The Potential of Financial Mechanisms for a Just Transition: An Analysis of Challenges and Initiatives in the G20 LAC Countries

ABSTRACT

Just transition is a comprehensive effort to shift to a sustainable low-carbon economy that promotes social inclusion and economic equity. However, in Latin America and the Caribbean (LAC), its implementation faces challenges related to the countries' productive structures and great economic inequalities and social exclusion, in a scenario of extreme events such as heavy rains and historic droughts becoming more frequent and severe. The Inter-American Development Bank (IDB) has proposed a set of actions that governments in the region can take to ensure that the transition to net-zero is just and inclusive. This article aims to revisit obstacles and proposed actions, while expanding on financial mechanisms that can support the just transition. At the end, case studies are presented on how three countries in the region (Argentina, Brazil, and Mexico) have developed and implemented financial mechanisms for a just transition.

1 INTRODUCTION

The goals of the Paris Agreement set out to limit global warming to less than 2°C (ideally 1.5°C) compared to pre-industrial levels, with the aim of achieving a carbon-neutral world by 2050. However, it is important to ensure that its benefits are equitably distributed and that its costs and negative impacts are minimized and compensated, especially for the most vulnerable groups, so that no one is left behind.[1] A process of this nature will require transformative economic changes, with major impacts on LAC's labor markets, with the creation and loss of jobs in various sectors. If this transition is not managed competently, given the characteristics of its productive structures, there is a risk that this process will lead to an increase in inequality and social exclusion in the region.

[1] The concept of "no one left behind" is a central principle of sustainable development policies, including the United Nations (UN) 2030 Agenda and its Sustainable Development Goals (SDGs). According to UN Committee for Development Policy, this principle emphasizes the importance of ensuring that all individuals and communities, especially the most vulnerable and marginalized, share-in the benefits of economic and social development and are not excluded from processes of transformation and growth. In terms of just transition, "no one left behind" means that policies and initiatives aimed at creating a low-carbon economy must include measures that protect and promote the well-being of all segments of society. This involves social protection, economic inclusion, environmental justice, democratic participation and education and training.

In line with the Paris Agreement and the definition used by the UN, just transition is, therefore, a set of strategies and actions designed to ensure that the shift to a low-carbon economy is equitable and inclusive, promoting a fairer and more resilient society (Alfonso et al., 2023). These include, for example, inclusive planning, consideration of the equitable distribution of benefits and mitigation of negative impacts, creation of quality jobs, social and economic protection, strengthening of local capacities and continuous and transparent dialogue between workers, companies, communities, civil society, government and other stakeholders in discussions and decisions on the transition to a sustainable economy.

The financial mechanisms for climate finance are well advanced: there are carbon markets, taxes, fees, bonds, and a series of incentives to promote the transition to a low-carbon economy. The big challenge for LAC is to make this transition in a fair way, with the urgency required, within a scenario of social exclusion and great economic inequality. In this paper, we present examples of economic instruments used in G20 countries that are also part of LAC and point ways of approaching the issue. This strategy should be built on the climate finance experience, trying to cover different needs and realities with the most proper instruments.

The article is structured as follows: section 2 presents the structural challenges facing the economic sectors of LAC countries in achieving a just transition. Section 3 connects this challenge with the climate agenda. Section 4 presents a proposal for a toolkit to achieve a just transition in LAC. Sections 2, 3 and 4 are presented as inspired by the IDB's *policy brief* (Alfonso et al., 2023). Section 5 details the financial instruments for just transition, while section 6 presents examples of how these mechanisms are being used in LAC. Finally, the last section presents the article's concluding remarks.

2. TRANSFORMING LAC ECONOMIES IN A FAIR WAY IS A CHALLENGE

For the transition to a net-zero Greenhouse Gas (GHG) emissions economy to be possible, major economic changes are needed. Some estimates show that, to face the climate crisis, it will be necessary to redirect between 2% and 8% of GDP to infrastructure services and between 5% and 11% to address social challenges (Alfonso et al., 2023). Although the costs of the transition are significant, the benefits outweigh these costs by creating resilience or avoiding the worst impacts of climate change (Galindo Paliza et al., 2022).

