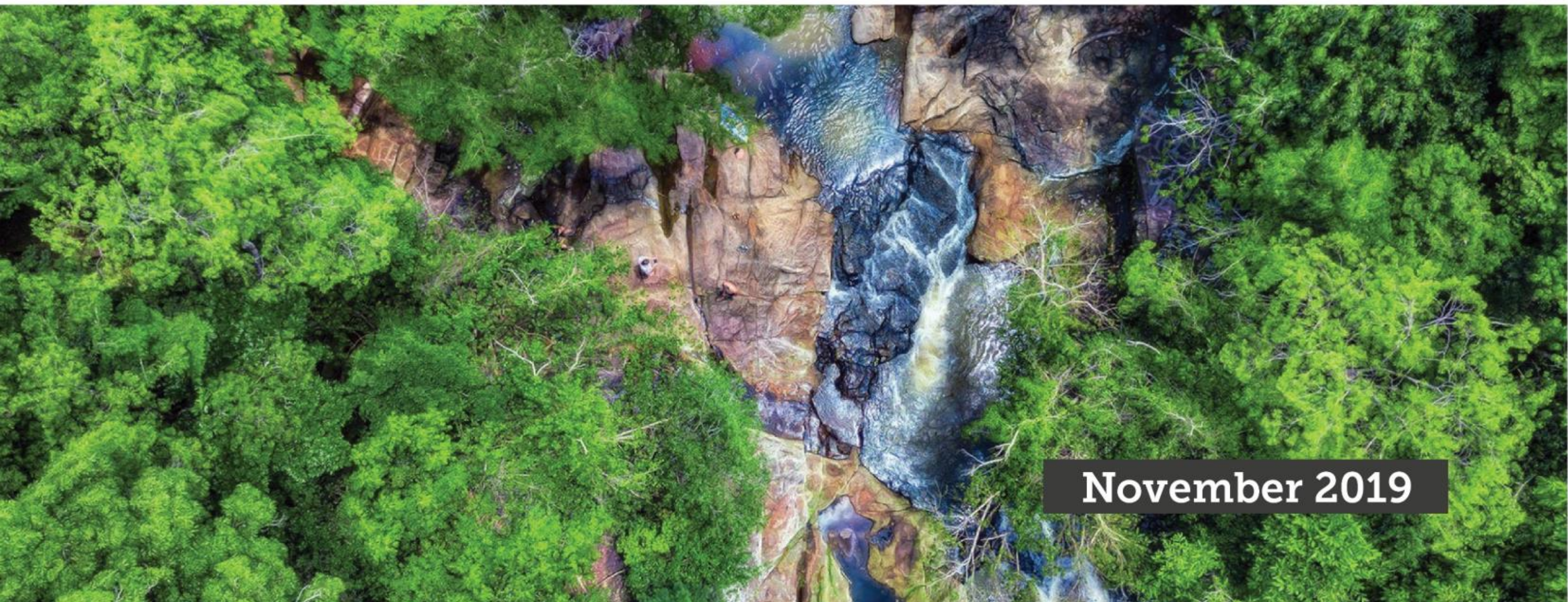
READINESS & PREPARATORY SUPPORT

PROPOSAL TEMPLATE

GREEN CLIMATE FUND

Proposal title:	Aligning financial flows of the financial sector in Costa Rica with the Paris Agreement climate change goals
Country:	Costa Rica
National designated authority:	Ministry of Environment and Energy
Implementing Institution:	United Nations Environment Programme (UNEP)
Date of first submission:	30 June 2021
Date of current submission / version number	5 August 2022 /Version 4



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Note: Environmental and Social Safeguards and Gender
Throughout this document, when answering questions and providing details, please make sure to pay special attention to environmental, social and gender issues, particularly to the situation of vulnerable populations, including women and men. Please be specific about proposed actions to address these issues. Consult Annex IV of the Readiness Guidebook for more information.

Please visit the Country Portal on the GCF website to submit this proposal via the online system.

When submitting the proposal, please name the file:
GCF Readiness -[Country]-[yymmdd]

1. SUMMARY

1.1 Country submitting the proposal	Country name:	Costa Rica
	Name of institution representing NDA or Focal Point:	Ministry of Environment and Energy
	Name of contact person:	Franz Tattenbach Capra
	Contact person's position:	Minister of Environment and Energy
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1.2 Date of initial submission	30 June 2021	
1.3 Last date of resubmission	4 August 2022	**Version number** V.4
1.4 Which institution will implement the Readiness and Preparatory Support project?	☐National designated authority ☒ Accredited entity ☐ Delivery partner	
	Please provide contact information if the implementing partner is not the NDA/focal point	
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1.5 Title of the Readiness support proposal	Aligning financial flows of the financial sector in Costa Rica with the Paris Agreement climate change goals	

1.6 Type of Readiness support sought	Please select the relevant GCF Readiness objective(s) below (click on the box – please refer to Annex I and II in the Guidebook): ☐ I. Capacity building ☒ II. Strategic frameworks ☐ III. Adaptation planning ☒ IV. Pipeline development ☒ V. Knowledge sharing and learning
1.7 Brief summary of the request	Costa Rica's National Decarbonization Plan (NDP) 2018-2050 - commits to net-zero emissions by 2050 and provides a clear roadmap towards the decarbonization of the economy. Also, its nationally determined contribution (NDC) is a public policy commitment to achieving a low-carbon and resilient development. With these long-term commitments, the government is aiming to align financial flows consistent with the country's NDC and NDP goals. However, financial sector actors are in an incipient stage of integrating climate change and broader sustainability concerns into their investment decisions and portfolio allocations because they have not engaged in the climate finance mobilization. There is a lack of regarding climate finance mobilization and how the private sector can engage in sustainable investments or economic activities, that are science-based and consistent with a net-zero economy by 2050. At the same time, the financial sector is exposed to climate risks (physical risks), especially via credit operations and increasing insurance claims. Also, decarbonization commitments result in additional legal and regulatory frameworks, which are likely to change the outlook of investments threatening companies that are not prepared to transition to a net-zero economy (transition risks). Therefore, financial regulators and supervisors such as the Central Bank (BCCR), the Superintendency of Financial Institutions (SUGEF), and the Superintendency of Insurance Companies (SUGESE) have taken action to identify and assess the challenges and opportunities of climate change into the macroeconomic and financial stability. As such, SUGEF is currently monitoring, reporting and verifying (MRV) climate financial flows from financial institutions in their credit operations, through the SICVECA platform. Also, the BCCR has launched the 2020-2023 Strategic Plan which has a line of action to: Integrate climate change risks into financial stability monitoring and prudential supervision; for improving the understanding of the risks associated with climate change for the financial system. Despite these climate policies and financial regulatory commitments and advancements, it is necessary to accelerate the pace and furnish the financial sector with the methodologies and tools that will accelerate the decarbonization (and its financing). Hence, this proposal aims to provide relevant technical assistance for: (1) the development of its GCF Country Programme, (2) the assessment of climate finance flows (taxonomy); (3) the identification, measurement, and disclosure of climate-related financial risks; (4) the development of a concept note by mainstreaming climate change in the financial sector. This will: (1) improve the contribution of private finance flows to low-emission and resilient development, and (2) strengthen financial stability by incorporating climate factors into investment decision making. The proposal will work with relevant financial actors; the main beneficiaries are the regulators and supervisors such as the BCCR, SUGEF, and SUGESE which are already involved and fully working on climate financial flows and climate risks. The private financial actors such as the banking association (ABC) and the insurance association (AAP) have a prominent role by using the methodologies and tools. Overall, this proposal focuses on the financial sector due to its fundamental role in financial intermediation and investment in climate change, and its contribution to the macroeconomic and financial stability.

1.8 Total requested amount and currency	USD 627,331	**1.9 Implementation period**	24 months

1.10 Is this request a multiple-year strategic Readiness implementation request?	☐ Yes ☒ No

For more information on how a country may be eligible to access Readiness support through this modality, please refer to Annex IV of the Readiness Guidebook.

1.11 Complementarity and coherence of existing readiness support

☒ Yes

☐ No

Project	Status	Objective	Complementarity and linkage
Strategic frameworks support for Argentina, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Uruguay through UNEP Advancing a regional approach to e-mobility in Latin America	Under implementation (2020-2022) US$ 2,000,000	The grant will support ten Latin-American countries (Argentina, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, and Uruguay) to identify and address the main barriers for electric mobility by providing the necessary assessments, capacities, and financing alternatives to accelerate adoption of electric mobility technology.	The proposed Readiness grant will support this approved proposal in identifying and aligning taxonomies for climate financial flows – including electric mobility; especially for investments in privately managed fleets and charging infrastructure.
Advancing a regional approach to e-mobility in Latin America	Under implementation (2020-2022) US$ 800,000	This grant consists of an amendment of the above described GCF Readiness grant “Advancing a regional approach to e- mobility in Latin America”	See above.
Building sub-national capacities for the implementation of the National Adaptation Plan (NAP) in Costa Rica	Under implementation (2018/2022) US$2,800,000	The readiness aims to build sustainable country capacity in identifying, prioritizing, planning, and implementing measures that address a diversity of local adaptation needs. The ultimate objective of the proposal is to reduce country´s vulnerability to the impacts of climate change and variability, by building adaptive capacity and resilience through the integration of adaptation into regional and municipal planning, including	The proposal has a component of funding strategy for adaptation initiatives, the Financial Resource Mobilization Strategy for Adaptation. This component is relevant for this Readiness proposal because it will estimate the NAP cost and the appropriate financial sources to bridge the investment gap. Also, the readiness is developing

			government entities, the private sector, and civil society.	climate risk and vulnerability maps, which will support this Readiness proposal to identify and assess the risks in the financial sector.

