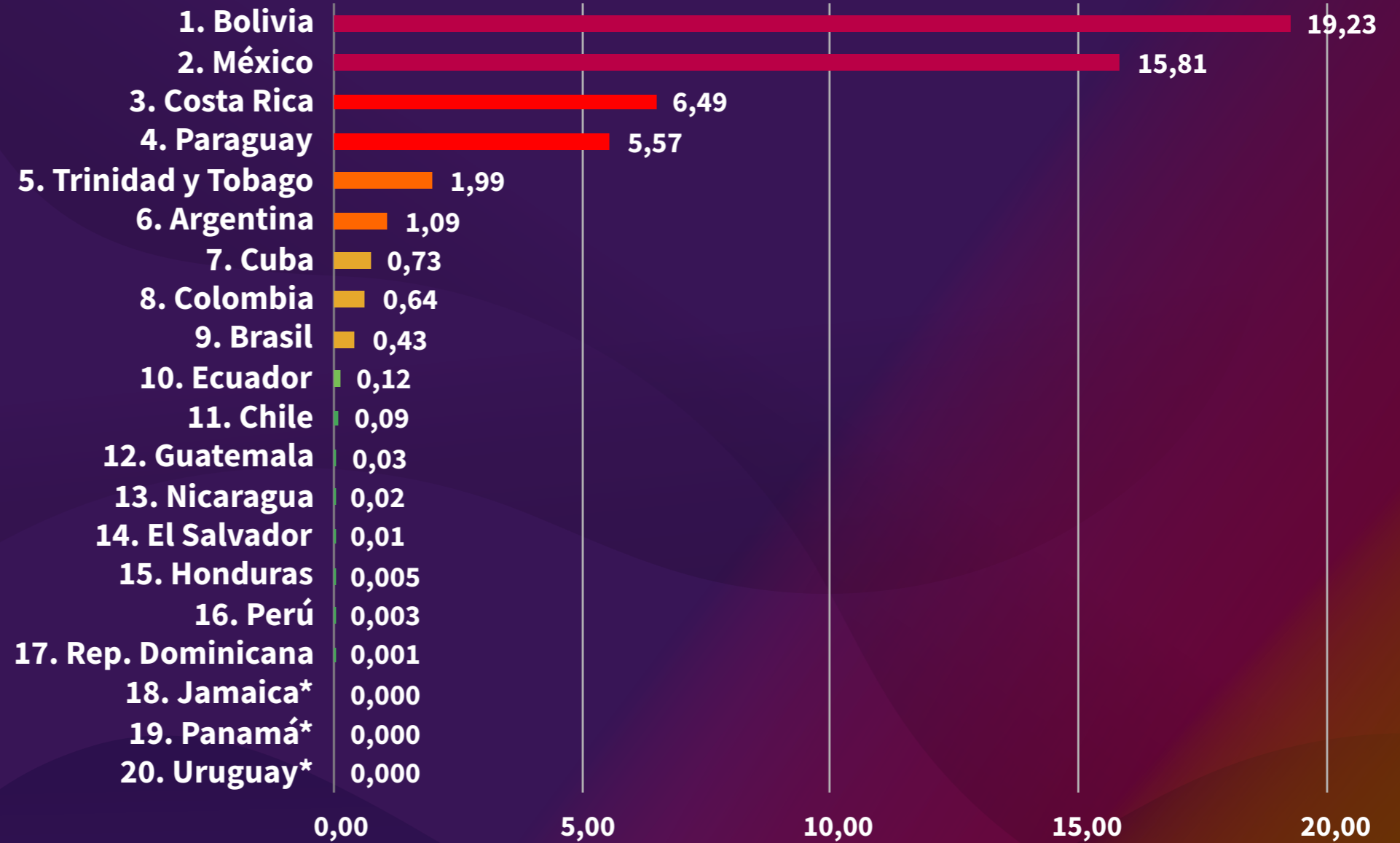
Carbon Intensive Income Ranking 2022 (% of the total) data for 2021



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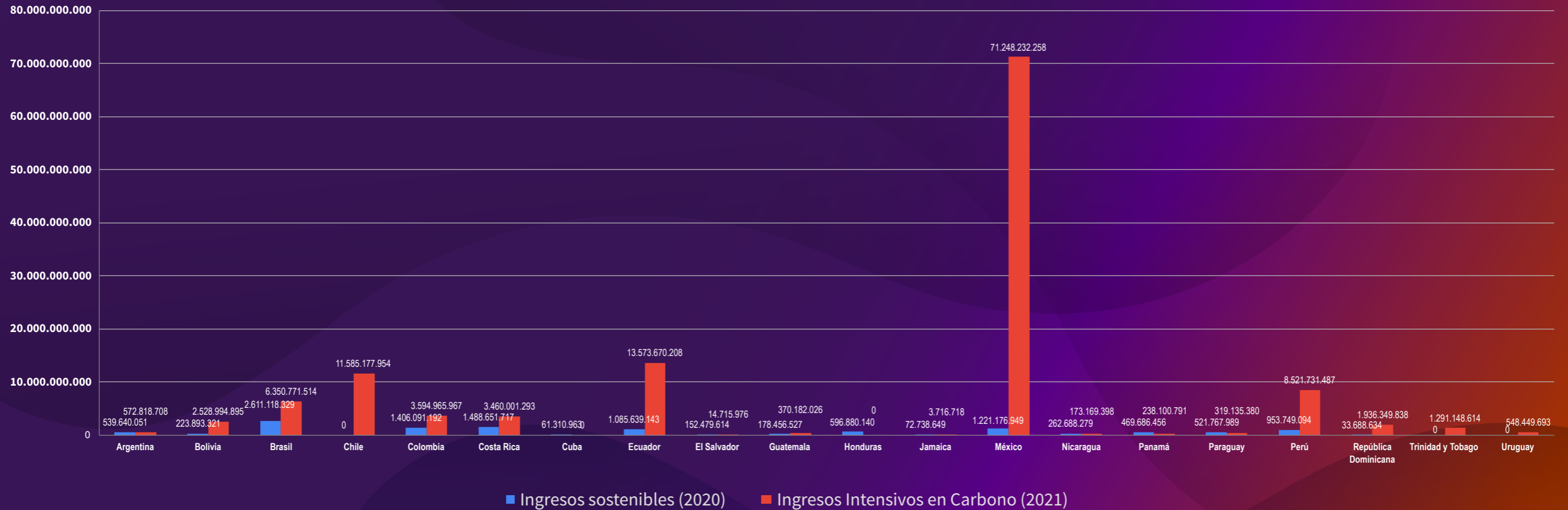