Globally, the economic sectors that emit most greenhouse gases are electricity and heat production (32%), transportation (17%), agriculture, forestry and land use change (15%), manufacturing and construction (13%), buildings (6%), industrial processes (6%) and waste (3%) (Alfonso et al., 2023). In LAC, the sectors responsible for almost half (46%) of emissions are agriculture, forestry and changes in land use, followed by transportation (15%) and electricity (13%). The manufacturing and construction sectors, waste and industrial processes together account for around 16% of the remaining emissions, according to WRI

(2022). To achieve net zero emissions, traditional sectors must change: coal mining or oil and gas extraction will need to downsize, while other sectors will need stronger growth.

Important examples of sectoral changes for a just transition in Lac countries are: 1) climate-smart agricultural practices and ecosystem restoration, including the expansion of protected areas and the regeneration of forests; 2) adoption of a circular economy for better waste management, encouraging the reuse and recycling of materials; 3) adoption of the "avoid-change-improve" model to reduce travel in private vehicles and promote public transport and improve the energy efficiency of vehicles and; 4) transition from fossil energy sources to renewable energy sources, creating new business opportunities and jobs in the renewable energy value chain (Alfonso et al., 2023).

The transition to a net-zero emissions economy can generate significant net financial benefits but needs to be managed to avoid increasing the already high inequality and social exclusion in the region. According to data from ECLAC[2], in 2022, more than 180 million people in LAC (29% of the population) did not have enough income to cover their basic needs and, among them, 70 million (11% of the population) did not have enough income to buy a basic food basket, and the incidence of poverty was higher among children and adolescents, women, the indigenous population and people living in rural areas. About 40% of the 292 million people employed in the region earned less than the minimum wage and half of them did not contribute to social security systems, which limits their access to social protection benefits.

Also, according to ECLAC, 40% of households in the region (54.2 million households) depended exclusively on informal employment. In addition, most children (under 15) and older people (aged 65 and over) lived in completely informal or mixed households (61.2%). Data from the World Inequality Report (2022) show that inequality in LAC countries is such that the average income of the richest 10% exceeds the average income of the poorest half of the population by more than 20 times.

Considering the effects on the productive structure, the transition will have major impacts on the region's labor markets. It is estimated that promoting a net-zero emissions economy could generate 15 million net new jobs, mainly in agriculture, renewable energy, and construction. However, this could be partially offset by job losses in the fossil fuel sector and in animal food production (Saget et al., 2020)[3].

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[2] Available at: https://www.cepal.org/pt-br/comunicados/pobreza-america-latina-retornou-niveis-pre-pandemicos-2022-informou-cepal-chamado.

[3] According to the authors, 22.5 million jobs were created in agriculture, renewable energy, forestry, construction and manufacturing, while 7.5 million jobs were lost in fossil fuels and animal feed production.

There are two major challenges arising from the transition of jobs: reducing gender inequalities and retraining the workforce. According to ECLAC, the participation rate of men in the labor market was 74.5%, while that of women was only 51.9%. Most new jobs will be in sectors dominated by men, which requires approaches to ensure that women also benefit. One of the main barriers to women's labor inclusion is the care workload: the participation rate of women in households with children is much lower than in households without children. In LAC, domestic work is one of the main work sources for women, but domestic workers average income is half of the one received by women in other occupations.

In addition, many new jobs will require specific skills, which calls for retraining programs and support for internal migration to areas where the jobs are created. Account must also be taken of the increased presence of migrants in the region's labor markets, who tend to face greater difficulties in gaining employment due to, among other things, irregular conditions.

The desired transition could affect families through changes in energy, food and transportation prices. Renewable energy can stabilize and reduce prices in the medium and long term, but the removal of fossil fuel subsidies can, in the short term, temporarily increase the cost of living, disproportionately affecting low-income families. At the same time, communities that depend on carbon-intensive sectors, such as fossil fuel extraction, will face significant challenges as economic activity in these sectors declines, requiring public sector support for economic diversification and the attraction of new companies. Oil and gas royalty revenues, which currently fund many social services in the region, are also at risk, requiring the creation of new sources of funding for social investments[4] .