Abbreviation List

Abreviation	Definition
AAP	Association of Private Insurers of Costa Rica
ABC	Costa Rica's Banking Association
AE	Accredited Entities
AED	Business Alliance for Development
AyA	Costa Rican Institute of Aqueducts and Sewerage
BCBS	Basel Committee on Banking Supervision
BCCR	Central Bank of Costa Rica
BFIS	Banks and Financial Institutions
BIS	Bank for International Settlements
BMU	German Federal Ministry of the Environment, Protection of Nature, Public Works, and Nuclear Safety
CGR	General Comptroller of the Republic of Costa Rica
CINDE	Costa Rican Coalition of Development Initiatives
COMEX	Ministry of Foreign Trade of Costa Rica
CONASSIF	National Council for Supervision of the Financial System
COVID-19	Coronavirus Disease 2019
DCC	Climate Change Directorate
DP	Delivery Partner
ENCC	National Climate Change Strategy
ESG	Environmental, Social and Governance
FAG	Financial Advisory Group
FDI	Foreign Direct Investment
FSB	Financial Stability Board
GAECC	The Group for Strategic Analysis of Climate Change
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gases
GIZ	German Society for International Cooperation
GTFS	Panama's Working Group on Sustainable Finance
ICE	Costa Rican Institute of Electricity
ICI	International Climate Initiative
IFC	International Finance Corporation
IMF	International Monetary Fund
INEC	National Institute of Statistics and Census of Costa Rica
INS	National Insurance Institute of Costa Rica
IPSF	International Platform on Sustainable Finance
IT	Information Technology
LAC	Latin America and the Caribbean
LTS	Long Term Strategy
MIDEPLAN	Ministry of National Planning and Economic Policy
MINAE	Ministry of Environment and Energy
MRV	Monitoring, Reporting and Verification
MSME	Micro, Small and Medium Enterprises
NAP	National Adaptation Plan
NDA	National Designated Authorities
NDC	National Determined Contribution

NDP	National Decarbonization Plan
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NGO	Non-Governmental Organizations
OECD	Organisation for Economic Co-operation and Development
PCU	Project Coordination Unit
PRI	Principles for Responsible Investment
PROCOMER	Foreign Trade Promoter of Costa Rica
PSC	Project Steering Committee
SBP	Superintendency of Banks of Panama
SDG	Sustainable Development Goals
SICVECA	Data, Capture, Verification, and Upload System
SINAMECC	National Climate Change Metric System
SOA	Compulsory Automobile Insurance
SSE	Sustainable Stock Exchange Initiatives
SSRP	Superintendency of Insurance and Reinsurance of Panama
SUGEF	General Superintendency of Financial Institutions
SUGESE	General Superintendency of Insurance
SUGEVAL	General Superintendency of Securities
SUPEN	Superintendency of Pensions
TCFD	Task Force on Climate-Related Financial Disclosures
TT	Technical Team
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environmental Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change

2. SITUATION ANALYSIS

INTRODUCTORY NOTE

UNEP is presenting two similar Readiness grant proposals to the GCF Board, which are:

- Aligning financial flows of the financial sector in **Costa Rica** with the Paris Agreement climate change goals
- Aligning financial flows of the financial sector in **Panama** with the Paris Agreement climate change goals and;

While the overall objectives are the same in both proposals –to mobilize the required private resources to finance a low-emission and climate-resilient economy and improve the resilience of the financial system to climate-related financial risks – the countries, Panama, and Costa Rica, have different starting points regarding to their development of the climate finance agenda.

Both countries differ in terms of their financial system's size and structure, their pathways to a low-emission and climate-resilient economy, as well as the jurisdiction and institutional arrangements that provides the basis for the achievement of the transformations required to transit towards low-emission and climate-resilient economies. Considering the differences in countries' contexts UNEP is presenting two independent but jointly articulated national Readiness grant proposals, which will be adjusted to each country's state of play while enabling the creation of lessons learned and synergy effects that will provide references for other countries in the region and beyond.

In the following, the shared Readiness grant structure will be briefly presented, before providing a brief analysis of each country's starting point and key differences between them; same as the key implications and synergy potentials for the implementation of both Readiness grants. The underlying analysis for this summary builds on Section 2 "SITUATION ANALYSIS" of each Readiness proposal.

- **Financial system structure**

A main difference between both countries is to be found in its respective financial sector's size and weight for the national economy. Representing over 2.2 times country's GDP in size and with a financial intermediation activity comparable to levels of this sector in the United States (7.3% share of GDP) in December 2020, the Panamanian financial sector has a fundamental role by ensuring financial intermediation and plays a major role in the country's macroeconomic and financial stability[1]. In contrast, Costa Rica's financial sector reaches 99.89% of its national GDP in terms of total financial assets and contributes to 5.4% of GDP in the same period.

In both countries, banks and insurers and reinsurers account for the majority of the total financial assets. However, in Costa Rica, 35% of total financial assets belong to two public banks and state-owned National Insurance Institute (INS) holds 80% of the market stake[2]. On the other hand, the banking system and insurance sector in Panama are positioned as a regional center, which is made up of private national and international entities[3]. This difference in the composition of the banking and insurance sectors is relevant for the implementation of the activities under Output 2.4.2 and Output 2.4.3 of the Readiness grant proposals.

On the other hand, while Panama's financial sector positions itself as an international hub with strong financial ties with other countries from the LAC region, Costa Rica's financial sector predominantly addresses domestic operations. This, together with the allocation of the portfolio by economic activities, determines the type of exposure that each of the financial systems will have to climate-related financial risks. For example, in addition to the physical risks, while the Panamanian financial sector is more exposed to regional and international climate-related financial risks caused by, for example, changes in regulations in other countries, the Costa Rica's financial sector faces much more national ambitious climate strategies to comply with in the short, medium, and long-term (transition risks)4.

- **Climate change context**

In committing to climate-related goals under the Paris Agreement, the countries, Costa Rica, and Panama, endorsed very ambitious, clear, and different pathways for climate neutrality and environmentally sustainable growth. These goals provide signals to the market about future economic trends, forward-looking investment opportunities and risks. Both countries focus on addressing the climate crisis, with Costa Rica adopting a much more ambitious climate agenda.

The Government of Costa Rica reinforced its commitment to address the climate crisis through the submission of its updated NDC to the Paris Agreement by the 2020 deadline. Furthermore, the Government of Costa Rica has become the 14th country to submit its long-term strategy for low-emission development (LTS) to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat. The LTS – National Decarbonization Plan (NDP) 2018-2050 - commits the country to net-zero emissions by 2050 and provides a clear roadmap with key actions to consolidate the process towards the decarbonization of the Costa Rican economy. Panama, on the other hand, has also submitted its revised NDC under the 2020 deadline. The revised NDC constitutes an increase in ambition compared to the original NDC, with pledges to become carbon neutral by 2050.

To meet national climate change targets established in each revised countries' NDC and in other key long-term strategies, such as the Costa Rica's NDP, requires large amounts of investment. Closing this investment gap means reorienting financial flows towards a low-emission and climate-resilient economy. This urgent need of redirecting investments towards a green and inclusive economy transformation has been reinforced by the COVID-19 pandemic.

Both countries have lacked clear progress in translating these climate goals into concrete alignment actions for the private sector, specifically the financial sector. The proposed Readiness grant will provide the basis to build the capacities within public and private financial institutions to clearly identify and steer their investment and financing in alignment with each of the revised NDCs and other key long-term strategies by introducing country-customized taxonomies methodologies that embody each country's climate change priorities and goals.

Transitioning to a low-emission and climate-resilient economy entails both opportunities and risks for the economy and financial institutions, while physical damage caused by climate change and environmental degradation can have a significant impact on the real economy and the financial system.

Costa Rica and Panama are highly vulnerable to climate change. Now more than ever, financial actors have recognized the existential risks that climate change and associated systemic risk factors pose to society and the economy. Physical impacts of a warming world can devalue assets and disrupt vital supply chains (physical risks). At the same time, the need to rapidly transition to a low-carbon economy will create major challenges for many businesses (transition risks). These climate impacts are currently being felt in sectors of the real economy but have major financial implications as well.

1Informe de Estabilidad Financiera 1er. Semestre 2020. Superintendencia de Bancos de Panamá. 2020. https://www.superbancos.gob.pa/superbancos/documentos/presentaciones/2020/inf_estab_fin4.pdf
2 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf
3 Informe de Estabilidad Financiera 1er. Semestre 2020. Superintendencia de Bancos de Panamá. 2020. https://www.superbancos.gob.pa/superbancos/documentos/presentaciones/2020/inf_estab_fin4.pdf

However, climate change impacts differ substantially across entities, sectors, and economies. Climate change impacts have different effects on the drivers of economic growth of Costa Rica and Panama over time at the macroeconomic and sectoral level. These effects on the national economies depend on the climate-related physical risks to which each of the countries is exposed to, the level of exposure to each of these risks over time, and the composition of the GDP. The immense magnitude of estimated losses due to climate-related risks, along with the rapid materialization of those losses, not only affect the macroeconomic stability of national economies, but also the financial stability of their financial sectors. Given the difference in the materialization of these risks in the Costa Rica's and Panama's economy, as well as in their respective financial sectors, the Readiness grant proposals for Costa Rica and Panama will develop approaches, methodologies, and tools country-customized for financial institutions for assessing climate-related risks impacts (physical and transition) and their exposure to both of them to improve the resilience of the national economies and the financial systems.

Readiness grant approaches

The Readiness grant proposals consider the different starting points of Costa Rica and Panama in each of the main outputs, from which the proposals are built, strengthened, or leveraged to align the financial sector with the objectives established in each NDCs and long-term climate change strategies:

- Development of a Costa Rica's GCF Country Programme (Output 2.1.1)
- Multi-stakeholder's climate finance coordination framework mechanisms (Output 2.4.1);
- National taxonomy on sustainable finance (Output 2.4.2) and;
- Nationally adapted international best practice methodologies for climate-related financial risk disclosure (Output 2.4.3).

Regarding point 1, **Output 2.1.1 Development of Costa Rica's GCF Country Programme,** the Readiness proposal plans to develop a GCF Country Programme only in the case of Costa Rica. It builds upon a past Readiness (CRI-RS-001) approved and implemented in Costa Rica. In contrast, Panama's proposal does not have this output because Panama's NDA did not require this service.

Regarding point 2, **Output 2.4.1. Multi-stakeholders arrangements and coordination for the development of the proposal**, the Readiness grant proposal for Panama builds upon and leverages the existing comprehensive inter-institutional coordination mechanism on sustainable finance – the Working Group on Sustainable Finance (GTFS for its Spanish acronym) - in order to increase financial market participants' engagement in channeling of climate financial flows in order to maintain the competitive advantage as regional financial hub. The GTFS has prioritized four main areas of work, which are: i) designing of a taxonomy; ii) analyzing climate risks in financial entities' portfolios; iii) enhancing green investments and; iv) disseminating climate information. While the GTFS is exemplary in its design – encompassing a true 360° range of relevant actors from public and private sectors - it has so far lacked the technical capacity and resources to effectively develop and introduce the aimed taxonomy on sustainable finance and climate-related disclosure methodologies. Hence, this Readiness proposal aims to build upon the already GTFS governance structure, roadmap, and committees to furnish with the relevant toolkit and methodologies for stablishing a national taxonomy and start identifying and assessing climate financial risks.

In contrast, Costa Rica currently lacks a comprehensive inter-institutional coordination mechanism on sustainable finance that fosters a multi-sectoral public and private alignment of the entire financial sector towards a low-emission and climate-resilient economy. Through the Readiness grant proposal, a Financial Advisory Group (FAG) will be established for the implementation phase of the proposal (24 months). The FAG will perform the role of a strategic steering body and will play a central role in defining the methodologies and tools for outputs 2.4.2 and 2.4.3, and for the implementation of output 2.4.4. The FAG encompasses both the public and the private financial actors.

Regarding point 3, **Output 2.4.2. National taxonomy on sustainable finance**, the readiness proposal for Panama will develop a fully new unified classification methodology for climate change activities. Clear definitions of economic activities and investments that embody Panama's national climate change objectives established in the revised NDC will be established. The taxonomy will be tested and piloted through financial entities, specifically the banking sector.