Carbon Intensive Budget (% of the total) Data for 2021



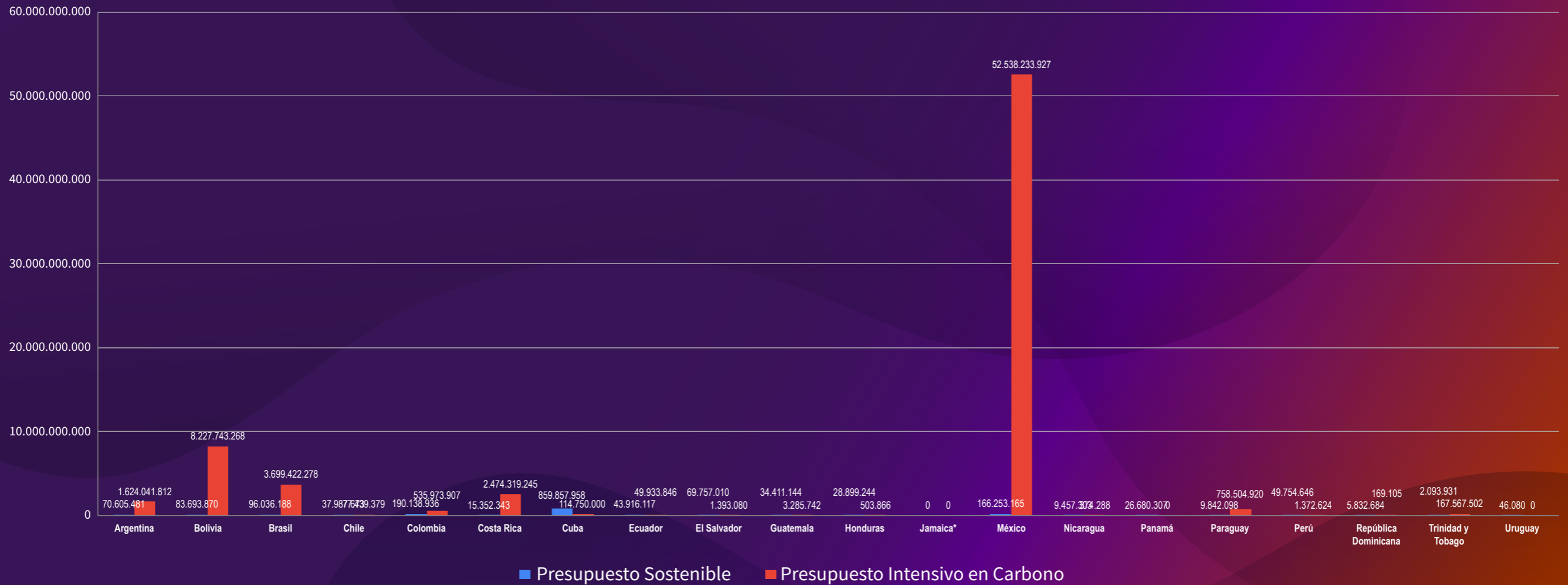
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Sustainable Income (2020) versus Carbon Intensive Income (2021) in USD



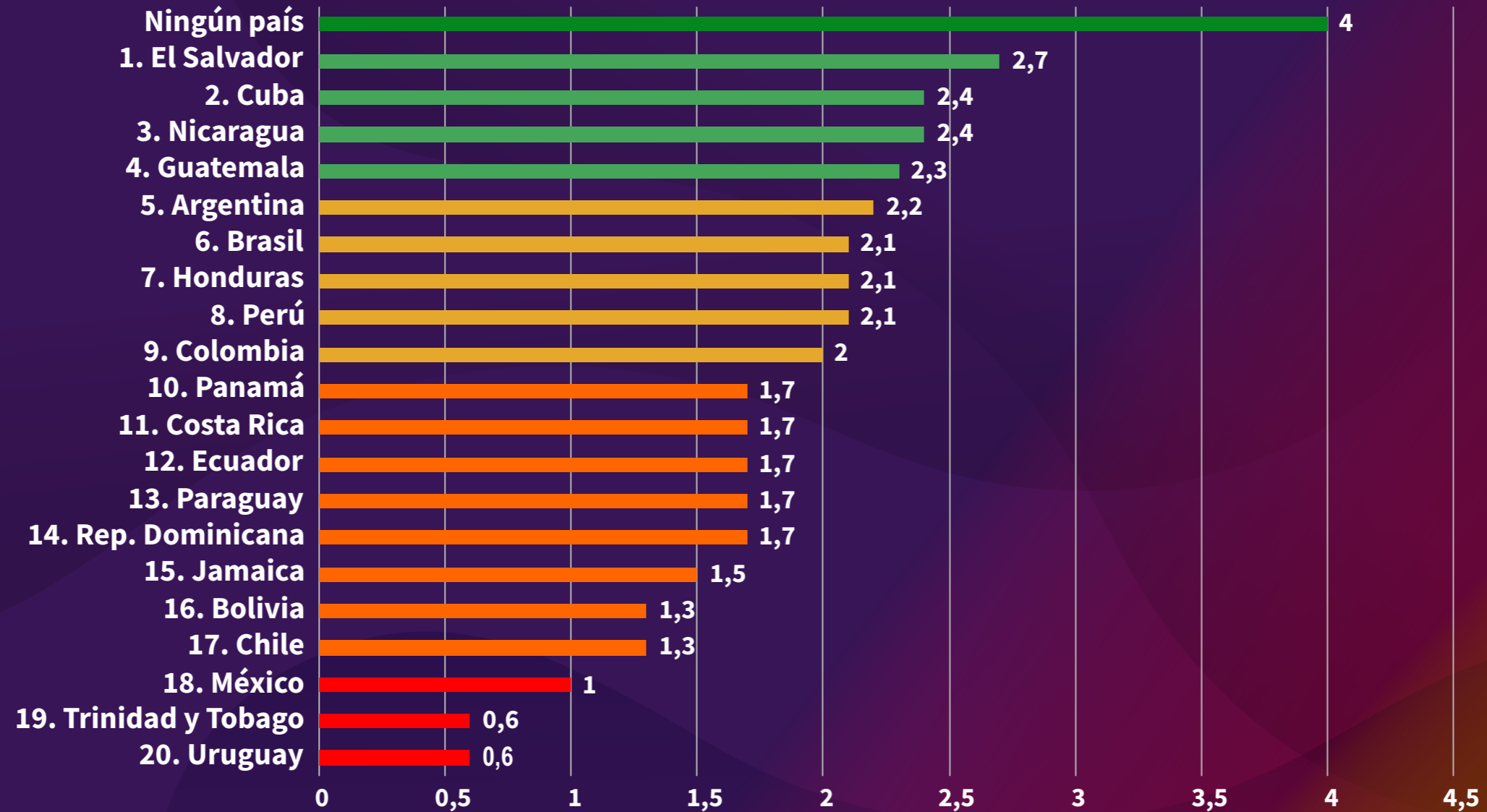
Carbon - intensive income is 10 times higher than sustainable income