The just transition to net-zero emissions in LAC requires profound economic transformations, multi-sectoral coordination and inclusive policies that guarantee the equitable distribution of benefits and the mitigation of negative impacts, especially for the most vulnerable groups. These actions must be accompanied by the promotion of quality jobs and encourage low-carbon investments. Furthermore, the successful implementation of climate change policies depends on the continuous participation of all stakeholders, as this is crucial during the planning and implementation of the just transition.

3. THE CLIMATE CHANGE AGENDA AND THE JUST TRANSITION[5]

In Latin America and the Caribbean, the concern for a just transition is not new. In the 1990s, the process of trade liberalization in Latin America aimed to improve growth, employment, and well-being by reducing trade inequalities

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[4] LAC could lose more than US$3 trillion in oil royalties and more than US$200 billion in natural gas royalties by 2035, affecting the provision of social services and poverty levels in communities linked to high-emission sectors (Alfonso et al, 2023).
[5] Information in this section provided by Alfonso et al. (2023).

(Alfonso et al., 2023). But there have been winners and losers in this process. The intensification of competition accelerated the relocation of jobs, with many workers migrating to informality. The lack of adequate labor adjustment policies prevented the affected workers from being properly compensated. Therefore, in this context, the need for labor adjustment policies to compensate negatively affected workers became clear.

The Paris Agreement highlights the need for a just transition of the workforce, considering the creation of decent, quality jobs in line with national development priorities. In addition, the Multilateral Development Banks (MDBs) have agreed to five high-level principles to support the just transition (Alfonso et al., 2023):

1. **Climate and socio-economic objectives**: achieving climate objectives while promoting socio-economic results.
2. **Transition from GHG-intensive activities**: reduce/eliminate GHG-intensive economic activities in line with the MDB's mandates and strategies and the country's priorities.
3. **Mobilization of public and private finance:** mobilizing other sources of public and private finance, increasing coordination.
4. **Mitigating negative impacts**: Mitigating the negative socio-economic impacts and increasing the opportunities associated with the transition to a net-zero emissions economy.
5. **Inclusive planning and implementation**: promote transparent and inclusive planning, implementation and monitoring processes.

LAC countries have begun to address the just transition in their short- and long-term climate plans, with 15% of the region's Nationally Determined Contributions (NDCs) and 50% of their long-term strategies containing specific commitments to the just transition (Argentina, Chile, Colombia and Costa Rica have committed to the just transition in their updated NDCs, and the just transition is mentioned in the long-term strategies of Chile, Colombia, Costa Rica and Uruguay). [6]

While progress has been made in considering just transition in national strategies, there is still a need for a more explicit and detailed approach to addressing the associated distributional impacts. Many of the SDGs do not address the distributional impacts associated with them, emphasizing the need for a just transition approach in national strategies.

[6] In addition, there is integration with six Sustainable Development Goals (SDGs) related to just transition efforts, including: Eradication of Poverty (SDG 1); Health and well-being (SDG 3); Clean and Affordable Energy (SDG 7); Decent Work and Economic Growth (SDG 8); Industry, Innovation and Infrastructure (SDG 9), and Reducing Inequalities (SDG 10).

4. GUIDING PRINCIPLES AND TOOLS FOR A JUST TRANSITION IN LAC

LAC governments can use a set of policies and programs to promote a just transition. These tools include creating a regulatory environment, investing in specific programs, providing financial support and convening different stakeholders to ensure an inclusive process. According to IDB *policy brief, g*overnment actions can be organized into four main areas (Alfonso et al, 2023):