In contrast, Costa Rica's Readiness grant proposal builds upon and leverages the existing "Guidance for reporting information on climate finance in financial institutions", which was developed in close collaboration with the Climate Change Directorate (DCC) of the Ministry of Environment and Energy (MINAE) and the General Superintendency of Financial Institutions (SUGEF). The Guidance aims to serve as a guideline for climate finance monitoring. This classification refers to activities that the country considers to be related to climate change, which are defined in the 2018 – 2050 Decarbonization Plan, the National Adaptation Plan (NAP) 2018-2030, the National Climate Change Strategy and the NDC. The SUGEF, under the National Climate Change Metric System (SINAMECC) and Data, Capture, Verification, and Loading System (SICVECA), will be applying and piloting this guidance for monitoring the climate financial flows in the banking sector (starting in January 2022). The Readiness grant proposal for Costa Rica will use this

Guidance and the SUGEF and SICVECA exercise on monitoring climate finance flows in the banking sector as a baseline for the development of a full national taxonomy on climate finance that embody Costa Rica's climate change priorities. The taxonomy will be tested and piloted through financial entities, such as banks, insurers and reinsurers and other financial sector participants. This pilot activity under the Readiness grant proposal will complement and scale the pilot that is currently carried out by the SUGEF and SICVECA to monitor climate finance flows in the banking sector. Thus, the Readiness grant's purpose is to scale this first monitoring exercise, under a transparency framework, to a taxonomy of climate financial flows, as a strategy to foster capital flows towards sustainable investment, and, subsequently, apply it, as a second pilot phase, to the main actors of the financial system – banks, insurance, and investors.

It is expected that both taxonomies should be interoperable through the development of a common ground based on the recent publication by the European Union to finance sustainable growth.

Regarding point 3, **Output 2.4.3. Nationally adapted international best practice methodologies for climate-related financial risk disclosure**, both Readiness grant proposals will support financial institutions in Costa Rica and in Panama, mainly banks and insurers and reinsurers, to begin the process of adopting the TCFD recommendations. Specifically, the Readiness grant proposals will develop a framework for the identification, measurement, and disclosure of climate change-related risks for financial institutions, in line with the TCFD recommendations, which includes approaches, methodologies and tools, in each country.

Climate-related risk management methodologies developed and piloted internationally by UNEP FI in the framework of the TFCD Pilot Programme for Banks and the TCFD Pilot Programme for Insurers will be used as a base to build Cosa Rica-customized and Panama-customized methodologies and tools for assessing climate-related risks.

The tools in each country will consider countries' climate scenarios and models, vulnerability maps and other relevant climate data, that cannot be replicated or used for both countries. Specifically, both Readiness grant proposals will develop country-customized tools to quantitatively analyses the level of exposure of financial institutions to climate-related financial risks (transition and physical risks) by prioritizing economic sectors (relevant to each country) from a banking and insurers perspective, taking into account the impacts on credit, the market and operational risk.

The tools will be tested in financial entities' portfolio, specifically banking and insurance sectors. Key sectors of banking and insurance will be addressed in both dimensions of relevance, physical and transition risks. While similar in nature, both forming part of wider environmental, social and governance (ESG) frameworks to be implemented within financial institutions, the actual management of each dimension is different: while physical risks can be identified based on the availability of respective climate data and risk maps, transition risks are being caused by changes in legislation, regulation, or consumer behavior. The framework will be tested in financial entities' portfolio, specifically banking sector. The objective is to quantitatively analyses the level of exposure of financial institutions to these risks (transition and physical risks) by prioritizing economic sectors from a banking perspective, taking into account the impacts on credit, the market and operational risk. The methodologies in each country will consider countries' climate scenarios and models, vulnerability maps and other relevant climate data. Advanced data structuring and modeling will be required to ensure that financial sector institutions can have reliable data at hand – a key barrier to promote a climate risk resilient financial sector.

In addition, both Readiness grant proposals will also provide recommendations on policy measures that should be considered by the countries' regulatory and supervisory authorities under the regulatory framework to improve the resilience of the financial system to climate-related financial risks. These recommendations will be support current efforts developed by the regulatory authorities on assessing climate-related risks. In the case of Panama, these recommendations will support the implementation of the two provisions published by the Superintendency of Banks of Panama (SBP), which indicate that banks must identify, measure, monitor, control, mitigate and inform the operational areas within the bank, the various risks to which the bank is exposed, including social and environmental risk. In the case of Costa Rica, these set of recommendations will support the implementation of the roadmap that is currently developing the BCCR for incorporating climate change lens into macroeconomic and financial stability, and well aligned with Line of Action 2.6 of its Strategic Plan which aims to integrate climate change risks into financial stability monitoring and prudential supervision; for improving the understanding of the risks associated with climate change for the financial system. These recommendations will also contribute to the development and implementation of the national sustainable insurance strategy for the adoption of measures against climate change agreed by the General Superintendency of Insurance (SUGESE).

And, finally, these set of recommendations will support the development of a common guidelines to manage the Costa Rican and Panamanian insurance sector's business to contribute to sustainable development, which is currently being jointly developed by the SUGESE and the Superintendency of Insurance and Reinsurance of Panama (SSRP).

While only showing moderate progress in both countries on the implementation of the above to date, it is a sign of the financial sector's awareness and willingness to engage in the fight against climate change – providing the important basis for the implementation of the proposed Readiness grant. Definitely, these two Readiness grant proposals will provide the basis to better equip the Costa Rica's and Panama's banking and insurance industries to implement the recommendations of the TCFD.

Knowledge and know-how coordination on lessons learned as well as developed solutions is foreseen under Outcome 5.1. Lessons learned, and activities results are shared and disseminated with national and international finance sector audiences as well as the wider climate change policy community, thus ensuring the practical use of the deliverables and procedures of classification designed for this purpose. Specifically, the bilateral dialogue between Panama and Costa, to share ongoing experiences and activities from their GCF readiness grant proposals.

Considering country differences and the coordination between actors across the financial sector and the policy makers, both Readiness grant proposals need to be treated separately, especially in terms of activities and budget – while it shall be possible in the future to design and initiate regional or even multi-country proposal based on the two presented Readiness grant proposals once implemented and having generated additional lessons learned. This is the expressed aim of both NDAs.

Synergies between both Readiness grants

In addition to the above, beyond sharing lessons learned and knowledge between both Readiness grant proposals, the articulated implementation of both Readiness grant proposals allows to create economies of scale. Global best practices for the above-mentioned taxonomies and climate-related financial risk management methodologies and tools, which are the key outputs of these Readiness grant proposals, will be used and adjusted to the local context, because it requires highly national context sensitive to legal, fiscal, regulatory frameworks on climate change and financial sector realities. Hence, the key challenge is to transfer these international solutions and adjust them to Panama's and Costa Rica's country context, ensuring and preparing a path to their operationalization and integration into day-to-day processes of financial sector actors.

This adjustment of methodologies to national context cannot be one size fits all; mainly because the adjustment activities are carried out at various levels, from the linkage of proposed methodologies to specific strategic orientation at country level (NDCs, Climate Change Strategies, NDP, NAP, among others), over integrating them into the current regulatory frameworks to finally ensuring the day-to-day integration at institutional level, which usually raises numerous challenges in terms of integration with legacy Information Technology (IT) systems, review and adjustment of policies, procedures, manuals and tools, as well as staff training.

In the case of the taxonomy, the proposals will find synergies in methodologies and approaches to find a common ground on the development of the sustainable finance taxonomies for Panama and Costa Rica facilitate international investment, while also reflecting different national circumstances and approaches. In the case for climate-related financial risks, these are similar at the physical level, and there are global standards and best practices around their disclosure, however these methodologies and tool also need an adjustment to each country context. These country-customized considers each countries' climate scenarios and models, vulnerability maps and other relevant climate data. In order to analyze this, the Readiness proposals will develop metrics to assess climate-related financial risks in short, medium- and long-term credit portfolios. These metrics shall take into account each countries' economic activities, geography, credit rating and maturity of the transaction, as well as the respective sensitivities to specific climate threats.

It is important to emphasize that a close coordination between both countries for the implementation of the proposed Readiness grants is crucial to ensure the establishment of comparable taxonomies and climate-related financial risk identification, measurement, and disclosure to avoid a sub-regional fragmentation of methodologies that might hinder financial markets (at the national, regional, and international level). This coordination will be aimed for by a shared implementation structure with UNEP and UNEP FI, as well as a bilateral coordination via activities under output 5.1.

Finally, the articulated and coordinated implementation of both Readiness grant proposals generates economies of scale in the development of the main outputs (taxonomy and climate-related financial risks methodologies and tools). In particular, some of the members of the Technical Teams (international experts), which are under the Project Coordination Units, will be hired, for example, for the development of the methodologies and tools for the sustainable finance taxonomy and the climate-related financial. That is why, despite being complex models and tools, the budget assigned to their development is highly competitive economically.

2. COUNTRY CONTEXT

The country context briefly describes the Costa Rica's economic, finance, and climate change profile, which lays the foundation to understand the potential climate-related risk exposures of the Costa Rican economy and financial sector. It also includes the economic and social impacts caused by the COVID-19 pandemic, and the government post-COVID-19 economic recovery plan.

2.1 GDP composition

As of December 2020, Costa Rica's economy is based upon a combination of agriculture (4.7%), manufacturing (14%), support service activities (12.5%), education and social work activities (13.9%), wholesale and retail commerce (8.7%), real state (7.8%) and financial intermediation (5.4%). The latter a relevant sector for the purposes of this Readiness proposal5.

The United States is Costa Rica's main trading partner and the destination in 2020 for 43% of its exports and origin of 37% of its imports. Among the main suppliers of Costa Rican imports are China (13%) and Mexico (6%). Costa Rica has historically been recognized mainly as a producer of bananas, pineapple, and high-quality coffee, and it still has a large agriculture sector, which generates 22% of exports and 13% of jobs6. However, the contribution from manufacturing and industry to the economy has surpassed that of the agriculture sector over the past 15 years. According to the OECD, Costa Rica’s exports are performing well: a group of low-complexity products - notably agricultural products, such as pineapples, banana, and coffee; and a group of high-complexity products that are technology-intensive, such as medical instruments and applications, and electrical goods7.

Tourism contributes significantly to employment and economic activity. The tourism sector is a leading source of jobs which account 12.9% of total employment in Costa Rica in 2019. Tourism’s direct and indirect contribution to GDP has increased over the past decade, from 12.1% of GDP in 2010 to an estimated 13.2% in 2019. Also, the activities during touristic stay rely on 80% of the times in beach activities and more than 60% in ecotourism activities.

2.2 Financial sector

Costa Rica’s financial system size is 99.89% of its GDP. Total assets in the financial system added to US$ 63.85 billion as of December 2019. The Costa Rican financial sector is dominated by the banks and other intermediaries sector (BFIS), with total assets of the BFIS sector standing at 91.25% of GDP as of 2019. Insurance sector assets were equal to 7.05% of 2019 GDP, securities sector assets 1.38% and pension fund manager assets 0.21% of 2019 GDP8.