Sustainable Budget (2021) versus Carbon Intensive Budget (2021) in USD

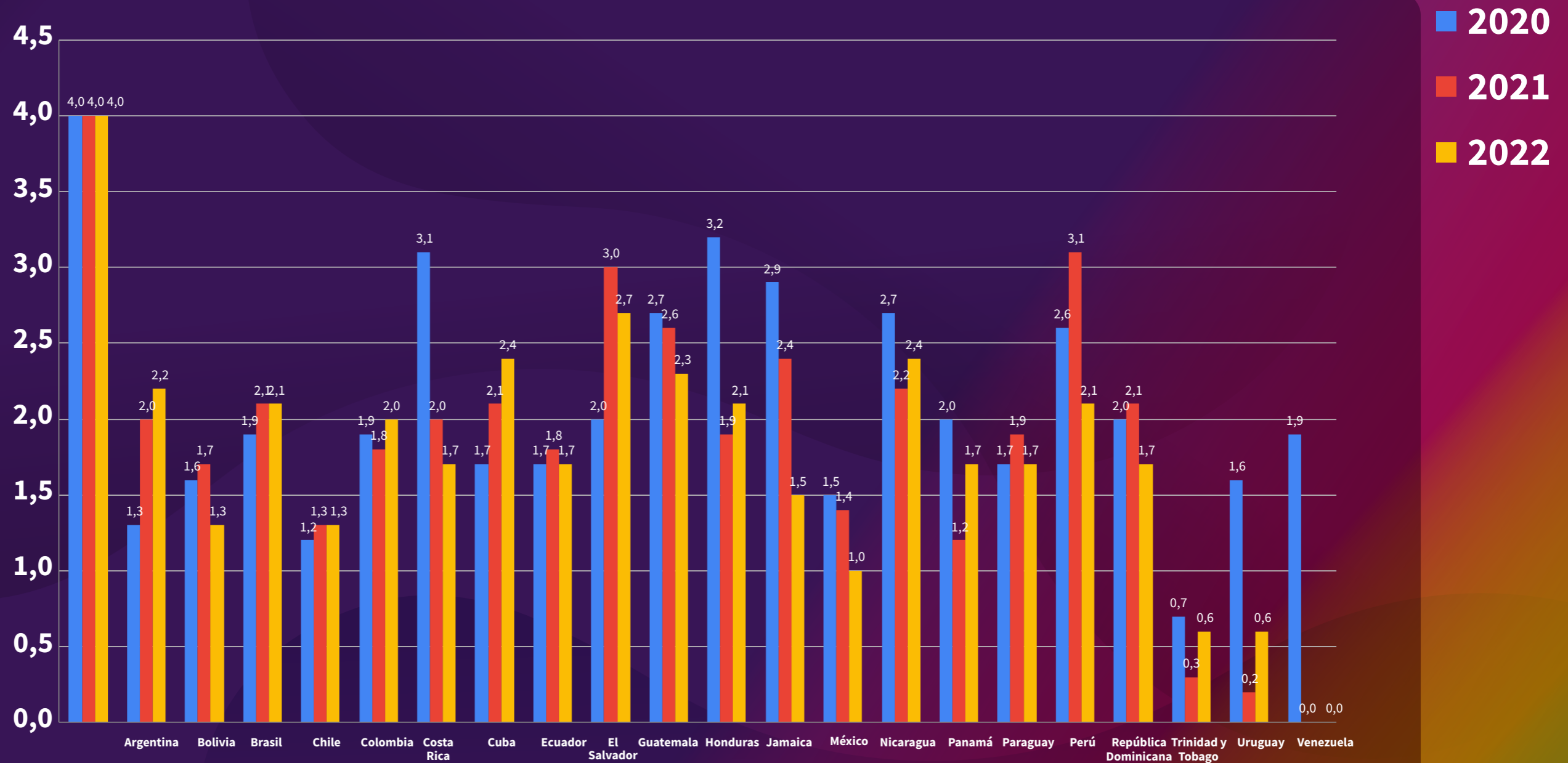


Carbon-intensive budget is 39 times higher than sustainable budgets

Ranking de Finanzas Sostenibles 2022 (Datos a 2021)



Comparative analysis: Sustainable Finance Index



Levels of Sustainable Finance vs Levels of CO2 Emissions in LAC



Niveles de finanzas sostenibles vs Niveles de emisiones de CO2 en los 20 países de estudio



Synthesis

Recommendations for the 2.1.c debate:

1. To track not only the increase on sustainable financial flows, but also the reduction of carbon intensive financial flows.
2. To set some indicators to assess 2.1.c (reduction of X% of carbon intensive investments in given institutions; integration of climate change in X% of bilateral and multilateral cooperation and finance, etc).
3. To define a timeline, by when these changes have to happen? 2030, 2040, 2050?
4. To create a specific tracking system to identify the extent to which institutions are increasing their sustainable finance and reducing its carbon intensive finance, including both public and private institutions.
5. To track transitions and transformations at both, international and national level.
6. To improve the generation and provision of financial information, including both public and private sector.

Case study



Country status:

- Ranked 1st by total CO2 emissions from fossil fuel burning (IEA, 2019).
- Ranked 2nd by total GHG emissions (includes all sectors) (WRI, 2019).



Status of Nationally Determined Contributions (NDCs) to the United Nations Framework Convention on Climate Change:

1st NDC submitted in 2016

NDC updated in 2020




Type of targets within NDCs:

Conditional and Unconditional

Quantitative mitigation target in NDCs (2016 and 2020):

- 22% GHG reduction relative to the baseline scenario by 2030 (unconditional).
- 51% reduction of black carbon by 2030 (unconditional)
- 36% GHG reduction compared to the baseline scenario by 2030 (conditional)
- 70% reduction in black carbon by 2030 (conditional)

- **Includes adaptation targets: yes**



Climate change legislation climate change:

Yes, General Law on Climate Change, 2012



Institutional Arrangements for Climate Change:

Yes, Intersecretarial Commission on Climate Change.



Budget Transparency:

Ranked 1 out of 20 countries analyzed in the Open Budget Index.(IBP, 2021)



Social Indicators



Population (WB, 2021)

Rank: 2 out of 20 countries with 130,262,220 inhabitants



Unemployment Rate (WB, 2021)

Rank: 18 of 20 countries with a rate of 4.38% (annual)



Air Pollution Mortality (WB, 2019)

Position: 12 out of 20 countries with 36,700 deaths per 100,000 population (annual)



Human Development Index (UNDP, 2021)

HIGH HUMAN DEVELOPMENT

Rank: 10 out of 20 countries and position 86 out of 189 worldwide



Gender Gap Index (WEF, 2022)

Rank: 3 out of 20 countries and position 34 out of 153 globally



Multidimensional Poverty Index (OPHI, 2021)

Position: 7 out of 20 countries.

Mexico has a high level of human development, according to the UNDP. However, it is considered a country with significant challenges in terms of poverty levels, gender gaps and unemployment, although the latter, at 4.38%, is below the world average (6.2% according to the World Bank, 2021).