1. **Planning for a Just Transition**: creating an institutional and policy environment that enables a just transition and addresses political economy challenges. This includes incorporating just transition principles into climate and sectoral strategies, promoting multi-sectoral institutional arrangements and fostering dialogue between stakeholders.
2. **Employment and Skills**: addressing the impacts on the labor market and taking advantage of new employment opportunities. Measures include standards for quality jobs, public employment services, wage subsidies, qualification and re-qualification programs, work-related training, entrepreneurship programs and equal access to skills training.
3. **Families and Poverty**: minimizing negative impacts on families and ensuring that the transition does not exacerbate poverty. This can be done through cash transfer programs and innovative initiatives that combine poverty reduction with ecosystem restoration.
4. **Regions and Communities**: support for regions and communities to manage the impacts of the transition and diversify their economies. Measures include the development of green business clusters, the simplification of regulatory procedures, the promotion of green business practices, infrastructure improvements, community compensation and sustainable regional public transportation.

The table below summarizes the instruments suggested for each main area.

Table 1: Overview of government actions that can promote a just transition.

Purpose	Instrument
Planning for a just transition	Climate and sectoral policies and strategies
Planning for a just transition	Multi-sector institutional arrangements
Planning for a just transition	Dialogue between stakeholders
Planning for a just transition	Generation and dissemination of knowledge with a focus on social impact analysis
Jobs and skills	Quality standards in employment
Jobs and skills	Public employment services
Jobs and skills	Wage subsidies
Jobs and skills	Upskilling
Jobs and skills	Reskilling
Jobs and skills	Training and practical work experience
Jobs and skills	Entrepreneurship programs
Jobs and skills	Regular updating of skills development plans
Jobs and skills	Equal access to skills training

	Promoting gender equality in green jobs
	Benefits or unemployment insurance
	Early retirement and pension plans
	Safety, health and equality considerations in business sustainability certifications
	Employee compensation
Homes and poverty	Income Transfer Programs
	Poverty Reduction and Ecosystem Restoration
Regions and communities	Development of Business Clusters
	Regulatory Procedures
	Green Business Practices
	Infrastructure improvements
	Community Compensation
	Regional Public Transport
	Sustainable public procurement
Financing for a just transition	Taxation on the Extraction of Natural Resources (Royalties)
	Corporate Tax and Subsidy Reform
	Environmental Tax Reform aligned with Social Spending
	Combined Finance to Mobilize Private Capital
	Public-Private Partnerships

Source: adapted from Alfonso et al. (2023).

5. FINANCING MECHANISMS FOR A JUST TRANSITION

The financial instruments can advance the just transition by integrating sustainability criteria and social dialogue into its practices, as well as directing investments towards solutions that promote climate and social objectives, as described below:[7]

Public Funds: National and local governments can create funds dedicated to the just transition. These funds can be used to support green infrastructure projects, worker retraining and the development of new sustainable sectors. An important example of how public funds can be used to support regions and workers affected by the energy transition is the European Union's Just Transition Fund, which focuses on economic diversification and the creation of sustainable jobs.

Private investment: Investors can be encouraged to finance sustainable initiatives through tax incentives, loan guarantees and public-private partnerships. Financial instruments that can attract private capital to transition projects include:

a) **Green Bonds**: these are debt securities issued by governments, companies or other organizations, whose capital is raised exclusively to finance projects with clear environmental benefits. These projects can include renewable energy initiatives, energy efficiency, water management, sustainable transport, among others. However, in addition to mobilizing private capital for initiatives that are crucial to reducing

[7] For more details see ICMA (2021), Impact Investing Institute (2023), ILO (2022) and UNFCCC (2023).

greenhouse gas emissions, green bonds can finance retraining programs and job creation in green sectors, ensuring that workers in traditional industries are not left behind. This helps to equitably distribute the economic and social benefits of the transition, promoting a more inclusive and resilient economy.