According to the International Monetary Fund (IMF), Costa Rica’s financial system is healthy, with adequate levels of liquidity and capitalization9.The IMF also recommended continuing to strengthen prudential supervision, including consolidated supervision, legal protection of supervisors and the establishment of deposit insurance. The proposed Readiness grant aims to work with all of these regulatory and supervisory actors, to introduce climate-related financial risk disclosure methodologies to increase the resilient of the Costa Rica’s financial sector to climate change systemic risk.

The supervisory and regulatory structure of the Costa Rican financial system is composed of five different bodies: the National Council for Supervision of the Financial System (CONASSIF, by its initials in Spanish), constitutes the senior steering body of the supervisory and regulatory system of Costa Rica. CONASSIF leads and coordinates the four superintendencies:

- General Superintendency of Financial Institutions (SUGEF)
- General Superintendency of Securities (SUGEVAL)
- Superintendency of Pensions (SUPEN)
- General Superintendency of Insurance (SUGESE)

The superintendencies are autonomous bodies of Costa Rica’s Central Bank (BCCR, by its initials in Spanish), operationally independent and financially assisted by the BCCR, while being under the direction of CONASSIF10.

This proposed Readiness grant aims to reach the majority of the country’s financial sector actors (banks, insurers and reinsurers and investors), including all actors presented above, by introducing a commonly shared and agreed climate taxonomy and methodology for climate related financial disclosures.

5 Indicadores económicos-Producción. Banco Central de Costa Rica. 2021.
https://gee.bccr.fi.cr/indicadoreseconomicos/Cuadros/frmVerCatCuadro.aspx?idioma=1&CodCuadro=%205792
6 Climate Change in Central America. Potential Impacts and Public Policy Options. ECLAC. 08/2018.
https://www.cepal.org/en/publications/39150-climate-change-central-america-potential-impacts-and-public-policy-options

7 OECD Economic Survey of Costa Rica: Research Findings on Productivity. OECD. 04/2018. http://dx.doi.org/10.1787/9789264298774-en
8 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf
9 Informe Anual 2013 del Fondo Monetario Internacional. Promover una economía mundial más segura y estable. IMF. 2013.
https://www.elibrary.imf.org/view/books/011/20551-9781484332238-es/20551-9781484332238-es-book.xml
10 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf

2.2.1 Banking sector context

As aforementioned, the BFIS have a total asset of USD $ 53.4 billions, representing 91.25% of GDP as of 2019. In sum, there are 47 BFIS: 2 state-owned banks, 2 banks created by special law, 11 private banks, 22 savings and loans cooperatives, 5 non-banks financial companies, 2 National Housing System institutions, 2 foreign-exchange houses, and 1 (other) financial entity11.

The BFIS is largely dominated by state-owned banks, which account for 35% of total BFIS assets as of March 2020, while the 11 private banks active in the country account for 33.1% of total BFIS assets and Banco Popular accounts for the remaining 14%. Among the private, Banco Bac San Jose is the largest bank by assets (11.1% of total BFIS assets), followed by Scotiabank de Costa Rica and Banco Davivienda (6.3% and 5.54% of total BFIS assets, respectively)12.

The financial system's loan portfolio (US$ 38.156bn) is dominated by consumer loans (30.2%), followed by the construction (28.2%), service (16.4%), commercial items (8.2%), financial services (3.8%), manufacture (3.4%) and agricultural (3%) sectors13. For the agricultural sector in Costa Rica, the loan portfolio at constant values increased by 62% between 2009 and 2019 with an average annual growth rate of 5%.14

As of March 2020, state-owned banks accounted for 31% of the BFIS loan portfolio, while private banks generated about 35% of loans and the special-law bank Banco Popular y de Desarrollo Comunal (Banco Popular) 12% of total loans. Private banks are the main providers of foreign currency loans, with 71% of the total loan portfolio of private banks being extended in foreign currency (as of March 2020). The dollar-denominated deposits reached 65% of total deposits of private banks in the same month. Foreign currency lending by state-owned banks represented 30% of the total lending portfolio of state-owned banks and 32% of deposits in foreign currency, as of 201815.

High dollarization is one of the main characteristics and risks of the Costa Rican financial system. About 50% of private deposits are denominated in foreign currency, mostly with private domestic and foreign banks. This has historically led to higher intermediation spreads, high market segmentation and weakened monetary policy transmission16. Similarly, about 40% of credit to the non-financial private sector in Costa Rica is denominated in foreign currency, and over 70% of such credit is extended to unhedged borrowers. This high dollarization of credit in Costa Rica has amplified credit growth volatility due to the pass-through of exchange rate changes and created a currency-induced credit risk in the financial system17.

2.2.2 Insurance sector context

According to the General Superintendency of Insurance (SUGESE), in 2017 the insurance market consists of 13 insurance institutions, 2,849 insurance intermediaries (between agencies, agents, brokers, insurance brokers and shipping operators) and 2 cross-border suppliers. The market is dominated by the state-owned National Insurance Institute (INS) that holds a market stake of around 80%. Insurance sector assets were equal of 7.05% of GDP as of 201918.

By 2008, the only company that managed insurance in the Costa Rica was the state-owned National Insurance Institute (INS). After market opening efforts to vitalize the Costa Rican insurance market, new companies began to arrive and now the market has 13 companies that provide more than 700 insurance products. Compulsory Car Insurance (SOA) and Occupational Risk Insurance to date are only being offered by the INS. For voluntary insurance products, private insurers hold a 61% market stake.

The insurers' role in climate finance is very limited today, at the national level. Only the INS has a specific product against climate risks, offering a crop insurance product to the agricultural sector. This insurance product is marketed with a lower premium to producers who follow good practices and implement adaptation measures.

From 2009 – 2015, the average subscribed net premiums per year for agriculture reached approximately US$1.5 million and insured sums of US$20.2 million. In the past 3 years, amounts of the subscription of policies mostly tied to agricultural credit declined, mainly concentrated in rice (91.5%), beans (7.9%), livestock (1.2%) and coffee with less than 1% of the total.19

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11 Ibidem
12 Ibidem
13 Costa Rica: Crisis deteriora cartera crediticia. CentralAmericaData. 09/2020. https://www.centralamericadata.com/es/article/home/Costa_Rica_Crisis_deteriora_cartera_crediticia
14 Comportamiento de la cartera de crédito para actividades Agropecuarias. Secretaría Ejecutiva de Planificación Sectorial Agropecuaria de Costa Rica. 12/2019. http://www.sepsa.go.cr/docs/2019-021-Comportamiento_cartera_crédito_actividades_agropecuarias.pdf
15 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf
16 Costa Rica: Selected Issues and Analytical Notes. IMF. 05/2016. https://www.elibrary.imf.org/view/journals/002/2016/132/article-A001-en.xml
17 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf
18 Ibidem
19 Situación de los Seguros Agrícolas en América Latina y el Caribe. Coordinadora Latinoamericana y del Caribe de Pequeños Productores y Trabajadores de Comercio Justo (CLAC). 2016-2017. https://www.clac-comerciojusto.org/wp-content/uploads/2015/04/Libro-Situación-de-los-Seguros-Agrícolas-en-Latino-América-y-el-Caribe-ok.pdf

2.3 The need of a new climate finance vision

Climate change involves the financial system in two ways. First, because it channels the funds needed to make the large investments needed to comply with the Paris Agreement - business opportunities offer the transition to a low-emission and climate-resilient economy. Second, because of the physical and transition financial risks associated with climate change particularly affect financial institutions' balance sheets.

As key financial intermediaries, banks are critical actors in the financing of a low-emission and climate-resilient economy in Costa Rica. In addition, physical and transition risks result in credit and market risks, dramatically affecting bank balance sheets. Considering the percentage of the total financial assets owned by the banks and financial intermediaries (91.25%)[20], it is imperative that banks in Costa Rica integrate climate-related risks into the strategy of their core business to enhance long-term economic and financial resilience.

On the other hand, the insurance industry sits also at the heart of Costa Rica's economic activity through a combination of financing and de-risking actions, with a 7.05% of total financial assets. The insurance industry also facilitates innovation and provides financial support in the event of loss and damage. Given its experience in risk management, insurers and reinsurers are poised to become a strategic ally in dealing with the escalation of extreme events linked to climate change. In this sense, it is critical that a role for insurers and reinsurers is defined, otherwise a protection gap will arise in the absence of insurance cover for investments and technology/performance de-risking.

Although the Readiness grant proposal aims to reach the majority of the country's financial sector actors, it will mainly focus on the banks, insurers and reinsurers due to (i) their fundamental role by aligning financial flows with the goals of the Paris Agreements, while ensuring financial intermediation for direct beneficiaries and; (ii) their contribution to Costa Rica's financial system and macroeconomic stability.

2.4 COVID-19 impacts on Costa Rica's economy and financial system

The economic activity in Costa Rica suffered a steep downfall, especially in the second quarter of 2020 with a contraction of 7.6% and by the end of 2020 the Gross Domestic Product (GDP) fell by 3.9% in 2020[21]. The contraction in production was partly due to the fall in household consumption (due to mobility restrictions and reduced income) and the decrease in investment. By economic activity, the industries that suffered the most damage were services, especially those related to tourism (-44.7%), such as accommodation and restaurants, transportation, and storage (-22.2%), and commerce (-10.2%)[22].

International tourist arrivals dropped by 98.7% year over year in the third quarter of 2020. As a result, direct employment in the tourism sector declined by 28% year over year, driven by restaurants and hotels, which generate the largest share of jobs in the sector. Overall, economic activity in the tourism sector declined by 44.3% in 2020.

For 2021, the situation is slowly improving, Central Bank of Costa Rica estimates that the economy will grow 7.1% in 2021 and 6.7% in 2022, consistent with the recovery signals, as well as with the improvement in the economies of major trading partners[23]. In the meantime, due to vital spending on health and social protection in response to the COVID-19 crisis, public debt has reached 67.5% of GDP and the fiscal deficit climbed to its highest value in decades (8.1% of GDP). Further, the social impact in Costa Rica has been the harshest since the country's economic crisis in the 1980s. According to the Ministry of Labor, the poverty rate skyrocketed and reached 27.7% of the population by September of 2020 - an increase of 7.7 p.p. - roughly 400.000 people[24]. The National Census Bureau (INEC, acronym in Spanish) estimated the unemployment rate at 20% for the fourth quarter of 2020, an interannual increase of 7.6 p.p. Worked hours decreased by 37% for the informal workforce[25], and the restaurant, entertainment, and tourism sectors were particularly affected.