Environmental Indicators



Climate Risk Index (Germanwatch, 2021 with data for 2019)

Position: 8 out of 20 countries and position 54 out of 181 countries worldwide with a score of 59.5/100 (country at medium risk before impacts associated with climate change)



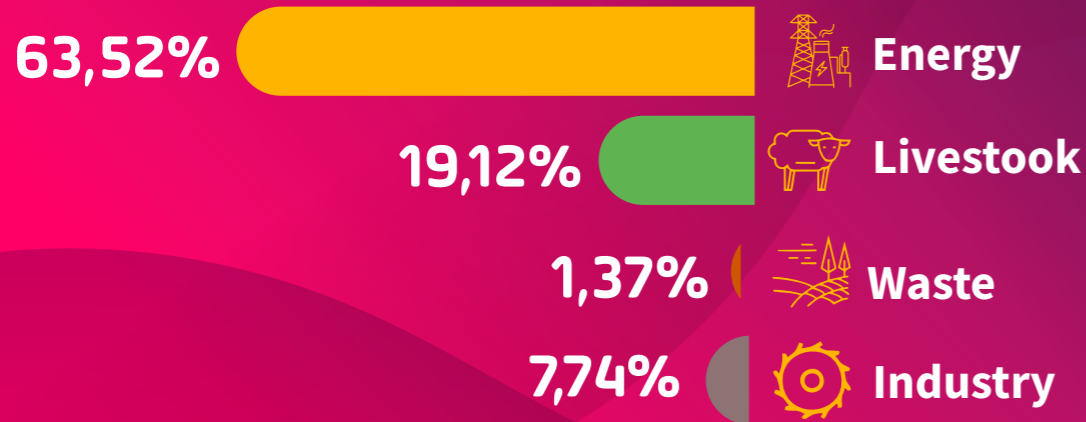
Natural resource depletion (WB, 2020)

Rank: 7 out of 20 countries analyzed with a resource depletion rate of 1.58% of GNI (annual).

Mexico is positioned as a medium-risk country in terms of the impacts associated with climate change, and maintains an average rate of natural resource depletion, positioned in the 7th position out of 20
7 out of 20

Greenhouse Gases (GHG)

GHG per sector:



Co2 Emissions

Position: 1 of 20 countries
419,400,000 tones of Co2

Position: 3 of 20 countries
with 3.21 tonnes per CO2 per capita



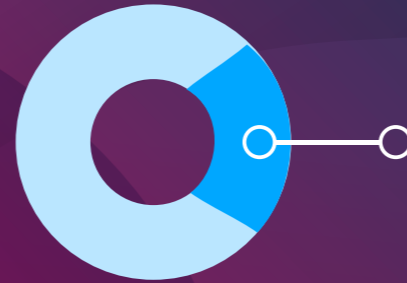
International Development Finance



**Financing for development
(OECD, 2021)**

Total disbursed:
USD 5,984 million

Rank: 3 out of 20 as recipient
of disbursed development finance

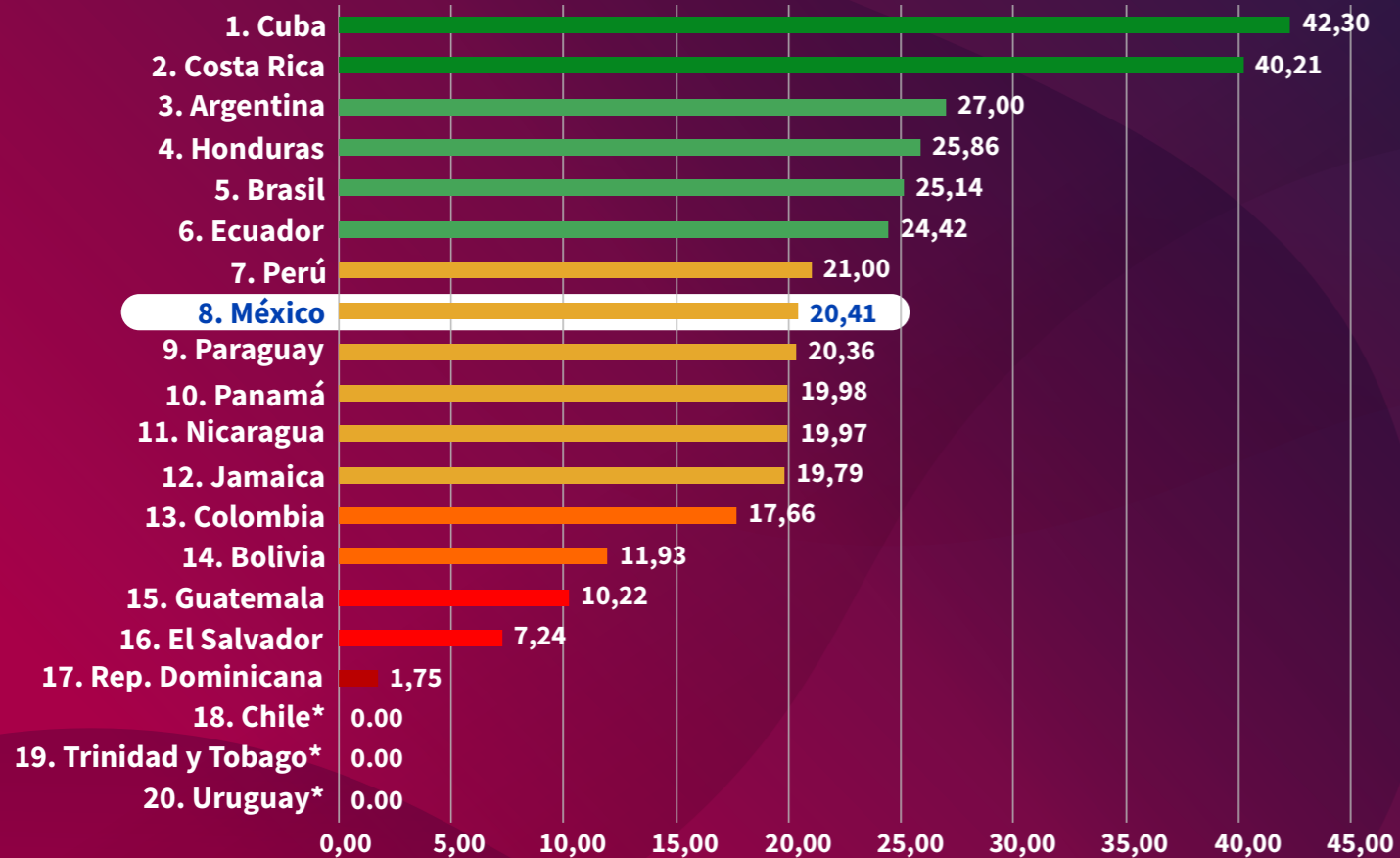


Development finance dedicated to
climate change
of total 2020 (OECD, 2021)
20.41%.

Rank: 8 of the 20 countries receiving
dedicated climate change funding as
a percentage of total (includes all
bilateral and multilateral donors).