b) **Impact investment**: these are investment vehicles that seek to generate a positive social and environmental impact, as well as a financial return. These funds invest in companies, organizations and projects that address social and environmental challenges in a sustainable way.
c) **Sustainability-Linked Loans (SLLs)**: this is a powerful tool for promoting sustainable business practices, including social impact metrics, by offering financial incentives to companies that commit to ESG targets. By linking the cost of the loan to sustainability performance, SLLs encourage companies to adopt more sustainable practices and commit to long-term ESG targets.
d) **Transition Bonds**: these are financial instruments created to support companies in high-emission sectors in their transition to more sustainable and low-carbon practices. Unlike Green Bonds, which are intended exclusively for green projects, Transition Bonds are designed to finance the transition of activities that are not yet fully sustainable but are committed to reducing their carbon footprint, often including social elements to ensure the protection of the workforce.
e) **Blended Finance**: this is an innovative approach that combines public and private capital to finance projects that promote sustainable development. This model aims to mobilize additional resources for investments in sectors with a high social and environmental impact that might otherwise be underfunded due to perceived risks or lower than expected financial returns.
f) **Social Bonds**: these are financial instruments issued to finance projects that have a positive and significant social impact. These bonds are similar to Green Bonds, but instead of focusing on environmental benefits, they focus on social initiatives that promote well-being and social inclusion in a context of climate change.
g) **Climate Resilience Bonds:** these are financial instruments issued to raise funds with the aim of increasing the resilience of infrastructure and communities to the impacts of climate change. These bonds are designed to finance projects that strengthen adaptive capacity and mitigate the risks associated with extreme weather events such as floods, droughts and storms.

International Financing: international organizations, such as the MDBs, offer specific programs and funds to support the just transition in developing countries. These resources can be directed towards improving climate resilience, developing green infrastructure, and supporting just transition policies.

Market mechanisms: mechanisms such as emissions trading and carbon credits can generate revenue that can be reinvested in just transition projects.

These mechanisms encourage the reduction of carbon emissions and can provide a continuous flow of funding for sustainable initiatives.

Pension Funds and Insurance: pension funds and insurance companies are increasingly committed to sustainable investments. They can allocate part of their resources to financing the just transition, supporting companies that adopt sustainable practices and investing in green infrastructure.

Microfinance and Community Financing: microfinance and community financing schemes can help empower local communities by providing capital for small businesses and local renewable energy projects. This can promote economic and social inclusion in regions affected by the transition.

Training and Reskilling Programs: investing in training and reskilling programs is key to helping workers transition to new sectors. Funding can be directed towards educational institutions and training programs that prepare the workforce for green and sustainable jobs.

Measuring results in the just transition is essential for tracking progress, ensuring transparency and accountability, and adjusting strategies. This process involves evaluating policies and programs to ensure that they reduce carbon emissions and promote social justice, providing evidence to investors about the effectiveness of the resources used. Key Performance Indicators (KPIs) are vital metrics for evaluating the success of these initiatives and help in the decision-making process and strategy adjustments, ensuring that the objectives of the just transition are achieved efficiently and effectively. Below is a KPI proposal to measure the effectiveness of just transition in three aspects.

Economic	Environmental	Social Inclusion
• **Employment Rate**: Number of jobs created in green and sustainable sectors. • **Income Growth**: Increase in average income in the communities affected by the transition. • **Investment in infrastructure**: Amount of capital invested in resilient and sustainable infrastructure.	• **CO_2 Emissions Reduction**: Measure of the amount of carbon emissions reduced through specific projects. • **Energy Efficiency**: Increase in energy efficiency in different sectors. • **Conservation of Natural Resources**: Area of restored or conserved ecosystems.	• **Number of people** from vulnerable communities who benefit from just transition programs. • **Access to Basic Services**: Improving access to essential services such as health, education and drinking water. • **Gender Equity**: Proportion of women in leadership positions in new sustainable sectors.

The implementation of KPIs in the just transition faces several difficulties, including the clear and precise definition of the indicators that best reflect the social, economic, and environmental objectives of the initiatives. Collecting relevant and reliable data can be a challenge, especially in areas with limited infrastructure for monitoring and reporting. In addition, ensuring the consistency and comparability of data over time requires robust systems and standardized methodologies, which can be expensive and complex to establish. The lack of consensus on which KPIs should be used and the need to adapt to local and sector specificities also complicate implementation.