The stock market also experienced a high level of volatility, particularly during the months of March and April 2020, where a downward adjustment was observed in the prices of the most actively traded shares,

20 Costa Rica: Review of the financial system. OECD. 12/2020. https://www.oecd.org/finance/Costa-Rica-Review-of-Financial-System-2020.pdf
21 BCCR proyecta crecimiento de 2,6% en 2021 y 3,6% en 2022; meta de inflación se mantiene en 3%. Banco Central de Costa Rica (BCCR). 29/01/2021. https://www.bccr.fi.cr/comunicacion-y-prensa/Docs_Comunicados_Prensa/CP-BCCR-006-2021-BCCR_proyecta_crecimiento_en_2021_y_2022_mantiene_meta_inflacion.pdf
22 Indicadores económicos-Producción. Banco Central de Costa Rica. 2021. https://gee.bccr.fi.cr/indicadoreseconomicos/Cuadros/frmVerCatCuadro.aspx?idioma=1&CodCuadro=%205792
23 Ibidem
24 Impacto del COVID-19 sobre las tasas de pobreza de Costa Rica y rol mitigante del Bono Proteger. Ministerio de Trabajo y Seguridad Social de Costa Rica (MTTS). 09/2020. https://www.mtss.go.cr/elministerio/despacho/covid-19-mtss/plan_proteger/archivos/quinto_informe_anexo2.pdf
25 desempleo cerró el año en 20 %. Instituto Nacional de Estadística y Censos (INEC). 04/02/2021. https://www.inec.cr/noticia/desempleo-cerro-el-ano-en-20

particularly those denominated in foreign currency. Similarly, greater liquidity is observed in the national financial system, where for the second quarter of 2020, USD $77.4 million were available26.

The financial system faced an increase in credit and market risks, the result of imbalances caused by the COVID-19 pandemic in the country's economy and fiscal balance. However, the system has managed to withstand this particularly challenging situation, partly because of the appropriate conditions that the institutions had in their pre-pandemic liquidity and solvency indicators, as well as the exceptional measures to support liquidity, credit and risk management taken by the financial authorities. According to the Financial Soundness Indicators, which follows IMF methodologies, the financial system maintained adequate capitalization and a sufficient degree of liquidity during 2020, very similar to those observed in previous years.

To address the situation of the pandemic, both the National Financial System Supervisory Council (CONASSIF, for its Spanish acronym) and the Superintendency General of Financial Institutions (SUGEF, for its Spanish acronym) issued nearly 100 policy measures aimed at mitigating the impact of the pandemic27. These measures aimed to make credit conditions more flexible in order to provide relief to borrowers but also a trading alternative for financial institutions while maintaining their portfolio status.

In addition, On May 3rd, 2021, as a response to the COVID-19 crisis, the President of Costa Rica - Carlos Alvarado, gave the State of the Republic speech before Congress. He reiterated the harsh impact of the pandemic in Costa Rica’s economy and stated that a recovery is only possible with a stable economy and the fiscal deficit under control28. He continued saying that the only recovery possible would be a sustainable one. This highlights that any recovery, to be sustainable, has to support (a) economic growth, (b) employment creation and (c) reduce the pressure on public finances.

The Government of Costa Rica has the objective to link today´s recovery efforts to guide sustainable development that stimulates economic growth and creates employment opportunities, while achieving environmental and social co-benefits. Linking the short-term post-COVID19 recovery framework to revised NDC and Costa Rica’s National Decarbonization Plan (NDP) is essential to ensure Costa Rica meets the Paris Agreement on Climate Change.

2.5 CLIMATE CHANGE CONTEXT

The UN Intergovernmental Panel on Climate Change identified Costa Rica as a hot spot for climate change with severe effects on ecosystems and livelihoods through a rise in sea levels, higher temperatures, and more frequent storms, droughts, and floods, among other consequences. Climate-related natural disasters have occurred more frequently in recent decades, especially floods and tropical storms, with a significant bearing on the population and the economy29. Climate effects are expected to be increasingly severe and frequent over time. Therefore, Costa Rica also stands to suffer even larger economic losses and social impacts that will accelerate and accumulate over time. As of 2017, Costa Rica is the 21st country with the highest risks from climate change worldwide, according to Germanwatch, much worse than in the previous two decades30. The immense magnitude of estimated losses due to climate-related risks, along with the rapid materialization of those losses, not only affect Costa Rica’s macroeconomic stability, but also the financial stability of the financial sector and, therefore, the most relevant activities of financial regulatory and supervisory authorities, and others key financial market participants, such as banks and insurers.

In order to understand potential effects and impacts of climate change, as well as the national coordination efforts related to it, the following sections provide a brief introduction to country-specific overview on the climate change context. The focus of the following section is to highlight how climate change threatens the Costa Rican economy and financial sector and what the country has done so far to address the climate crises.

2.5.1 Potential climate change impacts at country level and on GDP

The Republic of Costa Rica (nearly five million inhabitants; 51,100 square km) is a country in the Central American Isthmus, the tropical region where the biggest changes in future climate are expected31. Costa Rica is exposed to several natural hazards, which are themselves influenced by several large-scale climate

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26 Informe del Mercado de valores 2020. Superintendencia General de Valores (SUGEVAL). 12/2020. https://www.sugeval.fi.cr/informesmercado/DocsInformesemestraldemercado/I%20informe%20semestral%20del%20mercado%20de%20valores%202020.pdf

27 BCCR y CONASSIF acuerdan medidas de política monetaria y financiera para mitigar impacto económico del COVID-19. Presidencia de Costa Rica. 17/05/2020. https://www.presidencia.go.cr/comunicados/2020/03/bccr-y-conassif-acuerdan-medidas-de-politica-monetaria-y-financiera-para-mitigar-impacto-economico-del-covid-19/

28 Estabilidad económica y política son condiciones indispensables para el crecimiento y el bienestar. Presidencia de Costa Rica. 04/05/2021. https://www.presidencia.go.cr/comunicados/2021/05/estabilidad-economica-y-politica-son-condiciones-indispensables-para-el-crecimiento-y-el-bienestar/

29 Climate Change Country Profile: Costa Rica. World Bank (WB). 2021. https://climateknowledgeportal.worldbank.org/sites/default/files/country-profiles/15989-WB_Costa%20Rica%20Country%20Profile-WEB.pdf

30 Índice de Riesgo Climático Global 2018. ¿Quiénes sufren más con los eventos climáticos extremos?. Germanwatch. 2018. https://germanwatch.org/sites/default/files/publication/20398.pdf

31 Climate change hot-spots. F. Giorgi. 2016. https://agupubs.onlinelibrary.wiley.com/doi/full/10.1029/2006GL025734

phenomena such as the El Niño-Southern Oscillation. Costa Rica has the 8th highest economic risk exposure to multiple hazards, combining hydrometeorological and geophysical ones. As much as 36.8% of Costa Rica's landmass is exposed to three or more natural hazards; 77.9% of its population and 80.1% of its GDP production are located in high-risk areas32.

Significant climate change vulnerabilities translate into significant human, social, and economic costs. According to the International Disasters Database, during 1969-2019, natural disasters, especially floods, droughts, and storms, have led to significant fatalities as well as social and economic costs in Costa Rica, with annual losses from these events averaging 0.4 percent of GDP and total people affected reaching about 35,000 per year, on average. In a 2017 report, the Office of the Comptroller General warned about the impact of climate-induced extreme events on public finances; the estimated annual costs due to hydrometeorological and climate-induced events amounted to 0.3-1.7 percent of GDP over 1988-2010 and could reach up to 2.5 percent of GDP by 202533. Similarly, the National Commission of Risk Prevention and Emergencies (CNE) emphasized that 78.2 percent of the losses from hydrometeorological and geotectonic events over 2005-2011 related to public infrastructure34. Road infrastructure is the most affected sector, followed by electricity-generating infrastructure, and agriculture.

Going forward, the IMF estimates based on the ENVISAGE model calibrated for Costa Rica suggest that global warming of +3°C, which is within the expected median global warming of 2.6°C to 3.1°C by 2100 considering current pledges globally, could reduce Costa Rica's GDP by more than 6 percent, primarily through the channels of tourism, heat effects on labor productivity, and agriculture35.

2.5.2 Potential climate change impacts on the financial sector

By financing the real economy, financial sectors are naturally exposed to climate risks, especially via credit operations and increasing insurance claims for physical climate-related financial risks. In turn, ongoing strengthening of country commitments vis-à-vis ambitious climate action and resulting tightening legal and regulatory frameworks in the region and worldwide, transition risks are threatening companies that are not prepared and, in consequence, the financial sectors supporting them.

Climate-related financial risk has two main transmission channels towards the economy and the financial system: (i) physical risks arising from weather events causing damage to property, infrastructure, and land and; (ii) risk of transition arising from the transformations towards a low-emission and climate-resilient economy - changes in climate policy, technology, consumer awareness – leading to stranded assets.

Exposures can vary significantly from country to country. In general, low- and middle-income economies tend to be more vulnerable to physical risks. In the case of financial institutions, physical risks can materialize directly, through companies', households', and countries' exposure to climate shocks. Or risks can materialize indirectly, through the effects of climate change on the global and national economy, and the feedback effects within the economy and the financial system.

Exposures are manifested in loan defaults or a reduction in the value of assets increasing minimum capital requirements. If banks in consequence limited credit operations, financial conditions could worsen, particularly if climate shocks affect many institutions simultaneously. This can threaten the stability of the financial sector as a whole and directly affect the national economy as capital for growth would be limited.

In the case of Costa Rica, the Comptroller General of the Republic (CGR) estimates that by 2025 the cost of attending to the impacts of hydrometeorological and extreme weather events could cover between 0.68% and 1.05% of the GDP, in a conservative scenario, and between 1.64% and 2.50% of GDP in a higher risk scenario36. In this context, the country is already experiencing economic losses due to more frequent hydrometeorological events:

- The duration of the 2014-2016 drought was 2.4 times longer than the drought of 2009, and 1.8 times longer than the 1997 drought, which was considered to have a major impact on the country in terms of productivity (CGR 2018).
- Hurricane Otto generated damages and losses in 2016 for USD $16 million; 10,831 people in 461 towns were directly affected, as well as 10 human losses.