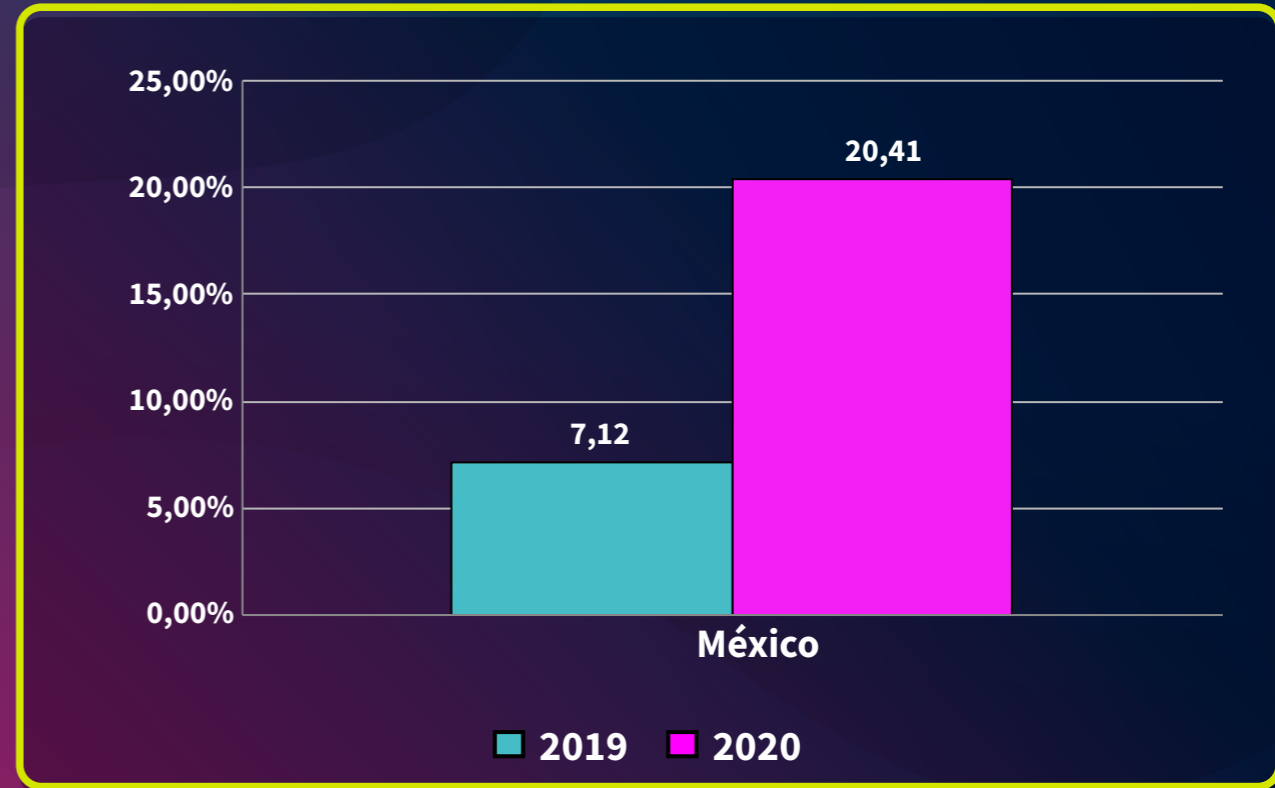


Sustainable Income Ranking (% of the total) Data for 2020



(*) Sin datos

Comparative analysis 2019 and 2020



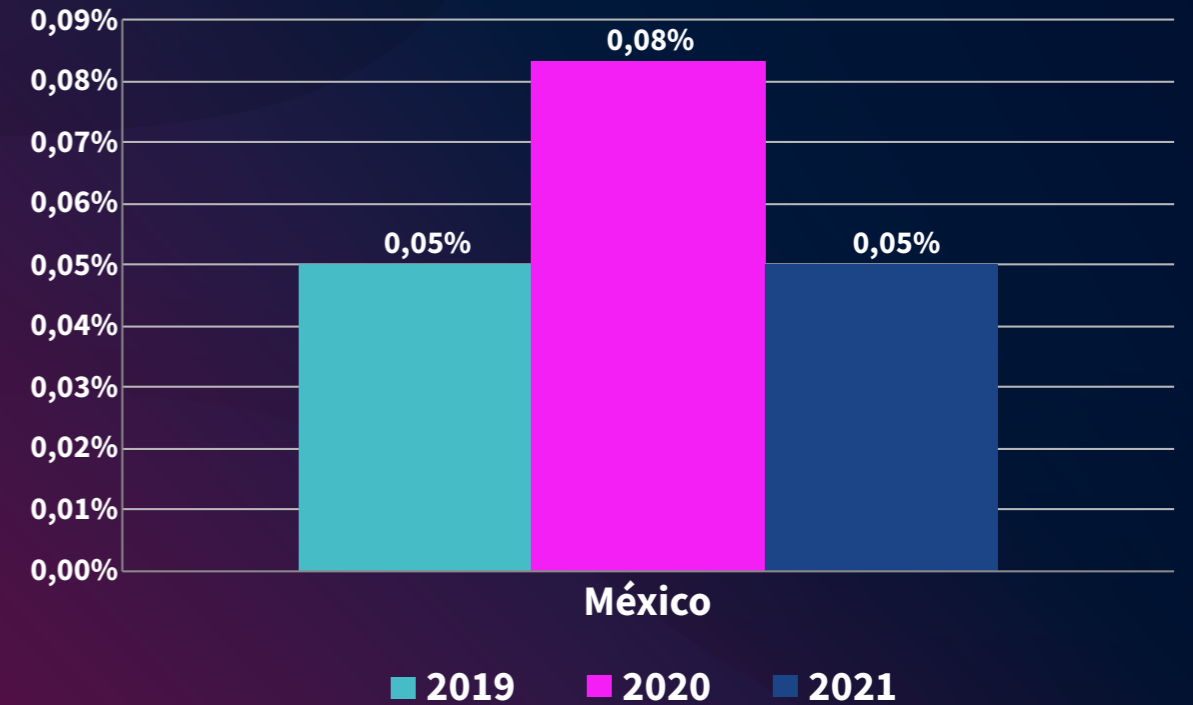


Sustainable Budget Ranking (% of the total) Data for 2021



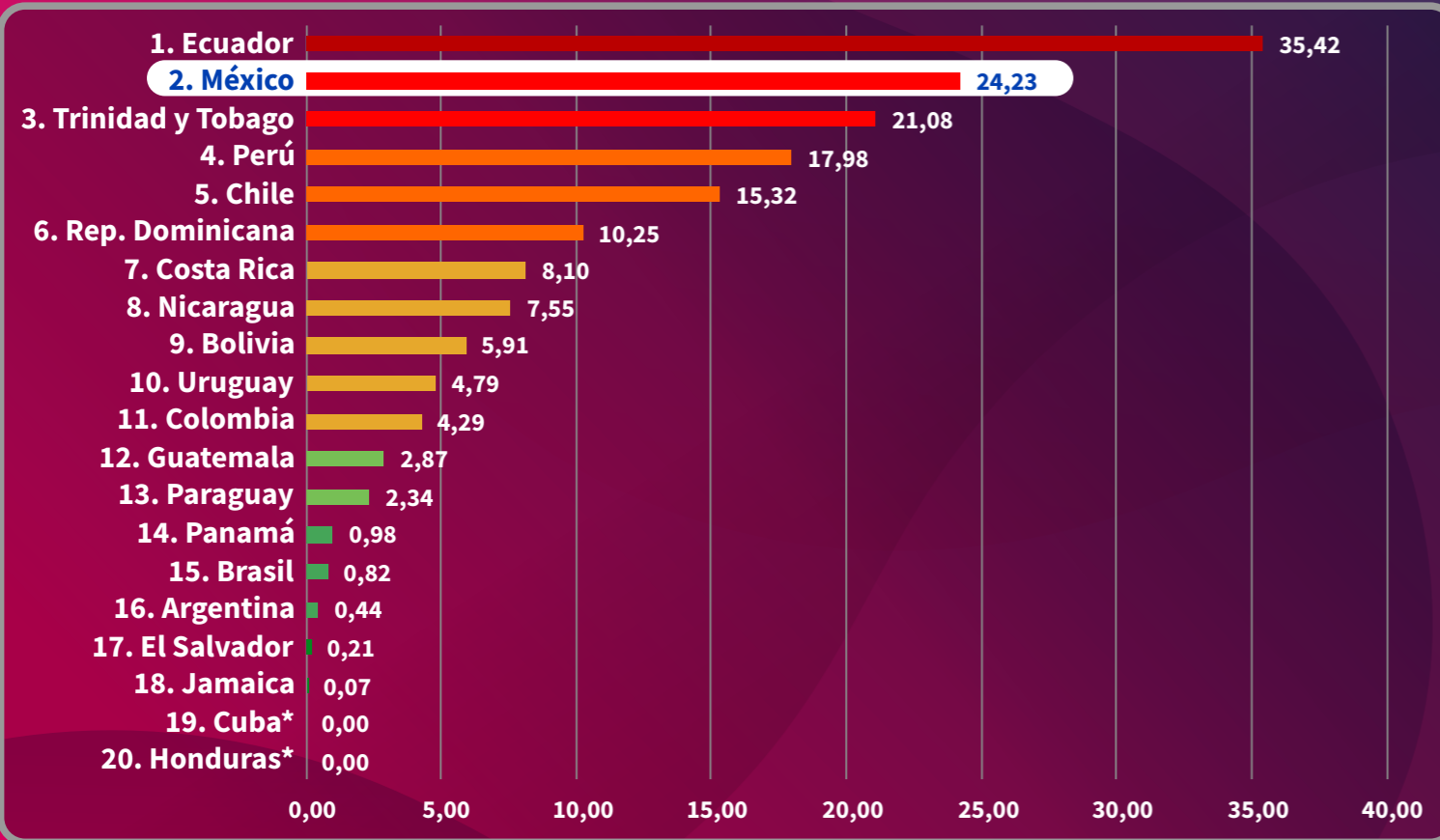
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Comparative analysis 2019, 2020 and 2021