Finally, transparency and accountability in measuring and reporting results depend on solid governance and the commitment of all parties involved, which can be difficult to achieve in diverse and multifaceted contexts, as highlighted by Alfonso at al. (2023), CBI (2023) and ILO (2022). At this point, MDBs can play a fundamental role, addressing the process of designing and implementing these strategies for measuring and monitoring results, given their long experience in activities of this nature.

6. EXAMPLES OF FINANCING MECHANISMS FOR A JUST TRANSITION IN THE G20 LAC COUNTRIES

6.1. Argentina

Over the last decade, Argentina has implemented various financing mechanisms to promote the development of renewable energies with the aim of diversifying its energy matrix and reducing greenhouse gas emissions. These mechanisms are essential for achieving sustainability goals and contributing to a just transition. Among the actions taken, it is worth highlighting the creation of specific public policies, especially in renewable energies, such as the RenovAr program.

The RenovAr program

The *RenovAr Program* (*Programa RenovAr*) is one of Argentina's most important initiatives to promote the development of renewable energies. Launched in 2016, the program aims to diversify the country's energy matrix, reduce greenhouse gas emissions and attract investment in the clean energy sector. RenovAr's main objective is to increase the share of renewable energies in Argentina's energy matrix, which has historically been dominated by fossil fuels. To attract investment, RenovAr holds public auctions in which participants compete to supply energy to the national electricity system. The winners of these auctions receive long-term power purchase agreements, known as Power Purchase Agreements (PPAs), which guarantee stability and predictability for investors. These contracts have incorporated clauses to guarantee the inclusion of local communities and the creation of jobs. Many of the projects financed by RenovAr are in rural and less developed areas, promoting regional economic development and reducing regional inequalities. In addition to large projects, RenovAr also offers support to small renewable energy producers, promoting greater inclusion and participation of different sectors of society in sustainable development.

6.2 Brazil

The Amazon Fund

The Amazon Fund is an initiative of the Brazilian government, financed mainly by voluntary donations from foreign governments, companies and other organizations, which aims to finance projects that promote the conservation of the Amazon Rainforest. As well as helping to mitigate climate change, the Fund supports initiatives that promote a sustainable economy, such as agroecology projects and ecotourism and the collection of non-timber products, generating employment and income for local communities and improving their living conditions. The projects funded often include training and education programs, strengthening local capacities and promoting social inclusion. The transfer of technology to local communities and small producers is a priority, enabling them to adopt more sustainable and efficient practices. By promoting sustainable practices in the exploitation of forest resources and economic alternatives for local communities, the Amazon Fund's initiatives help, for example, to offset the loss of jobs due to the fight against illegal logging in the Amazon. By helping to generate jobs and income for local communities while preserving natural resources, these initiatives are fully in line with the precepts of the just transition.

The Climate Plan

In the context of the global climate emergency for the coming decades, Brazil's efforts to contain global warming will be manifested in the updating of the National Climate Change Plan (Plano Clima), aimed at both mitigating greenhouse gas emissions and adapting to climate impacts. In 2024, a recent and dramatic case is being experienced by the state of Rio Grande do Sul in Brazil.[8] This shows that the transition is urgent, but it cannot be done anyway. Bearing in mind that the just transition is a principle that seeks to ensure that the shift to a low-carbon economy is equitable, inclusive and beneficial for all, especially for vulnerable workers and communities, the Climate Plan seeks to align with this principle in several ways: a) Through the Creation of Green Jobs, promoting sectors such as renewable energy, sustainable agriculture and energy efficiency; b) Supporting Vulnerable Communities, which includes adaptation actions that increase the resilience of these communities to the impacts of climate change, such as floods, droughts and storms; c) Encouraging Sustainable Regional Development, promoting environmental conservation and the sustainable use of natural resources, which benefits both the environment and local economies; and d) Education and Training, ensuring that workers have the necessary skills to adapt to new market demands. Although the Climate Plan is not a financial mechanism for the just transition, there will be specific transversal indicators in the plan to monitor the just

[8] Details available at https://g1.globo.com/rs/rio-grande-do-sul/noticia/2024/05/29/um-mes-de-enchentes-no-rs-veja-cronologia-do-desastre.ghtml.

transition. The Climate Plan is currently undergoing public consultation via the *Brasil Participativo* online platform.