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32 Country Disaster Risk Profiles: Costa Rica. **Error! Hyperlink reference not valid.**Global Facility for Disaster Reduction and Recovery (GFDRR). 2016. https://www.gfdrr.org/sites/default/files/Costa%20Rica1.pdf

33 Presión sobre la Hacienda Pública en un contexto de variabilidad y cambio climático: desafíos para mejorar las condiciones presentes y reducir los impactos futuros. Contraloría General de Costa Rica (CGR). 2017. https://cgrfiles.cgr.go.cr/publico/docs_cgr/2017/SIGYD_D_2017015617.pdf

34 Ley Nacional de Emergencias y Prevención del Riesgo. Sistema Nacional de Gestión del Riesgo (CNE). http://www.pgrweb.go.cr/scij/Busqueda/Normativa/Normas/nrm_texto_completo.aspx?param1=NRTC&nValor1=1&nValor2=56178&nValor3=84696&strTipM=TC

35 MF Executive Board Approves a 36-month US$1.778 Billion Extended Arrangement under the Extended Fund Facility for Costa Rica and Concludes 2021 Article IV Consultation. IMF. 01/05/2021. https://www.elibrary.imf.org/view/journals/002/2021/048/article-A002-en.xml

36 Presión sobre la Hacienda Pública en un contexto de variabilidad y cambio climático: desafíos para mejorar las condiciones presentes y reducir los impactos futuros. Contraloría General de Costa Rica (CGR). 2017. https://cgrfiles.cgr.go.cr/publico/docs_cgr/2017/SIGYD_D_2017015617.pdf

- Tropical storm Nate, which impacted the country during three days in 2017, caused damages and losses to 10,831 people in 46 villages, causing damages up to USD $510 million (equivalent to 1% of the country's GDP in that year), in addition to major social impacts such as 14 human losses and the displacement of 11,517 people who had to seek refuge (MINAE).

In both hurricane situations, the insurance sector in Costa Risa also suffered great economic losses, paying US$ 5.02 million for Hurricane Otto in 2016 (3% losses) and US$ 28.67 million for Hurricane Nate in 2017 (5.4% losses).37 As such, the insurance sector in Costa Rica is highly vulnerable to climate change and it is a sector directly affected by climate physical risks, which translates into: more weather-related insurance claims, higher pay out costs, and hence higher insurance premium costs. This is unsustainable at the long run because relevant sectors in Costa Rica (with high percentage of GDP) such as tourism, agriculture, and infrastructure suffer cost increases and economic losses even if they have an insurance coverage.

Also, it is important to recognize that there are no catastrophic bonds issued by the government of Costa Rica that could potentially protect the macroeconomic stability in case of a natural disaster; also there are no subsidies to agricultural MSMEs for insurance premiums, which is difficult for the most vulnerable farmers to overcome crop losses due to a natural disaster.

Nevertheless, due to Costa Rica's recent adherence to the OECD (2021), the General Superintendence of Insurance (SUGESE) is following a series of recommendations to upgrade its insurance sector for ensuring a macroeconomic and financial stability38. As such, the Minister of Finance and the SUGESE has taken important steps in this sense, such as the proposal of the National Strategy for the Financial Management of Disaster Risks and other financial tools for disaster risk financing; same as SUGESE's communication to the insurance market specifying that the parametric insurance modality may legally operate in the country39. This one of specific relevance to increase climate resilience for insurance and re insurance companies. In general, these are signs of the country's commitment and the sector awareness to adapt to climate change, which provides an important basis for the implementation of the proposed Readiness grant.

On the other hand, transitional risks arise also from the asset and liability side of financial institutions, which could suffer losses from exposure to companies whose business models are not in line with low-emission and climate-resilient, environmental footprint or other ESG-related criteria. These companies could suffer revenue losses, trade disruptions, and increased financing cost due to policy measures, technological change, and demands from consumers and investors seeking alignment with climate change response policies.

Climate-related risks can also materialize in the economy in general. Climate change and policies aimed at promoting the transition towards a low-emission and climate-resilient economy could have effects on headline inflation and natural interest rate, impacting on price stability. Particularly, if the transition to a low-emission and climate-resilient economy is abrupt (as a result of previous inaction), poorly conceived, or difficult to coordinate globally (with the consequent disruptions to international trade). Fears arise about financial stability if asset prices adjust quickly to reflect the unexpected materialization of physical or transitional risks.

Costa Rica's National Decarbonization Plan 2018- 2050 creates synergies with the Strategic Plan Costa Rica 2050 and the Territorial Economic Strategy for an Inclusive and Decarbonized Economy 2020-2050, which envisage a deep transformation towards a more competitive, equitable, and green economy. In that context, such transition-related financial risks are materializing. In this sense, it is important that financial institutions redirect or adjust their investments with NDP scenario.

The mandates and responsibilities of central banks and financial supervisory authorities regarding bank supervision, financial stability, asset management and monetary policy make it necessary for them to analyze the potential systemic implications that climate change may have for the economy and the financial system as a whole to incorporate climate-related factors into their micro- and macro-prudential supervisory work, portfolio management, and economic forecasts. Central banks and financial regulators are increasingly aware of the implications of climate change for financial stability.

However, attempts to incorporate climate-related risks into regulatory frameworks face significant challenges. There are still obstacles and challenges to overcome, such as the lack of a complete taxonomy that comprises what is "sustainable" and what is not. In addition, climate risks must be assessed over long-term periods, while investments and their financing usually run with shorter maturities. Climate financial flows need to be verified and their promotion needs to be aligned with general regulatory stipulations that integrate

37 Cambio Climático y Sector Seguros. Superintendencia General de Seguros República de Costa Rica (SUGESE). 06/2019 http://www.mag.go.cr/asuntos-internacionles/mesa-dialogo/Cambio-Climatico-y-Seguros.pdf
38 Costa Rica: Análisis del sistema de seguros en Costa Rica. OECD. 02/2019. https://www.comex.go.cr/media/7112/cr-revision-sistema-seguros.pdf
39 Letter PJD-SGS-004-2019. Superintendencia General de Seguros República de Costa Rica (SUGESE). 18/06/2019. https://www.sugese.fi.cr/seccion-marco-legal/CriteriosJuridicos/PJD-SGS-004-2019.pdf

broader ESG considerations. This makes a resulting climate finance regulation target system highly complex and difficult to monitor.

Therefore, new methodological approaches must be used to ensure that regulatory frameworks accurately price climate risks. It is crucial that efforts for the inclusion of climate risks strengthens prudential regulation. Policies that allow financial institutions to maintain higher debt capital levels simply because debt is rated “green” could easily be counterproductive - through increased leverage and resulting financial instability - if the fundamental risks of that debt are not properly understood and measured.

Considering the above, this Readiness grant proposal focuses on a two-layered approach:

- Firstly, climate financial flows will be earmarked according to a unified taxonomy - a national classification system to determine whether an economic activity is environmentally sustainable - enabling financial institutions and the regulator to start measuring their mitigating effect on climate-related financial risks. For example, classifying investments reducing GHG emissions lowering transition risks or investments into resilience lowering physical risks.
- Secondly, the identification, and measurement of climate-related financial risks (physical and transition risks) for financial institutions will allow for the identification of potential investments mitigating these risks.

It is important to stress that the targeted introduction of sustainable finance taxonomy as well as climate-related financial risk disclosure methodologies only at first seem as separated concepts, but are actually tightly interwoven elements of a broader whole climate finance framework. The Bank for International Settlements’ (BIS) Basel Committee on Banking Supervision (BCBS) distinguishes between physical and transition climate-related risks, for both potential “counterparty measures” might mitigate identified climate-related financial risk exposures of a given assets (e.g. a loan) alongside financial risk mitigation instruments (such as insurance or hedging mechanisms).

Hence the monitoring of climate financial flows according to established taxonomies can be linked directly to potential “gross financial exposures”, supporting the identification of “net risk exposures”. In detail, once climate-related financial risks can be measured, the identification of past, current and planned (even to be financed) climate-related risk mitigation measures according to such taxonomies only provides the entire picture on an asset or asset group’s actual risk-adjusted value.[40] While initial public financial funds might well lead the way for an emerging comprehensive climate finance framework in any country, the above two focus areas are crucial in order to attract private financial flows to be mainstreamed.

Both approaches combined will introduce a sound climate finance framework that will enable to monitor the flow of funds towards investments that directly mitigate risks identified. The Readiness grant proposal will also provide recommendations on policy measures that should be considered by the regulatory and supervisory authorities under the regulatory framework to improve the resilience of the financial system to climate-related financial risks.

2.5.3 Climate change public policy responses

The following sections provide a brief overview on national coordination efforts related to address the climate crisis. Particularly, it will provide information on the legal, regulatory, and public policy frameworks, as well as the institutional structures that are in place and are relevant for the implementation of this Readiness grant proposal.

1. **The National Climate Change Strategy 2012-2021 (ENCC, 2009)** established the goal to become a carbon neutral country by 2021. It further establishes the objective to reduce the vulnerability of socio-productive sectors, in order to reduce the negative impacts of climate change and take advantage of the opportunities that arise, thereby strengthening the country’s competitiveness and demonstrating regional and even international leadership in the fight against climate change[41]. The strategy makes ample references to the inclusion of the private sector and the need to attract especially private funding from domestic and international sources for the presented ambitious objectives. This Readiness proposal hence directly supports key strategic axis of this central government strategy; it equally provides the enabling environment of the national as well as international agenda, promoting a carbon-neutral and resilient economy, which can be financed to large extent by private funding - based on shared and agreed upon metrics to be centralized via established reporting systems.

2. The National Climate Change Metrics System (SINAMECC, 2018) is a sectoral coordination and linkage platform to facilitate the management and distribution of climate change knowledge and information, the operation of which is carried out by the Directorate of Climate Change (DCC). It allows to measure,

40 Climate-related financial risks-measurement methodologies. Bank for International Settlements. 04/2021. https://www.bis.org/bcbs/publ/d518.pdf

41 Estrategia Nacional de Cambio Climático - 1 ed. Costa Rica. Ministerio de Ambiente, Energía y Telecomunicaciones. 2009. https://cambioclimatico.go.cr/wp-content/uploads/2018/08/ENCC.pdf

report, and verify information on GHG emissions and removals in the majority of the economic sectors. SINAMECC is subdivided into four modules: Mitigation, Adaptation, Co-Benefits, and Financing.

The SINAMECC Financing module seeks to provide information on three types of financing (submodules):

- Public climate finance from the national budget, public credit;
- International climate financing, non-reimbursable from international cooperation, and;
- Private climate finance, channeled through the financial sector.

The SINAMECC seeks in a coordinated, methodological, and systematic ways to facilitate the management and distribution of information on climate change to all those involved in establishing, in another way, roads or opportunities in opening climate financing – especially from private sources.

The climate finance classification list for the SINAMECC was developed within the framework of the ACCIÓN Clima II Project, financed by the International Climate Initiative (ICI) of the Federal Ministry of the Environment, Protection of Nature, Public Works, and Nuclear Safety (BMU) of Germany, executed by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. The classification list published under the name of "Guidance for the measurement and reporting of information on climate finance from public international sources", was developed in close collaboration with the DCC of the Ministry of Environment and Energy (MINAE).

For the purpose of specifically monitoring private climate finance, the SUGEF has requested a new information requirement for climate finance data in 2020, under its information system called **Data Capture, Verification and Loading System (SICVECA)**. SICVECA's new information requirement aims to gather information from the financial institutions to report and monitor information related to lines of credited related to climate change mitigation and adaptation42. This system allows the sending and validation of quantitative information between financial institutions and SUGEF.