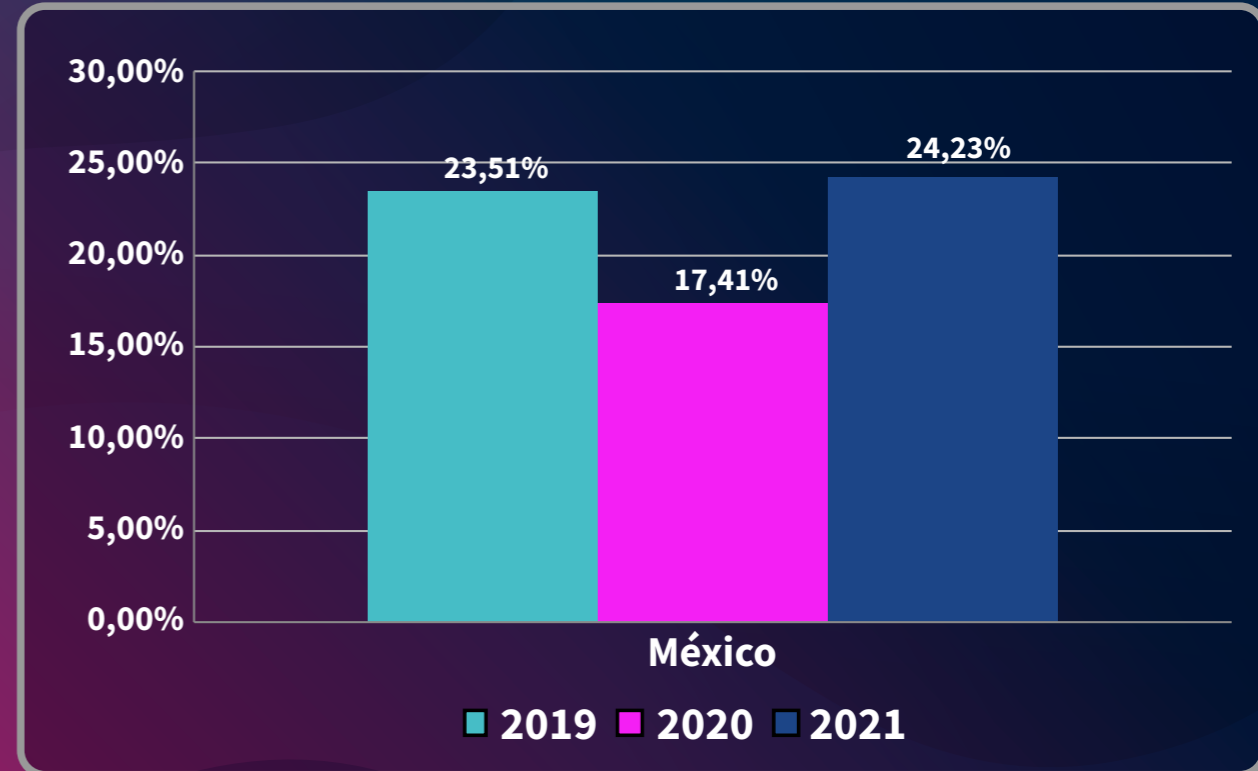


Carbon Intensive Income Ranking (% of the total) Data for 2021



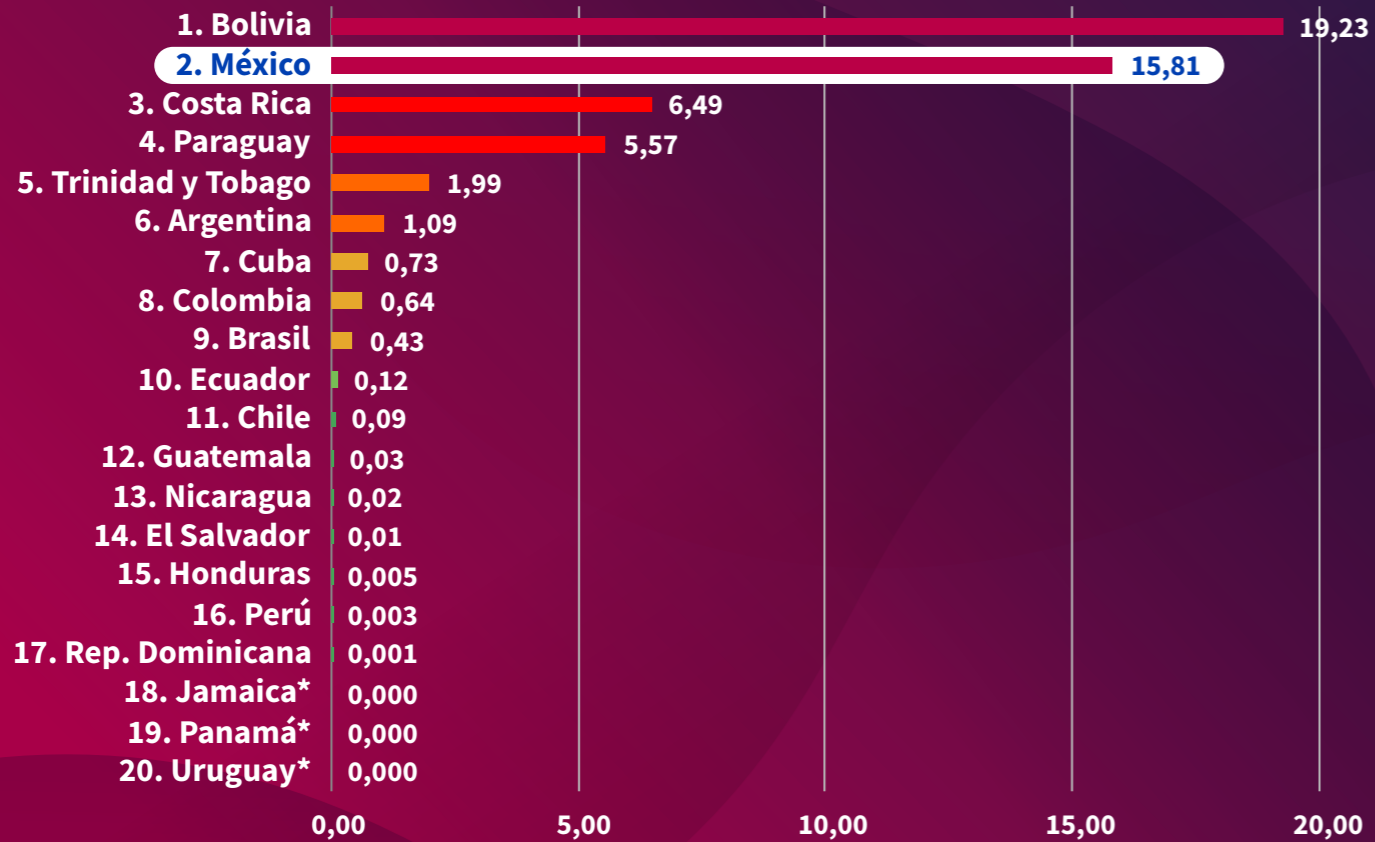
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Comparative analysis 2019, 2020 and 2021