6.3 Mexico

In recent decades, Mexico has embarked on an ambitious path to boost renewable energy generation. The goal of achieving 50% clean energy is reflected in several strategic economic development documents, which suggests that the country needs to rapidly increase its renewable generation. A just and focused transition in the energy sector requires major investments and actions in several dimensions, including the elimination of fossil fuel-based infrastructure, the development of new clean energy infrastructure and a just transition for workers, communities and regions. For more details on the Mexican case and the strategies suggested for the country, see Hagemann et al. (2024). The Energy Transition Fund, described below, is perhaps the most illuminating effort of Mexico's commitment to a just transition.

<u>The Energy Transition Fund</u>

Mexico's Energy Transition Fund (*Fondo de Transición Energética - FTE*) is a key government initiative to promote the shift towards a more sustainable, low-carbon energy matrix. Created as part of the national energy policy, the FTE aims to finance renewable energy and energy efficiency projects, encouraging technological innovation and the adoption of sustainable practices. This fund is essential to support the implementation of policies aimed at reducing greenhouse gas emissions and fulfilling Mexico's commitments under the Paris Agreement.

The FTE finances a wide range of projects, from solar and wind power generation to the modernization of electricity transmission and distribution infrastructure. In addition, the fund supports energy efficiency programs that help reduce energy consumption in key sectors such as industry, transport and public buildings. The FTE's financial support is vital for overcoming the economic barriers that often prevent the adoption of green technologies, making the transition to clean energy sources more viable. By funding research and development, the FTE also promotes innovation, allowing Mexico to remain competitive in the global renewable energy market.

As well as promoting environmental sustainability, the FTE plays an important role in promoting a just transition. By financing renewable energy projects in rural and less developed areas, the fund helps to create green jobs and promote regional economic development, reducing socio-economic inequalities. FTE actively involves local communities, ensuring that they participate in the planning and implementation of projects, promoting social acceptance and the long-term success of initiatives. Capacity building and training programs are an integral part of FTE, preparing the local workforce for new job opportunities in the renewable energy sector. In this way, FTE not only contributes to climate change mitigation, but also promotes social inclusion, sustainable development and the empowerment of local communities in Mexico.

7. FINAL REMARKS

To address the challenges in LAC countries and achieve a just transition, financial institutions, MDBs, and governments must coordinate strategic actions. First, developing a Just Transition Taxonomy is crucial to guide investments and assess progress. Implementing robust governance mechanisms and clear regulations is essential to ensure the financial sector incorporates social criteria into investments; utilizing effective instruments like performance-based incentives is necessary.

Promoting the internalization of just transition concepts in the financial sector requires a dual approach: implementing command and control policies with regulations for social criteria inclusion and providing positive incentives such as rewards or discounts for meeting KPIs. Defining and implementing specific KPIs will enable the monitoring and evaluation of just transition progress, aligning with both climate and social objectives. Using existing methodologies from climate finance and Paris Agreement alignment will accelerate the process, adopting successful practices from sectors. Measuring success involves developing comprehensive metrics to assess environmental, social, and economic impacts, including job quality, social inclusion, and the benefits of sustainable practices.

Storytelling and case studies are vital in promoting the just transition, demonstrating how various sectors can implement social and environmental justice practices. LAC must make progress in drawing up a framework (diagnosis, setting goals, governance, etc.) and establishing the tools for a just transition. With this framework, we must also ensure that the projects, in addition to being aligned with the Paris Agreement, are also consistent with the goals of the just transition. The narrative must be clear and compelling, especially for financial and governmental audiences.

Governments have a fundamental role in driving a just transition, but businesses also play a crucial part in the solution. MDBs can help support both sides by leveraging their financial resources, expertise, and influence in several ways (financing green projects, technical assistance and capacity building, policy support, risk mitigation, stakeholder engagement, research and data, inclusive financing models). LAC hold immense potential for a just transition, with governments, businesses, and MDBs collaborating to drive sustainable growth and inclusive prosperity.

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