The system includes the following fields and topics:

Table 1: New fields to report to the SICVECA, related to climate finance

Report Fields	Description
Theme	Sector that benefits from the agreed category financing for Costa Rica
Subtopic	Subsector that benefits from the agreed category financing for Costa Rica
Climate change area (mitigation/adaptation/ both)	Area of impact of the main climate activity to which the financing is intended (mitigation / adaptation / both)
Amount for climate change	Amount of the operation (in national currency that is specifically intended for mitigation and/or adaptation to climate change)
Funding source	Institution or entity, whether national or international, that grants the funds to the financial institution
Funding type	Type of funding, i.e., whether the financing corresponds to public or private national resources, or in the case of international funding if it comes from multilateral or bilateral entities
Modality	Whether the funding is refundable, non-refundable, or technical assistance

42 Circular externa SGF-2410-2021. Superintendencia General de Entidades Financieras de Costa Rica. 2021. https://www.sugef.fi.cr/informacion_relevante/circulares/externas_vigentes/SGF-2410-2021%20Circular%20Externa%20nuevo%20plazo%20de%20xml%20Riesgo%20Climatico.docx

Source: Climate Finance Monitoring in Financial Institutions Supervised by SUGEF in Costa Rica. 2019.

These new fields required by 2021 determine which activities can be reported as climate finance in Costa Rica, among the most important data to be determined the loan purpose, i.e., investment target and the origin of the counterpart resources.

The new fields were also developed under the ACCIÓN Clima II Project, and published under the name of "Guidelines for reporting information on climate finance in financial institutions supervised by SUGEF in Costa Rica" in 2019. These guidelines were developed based on international methodologies for identifying climate change activities such as the World Bank Group's (OECD) Rio Markers, the International Finance Corporation's (IFC) List of Definitions and Metrics for Climate Change Activities, and the indicative list of the joint report of multilateral development banks. In the Costa Rican context, the classification refers to activities that the country considers to be related to climate change, which are defined in the 2018 – 2050 Decarbonization Plan, the National Adaptation Policy (NAP) 2018-2030, the National Climate Change Strategy and the NDC.

Together, SINAMECC and SICVECA, are not only useful instruments to increase the transparency of climate change actions and financing in the country but have been advanced and partially implemented with financial institutions, hence providing the proof of concept that the reporting as such is relevant, valuable, and feasible.

This Readiness proposal will use these Guidelines as a baseline for the creation of a full taxonomy on sustainable finance. The updated and extended taxonomy will cover substantial contribution criteria for climate change mitigation and adaptation and will aid to the conceptual and methodological framework of climate change information, specifically the activities and sub-activities already classified for: transport, energy, urban development and territorial planning, infrastructure, industry, waste management, agriculture, environment, tourism, and risk management and response. The updated and extended taxonomy will be tested and piloted through financial entities, such as banks, insurers and reinsurers and other financial sector participants, such as investors.

This Readiness proposal will strengthen and leverage SINAMECC and SICVECA by helping them to meet their monitoring objectives; and hence, by facilitating the transfer of international best practices for the taxonomy and the disclosure of climate-related financial risks. The application of the best international practices and methodologies, same as their operationalization, will strengthen and enhance the SINAMECC and SICVECA and provide internationally accepted and, more importantly, comparable data. As a result, the country will be able to show its progress, in general and in relation to key strategies such as the NDC and the NDP, based on data coming directly from the administrative records of the actors in its financial system.

3.The National Decarbonization Plan (NDP, 2018) Costa Rica presented its NDP for 2050. For this and for the historical environmental conservation policy, the country received in 2019 the UN Champion of the Earth Prize on Public Leadership. The NDP is the Costa Rican national strategy to achieve net zero emissions by 2050. The plan includes a series of transformations in the sectors that have the greatest impact on emissions in the country.

The actions proposed in the NDP are divided into three major stages: a) foundations stage (2018-2022), b) inflection stage (2023- 2030) and c) transformation normalization stage or massive deployment (2031-2050). It is estimated that the NDP would provide US$ 78 billion in benefits, estimating related costs at about US$ 37 billion.43

The NDP is structured in ten main lines of action, and eight cross-cutting strategies oriented the governance model for decarbonization that will execute the plans. Table 2 describe the axes and strategies included in the plan.

Table 2: National Decarbonization Plan axes and cross-cutting strategies by sector

Sector	Axes of the decarbonization	Cross-cutting strategies
Public, private and freight transportation	1. Development of a mobility system based on safe, efficient, and renewable public transport, and on active mobility schemes	A. Comprehensive reform for the new framework "for the Bicentennial".
	2. Transformation of the light-duty vehicles fleet to have zero emissions, sustained by renewable energy, not of fossil origin.	**B. Green Tax Reform.**

43 Costos y beneficios de la descarbonización de la economía de Costa Rica: Evaluación del Plan Nacional de Descarbonización bajo incertidumbre. IADB. 11/2020. https://publications.iadb.org/es/costos-y-beneficios-de-la-descarbonizacion-de-la-economia-de-costa-rica-evaluacion-del-plan

	3. Promotion of a cargo transport that adopts modalities, technologies and sources of energy zero-emissions or the lowest emission possible.	**C. Funding strategy and investments attraction for transformation.**
Electricity system	4. Consolidation of the national electric system with capacity, flexibility, intelligence, and resilience necessary to supply and manage renewable energy at competitive cost.	D. Digitalization and Knowledge-based Economy Strategy
Buildings	5. Development of buildings for different uses (commercial, residential, institutional) under the standards of high efficiency and low emission processes.	E. Labor strategies of "just transition"
Industry	6. Transformation of the industrial sector through processes and technologies that use energy from renewable sources or other efficient and sustainable methods that have low or zero-emissions.	F. Inclusion, human rights, and promotion of gender equality.
Waste management	7. Development of an integrated waste management system based on the separation, reuse, revaluation, and final disposal of maximum efficiency and low GHG emissions.	G. Transparency, metrics, and open data strategy.
Agriculture	8. Promotion of highly efficient agro-food systems that generate low carbon local consumption and export goods.	H. Education and Culture Strategy: The Bicentennial Costa Rica free of fossil fuels.
Livestock	9. Consolidation of an eco-competitive livestock model based on productive efficiency and reduction of GHG.	
Forestry	10. Consolidation of a model of management for rural, urban, and coastal territories that facilitates the protection of biodiversity, the increase and maintenance of forest cover, and ecosystem services based on nature-based solutions	

Source: National Decarbonization Plan, Governemnt of Costa Rica, 2018

Among its cross-cutting strategies, there is one relevant strategy for the purpose of this proposal:

Finance strategy and attraction of investment for the transformation needed: entails designing and implementing climate finance mechanisms that can leverage public and private investments for climate change actions. This envisions to receive international cooperation for creating the enabling conditions and the national capacities for implementing project pilots; and then for the scaling these pilots with public and private investments; and also to attract foreign direct investment with innovative value chains such as electric mobility, digitalization, data center, smart cities, circular economy, and climate smart agriculture practices. This finance strategy is focused on national and international financial sector. As part of its priority actions are:

- To consolidate an NDC project portfolio with prioritized actions
- To design an Investment Action Plan, aligned to drive the country into a decarbonization and resilience laboratory.
- To design tools to facilitate the alignment and prioritization of public investment with key projects.
- To consolidate a climate finance access structure that will help the NDA.
- To analize the viability of creating funds or innovative financial schemes that considers the limited fiscal debt in costa Rica.

For this process, international cooperation issues will be articulated with MIDEPLAN and the Ministry of Foreign Affairs, for FDI issues with COMEX, CINDE and PROCOMER, for public investment issues with the Treasury, MIDEPLAN and Central Bank for the processes associated with cooperation international and indebtedness.

This Readiness proposal outcomes will work entirely under the *Finance strategy and attraction of investment for the transformation needed* by: 1) helping the NDA to identify, assess, and prioritize its project portfolio for the GCF (GCF Country Programme); 2) designing and implementing a taxonomy that helps to align public and private financial flows to climate investments and attract foreign direct investment with innovative value chains; 3) providing the technical tools and methodology to identify, assess, and manage climate financial risks, as an enabler to bulletproof investments vis-à-vis climate change in the long term (2050 and beyond).

4.Nationally Determined Contribution (NDC, 2020) the country updated and improved its first 2015 NDC2015. The NDC commits the country to take actions aligned with the global goal of limiting the increase in global average temperature to 1.5 °C. It establishes the main mitigation and adaptation goals in 13 priority areas.

This Readiness proposal outcomes will work entirely under the following NDC climate finance objectives:

- 12.2. By 2025, the country will have developed the tools, instruments, regulations, and incentives to accompany the financial sector in the analysis, disclosure and management of the risks and impacts of climate change in its sector.
- 12.3. Mobilize the financial system, including the Development Banking System so that by 2030 there are financial products on the market that support decarbonization and resilience.

The Readiness proposal will play a prominent role for achieving the objectives of the NDP and the NDC, in the short and long term. Specifically Action Area no.12 of the NDC, that is based on the challenges and opportunities for the financial sector in aligning financial flows with a net-zero and resilient economy.

Specially the taxonomy, the framework for the identification, measurement, and disclosure of climate change-related risks for financial institutions; and the link between transition risks – climate change mitigation (investments) as well as physical risks – climate change adaptation (investments), are cornerstones to provide a concrete business case for any financial intermediary or insurance company to incorporate climate change as a variable into their project portfolios.

2.6 SUSTAINABLE FINANCE IN COSTA RICA

To meet national climate change targets established in the Costa Rica's NDC (2020) and the National Decarbonization Plan 2018-2050 (NDP), it is required large amounts of investment. As an example, to implement the NDP, Costa Rica must invest (public and private investments) up to USD $37 billion. These investments include switching to electric mobility, improving public transport, purchasing energy efficient equipment, and converting building energy use to electricity44. In committing to climate-related goals under the Paris Agreement (NDC and NDP), the country endorsed a very ambitious and clear pathway for climate neutrality and environmentally sustainable growth.

If Costa Rica is to mobilize climate finance at a big scale through a long term period of time, it needs a common language and a clear definition of 'what is green or environmentally sustainable' and 'what is not' . A clear definition will bring credibility, integrity, and transparency to the market, facilitating the identification of investment opportunities for the private sector, specifically for the financial market participants, and, in turn, enabling the mobilization of capital linked to the NDC and NDP goals.

Definitely, climate change is reshaping every aspect of Costa Rica's politics and economics. However, the transition that comes along with a low-emission and climate-resilient economy will arise new investment opportunities for the country that will stimulate economic growth, create employment, while achieving social and environmental benefits, in the short-term and beyond in greater terms than current trends. The net-zero pathway in Costa Rica, aligned with the NDC and the NDP, bring an array of environmental, economic, and social benefits. The net-benefits account up to of USD $41 billion to the economy. The greatest benefits are in the agriculture, livestock, and forestry sectors (USD $22 billion), followed by public and private transport sector (USD $17 billion)45.

Costa Rica is vulnerable to the effects of climate change, which are currently disrupting the economy. Therefore, the upcoming estimated losses due to climate-related risks, along with the rapid materialization of those losses, not only will affect Costa Rica's macroeconomic stability, but also the financial stability of the financial sector and, therefore, the most relevant activities of financial regulatory and supervisory authorities, and others key financial market participants, such as banks and insurers.