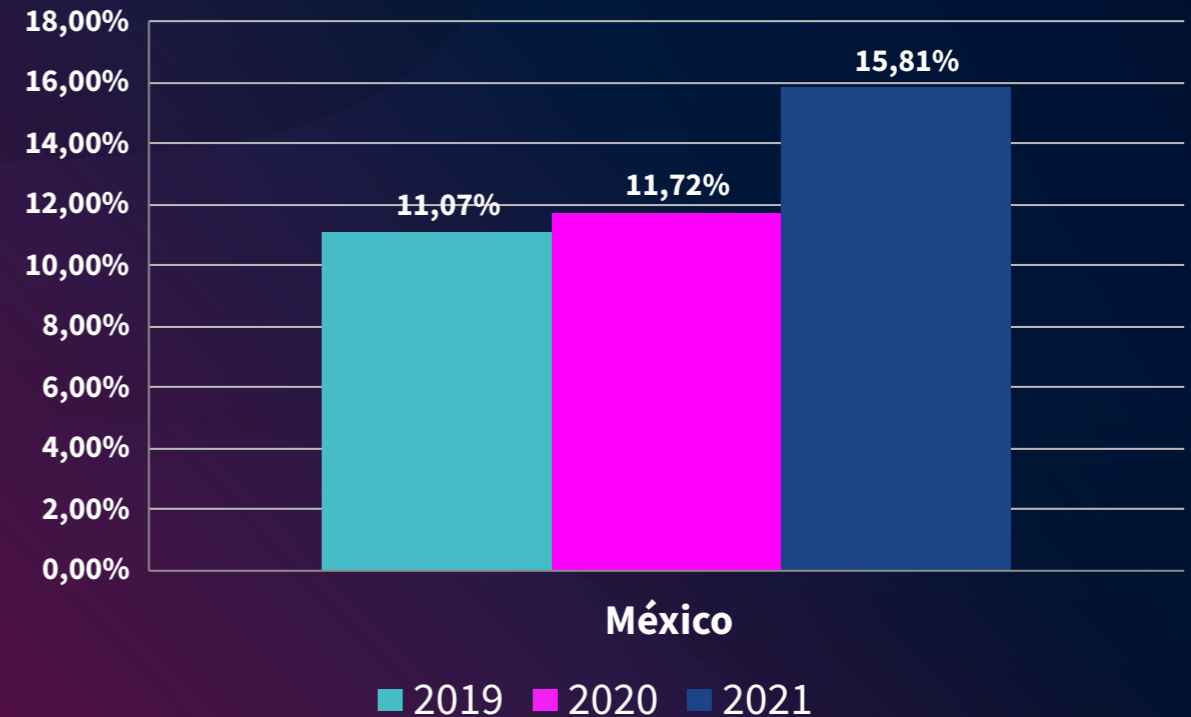


Carbon Intensive Budget Ranking (% of the total) Data for 2021

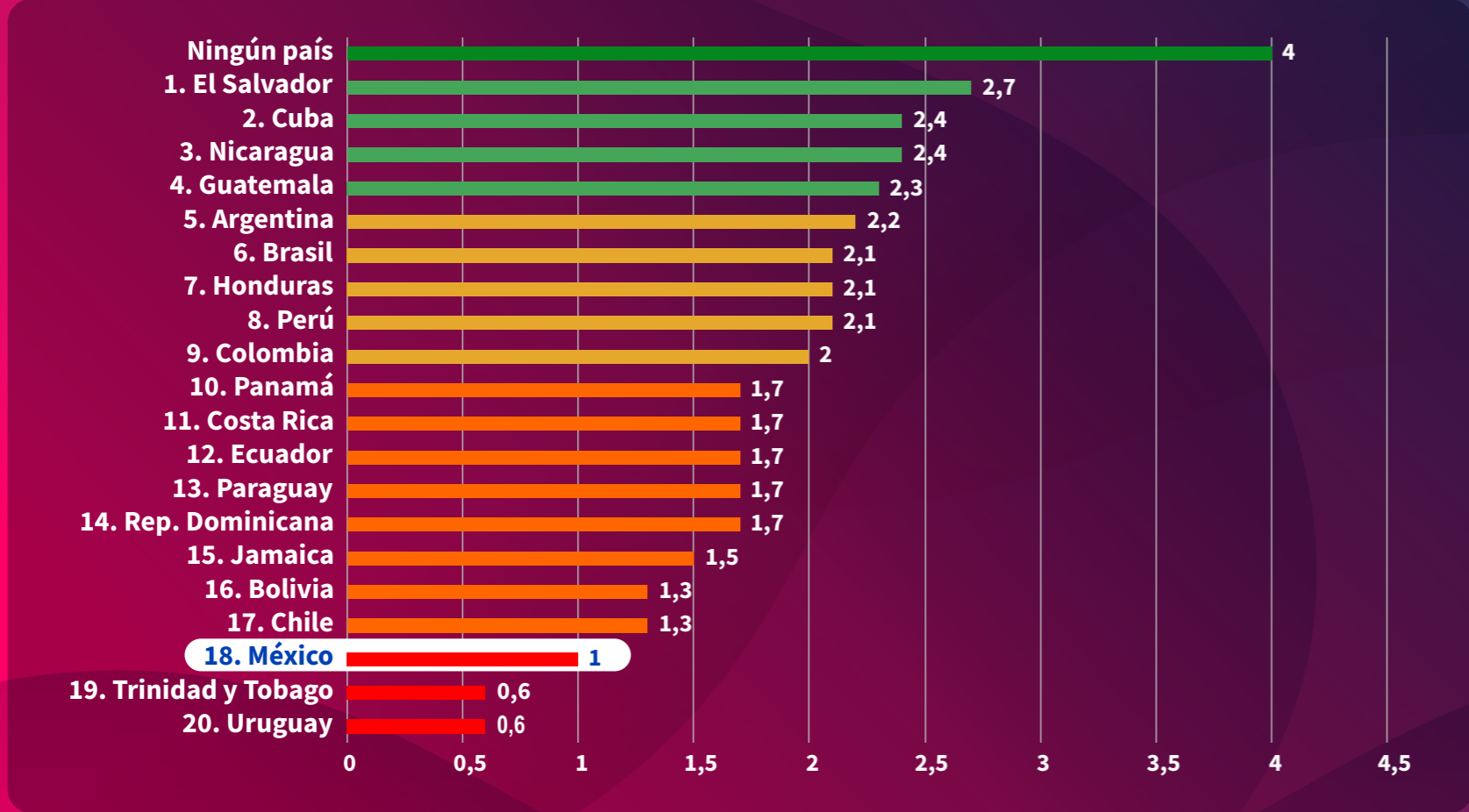


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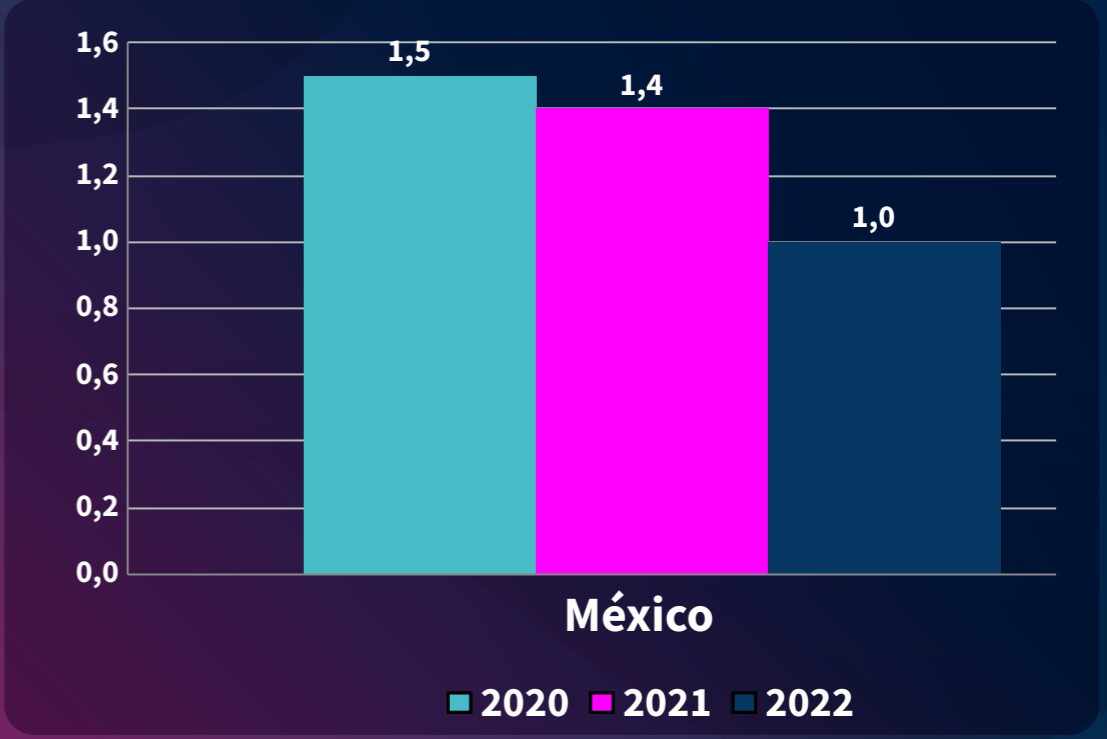
Comparative analysis 2019, 2020 and 2021



Sustainable Finance Index 2022 (Data for 2021)



Comparative analysis 2019, 2020 and 2021



Synthesis of the case of Mexico

- In 2021, carbon-intensive revenue (hydrocarbons, mining and fuels) was 58 times higher than international sustainable finance revenue (which includes bilateral and multilateral sources dedicated to climate change by 2020). Such carbon-intensive revenue was 11.9 times higher than all Official Development Assistance disbursed in 2020.
- In 2021, the hydrocarbons budget accounted for 15.81% of the total budget of the Public Budgetary Sector, 316 times higher than the country's sustainable budget, made up of spending earmarked for climate change, energy efficiency, renewable energy and natural disasters.



Recommendations

In terms of revenue:

- Better define sustainable investment needs.
- Increase the effectiveness of Sustainable Revenues
- Create National Strategies to mobilize Sustainable Finance
- Create Tax Reforms to Decarbonize Public Finances
- Create carbon intensity taxes
- Increase transparency of existing taxes

On Budget:

- Mainstream climate change in the budget.
- Re-target carbon-intensive budgets
- Increase investments towards energy transition
- Increase the amount of sustainable budgets
- Align public finances with sustainable development.

On transparency and access to information:

- Increase budget transparency
- Create classifiers for climate change and sustainable development
- Create and implement methodologies for climate change mainstreaming
- Create systems for measuring, reporting and verification of financing.

Thank you

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