This means that financial institutions, specifically banks, must assess climate-related financial risks (physical and transition) and their exposure to both of them to improve the resilience of the financial system. Although, the national financial sector is becoming aware of the risks and challenges of climate change, attempts to incorporate climate-related risks are in a very early stage in Costa Rica.

A regional survey conducted by UNEP FI in 2020 to obtain information on how Costa Rica's banks are approaching the challenges posed by climate change issues, concluded that, although banks are mindful of

44 Costos y beneficios de la descarbonización de la economía de Costa Rica: Evaluación del Plan Nacional de Descarbonización bajo incertidumbre. IADB. 11/2020. https://publications.iadb.org/es/costos-y-beneficios-de-la-descarbonizacion-de-la-economia-de-costa-rica-evaluacion-del-plan
45 Ibidem.

climate change risks, most of them address these issues from the standpoint of corporate social responsibility rather than from the standpoint of risk management.

Twenty (21) banks in Costa Rica were interviewed (21/78 banks interviewed in the region) representing more than USD $4,187 billions assets under management were interviewed and stated that 57% of the interviewed institutions have an Environmental, Social, and Corporate Governance (ESG) framework in place, 19% of the interviewed institutions are in process of establishing such a framework, demonstrating an increasing interest of local financial institutions to engage in ESG46. In addition, 38% of the banks interviewed stated to be directly addressing climate-related opportunities and risks through such frameworks. However, only four institutions are integrating proactive climate-related financial risk management via specific policies and dedicated operational units. At least 57% of the interviewees recognize that climate change challenges and opportunities have been discussed in their Board of Directors, and at least 38% of institutions recognize the opportunities that arise of investing in climate change.

In a survey conducted by the IADB to financial regulators and supervisors across the LAC region, representatives from the Central Bank of Costa Rica (BCCR by its initials in Spanish) and the General Superintendence of Financial institutions (SUGEF by its initials in Spanish) shared that the regulators are starting to use monetary and regulatory instruments to support the financial system resilience to climate-related risks; they also shared that developing a green taxonomy would be an enabling factor for aligning green investments. In terms of data collection, the interviewees stressed that they do not know which data to use to measure the risks related to climate chance, and that data is incomplete or incompatible across financial entities. The interviewees also highlighted that an empirical assessment of financial sector's exposure to climate risks is wanted47.

Many banks and the financial regulator in Costa Rica stated that several crucial limitations and challenges are coming to light when trying to measure these risks, plus little knowledge of the potential impacts of physical and transition climate risks. Other challenges are the lack of a complete taxonomy on sustainable finance, the lack of information, methodologies and tools to identify, assess, manage, and disclose climate-related risks, same as measuring the long- and uncertain-time horizon of these risks.

Because of the important role of financial regulators for integrating climate change into decision-making with the aim of helping financial actors and policymakers to transition swiftly to a net zero economy by 2050, this Readiness proposal aims to support supervisors, regulators, and financial institutions to create the enabling conditions in Costa Rica for ensuring the macroeconomic stability needed vis-à-vis the transition to a low-carbon and resilient economy.

2.6.1 Sustainable finance leadership initiatives

In 2019, The Ministry of Finance of Costa Rica joined as one of the first 20 members of the Coalition of Finance Ministers for Climate Action, and its adherence to the Helsinki Principles, whose Principle 5 looks to mobilize private sources of climate finance by facilitating investments and the development of a financial sector which support climate mitigation and adaptation; and Principle 4 take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices. Costa Rica's membership and adherence is a strong signal to the financial sector actors; in particular, due to the recent Coalition's Joint Ministerial Statement (October 2021)48, which states the following:

- *We strongly support Members' efforts to strengthen climate-related financial risk management and ensure the alignment of global financial flows with the goals of the Paris Agreement.*
- *We recognize the importance of ensuring comparable disclosure of climate-related financial information for decision making.*

As such, this recently published Statement is another signal and commitment not only by the Coalition but by the Minister of Finance of Costa Rica to understand and apply methods that adequately take into account the transition of companies to achieve the goals of the Paris Agreement.

The Central Bank of Costa Rica (BCCR by its initials in Spanish) has recently incorporated, as a member, to the Network of Central Banks and Supervisors for Greening the Financial System (NGFS)49 in 2019; which gives a clear signal that the national regulator considers climate change as a systemic risk and it might start integrating climate-related risks into financial stability monitoring and micro-supervision. As such, the

46 Cómo los bancos de América Latina y el Caribe incorporan el cambio climático en su gestión de riesgos. 1a encuesta en América Latina y el Caribe. UNEP FI - CAF. (2020). https://www.unepfi.org/wordpress/wp-content/uploads/2020/08/REPORTE-BANCOS-Y-CC-EN-LAC.pdf
47 Climate risk and financial systems of Latin America: regulatory, supervisory and industry practices in the region and beyond. IADB. 2019. https://publications.iadb.org/es/sistemas-financieros-y-riesgo-climatico-mapeo-de-practicas-regulatorias-de-supervision-y-de
48 Joint Ministerial Statement. Coalition of Finance Ministers for Climate Action. 12/10/2021. https://www.financeministersforclimate.org/sites/cape/files/inline-files/Joint%20Ministerial%20Statement%20-%20October%202021.pdf
49 The NGFS is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition toward a sustainable economy.

recent incorporation of Costa Rica to the OECD, in May 2021, is another major signal to the financial actors about the countries commitment to tax transparency, competition policies, national statistics, and other international development topics such as financial inclusion and climate change. These two, very relevant to this readiness grant proposal.

Also, the financial market actors in Costa Rica are taking leadership signals regarding sustainable finance. They have received extensive training regarding responsible investments, these training have been delivered by UNEP FI, the Sustainable Stock Exchange Initiatives (SSE), Principles for Responsible Investment (PRI), and the National Stock Market Exchange.

In 2019, more than 45 public and private institutions signed the Green Economy Principles seeking to contribute to Costa Rica's commitments to sustainable development, led by the National Stock Market Exchange50. The banking sector lead by the Chamber of Banks and Financial Institutions released the Green Protocol (2019), which was signed by more than 13 financial entities in Costa Rica51.

As such, national financial institutions have adhered to the UNEP Fi membership some of them are: Banco Promerica, Coopservidores, Mapfre insurance, Nation Stock Exchange Market, the Business Alliance for Development (AED by its initials in Spanish), and the regulators (SUGESE and SUGEF).

The BCCR has taken important steps to start incorporating climate change lens into macroeconomic and financial stability. The Strategic Plan 2020-2023 recognizes climate change as a challenge to the stability and efficiency of the national financial system. Therefore it has issued two lines of action to analyze climate change:

- 1.5: Strengthen analytical capacity and macroeconomic modeling to strengthen forecasting and monetary policy analysis, including the study of variables such as employment and climate change.
- 2.6: Integrate the risks associated with climate change into the monitoring of financial stability and prudential supervision.

In line of action 2.6, the BCCR has developed an array of measures such as:

- Promote the signing of information exchange agreements to access databases with climate variables. - Identify indicators associated with climate change.
- Cooperation agreements to improve understanding of the impact of climate change on the economy and the financial system.
- Update the assessment of risks associated with CC - inclusion of NGFS.
- Study of the impact of climate shocks on credit delinquency.
- Stress testing exercise for the insurance sector
- Methodology for stress testing the financial system for climate shocks.
- Events to communicate research results and spaces for knowledge exchange with the financial sector.
- Update of climate change risk assessment.

In its 2021 annual program, it is envisioned to carry out three studies to improve the understanding of the risks associated with climate change for the financial system, in order to strengthen the monitoring of systemic risks and prudential supervision52. The scope of this goal was redefined in 2021 and narrowed down to a single study for the same purpose. This change occurred mainly because in the context of the Expanded Service Loan for Costa Rica, the International Monetary Fund (IMF) requested a roadmap that allows the BCCR to incorporate climate and environmental considerations into the formulation of economic and financial policy.

The Group for Strategic Analysis of Climate Change (GAECC, by its initials in Spanish), formed by various dependencies of the BCCR, is the entity in charge of developing this roadmap which will be the that governs the actions of the BCCR on climate change issues in a transversal manner in the different lines of action of the Strategic Plan 2020-2023. This work is 45% complete as of June 2021 (90% of the estimate for the semester). Progress was made in the following activities: bibliographic review, inventory of information requirements, definition of scope and objectives, presentation of proposal in the GAECC, preliminary exploration of the data and request for information from external sources. According to this progress, no risk of non-compliance with the goal is contemplated in these new terms.

It is also important to highlight that 12 additional activities are envisioned under line of action 2.6 for the upcoming two years, which are:

50 Implementation Guide to the Green Economy Principles. Asociación **Error! Hyperlink reference not valid.**Costa Rica Por Siempre, Bolsa Nacional de Valores de Costa Rica. 2021. https://costaricaporsiempre.org/en/noticias/guia-principios-economia-verde/
51 Green banking protocol signed at preCOP 25. Alianza Empresarial para el Desarrollo (AED). 10/10/2019. https://www.aedcr.com/noticias/se-firma-de-protocolo-verde-para-la-banca-en-precop-25
52 Plan Anual 2021. Banco Central de Costa Rica. 2021. https://www.bccr.fi.cr/transparencia-institucional/rendici%C3%B3n-de-cuentas/planeamiento/plan-anual-2021

- Study to assess the relationship between climate and macroeconomic variables.
- Integration of climate change risks into SFN risk management.
- Study to assess the relationship between climate and macroeconomic variables.
- Research cooperation with national and international bodies to improve understanding of the impact of climate change on the economy and the financial system.
- Regulatory review to reduce barriers to the development of a green credit market and a green bond market.

On the other hand, the insurance sector has begun to develop and implement strategies for the adoption of measures against climate change. In 2016 the insurance industry committed to implement the Principles for Sustainability in Insurance developed by UNEP FI, declaring its interest to develop a national sustainable insurance strategy that addresses environmental, social and governance (ESG) aspects. SUGESE in 2019 gave the green light for the implementation of parametric climate insurance in the country and providing legal support for its development. While only showing moderate progress to date, it is sign of the sector's awareness and willingness to engage in the fight against climate change – providing the important basis for the implementation of the proposed Readiness grant.

The insurance sector lead by the Association of Private Insurers also launched its Sustainability Commitment report in 2019, and the Sustainability Roadmap for the insurance sector in 2018.

Also the Costa Rican and Panamanian insurance sectors are working together, with the SUGESE and the Superintendency of Insurance and Reinsurance of Panama (SSRP by its initials in Spanish), to create common guidelines to manage the sector's businesses to contribute to sustainable development.

This initiative is under the project "Responsible business conduct in Latin America and the Caribbean" lead by AED, Sumarse, and Pacto Global Red Panama. The objective is to raise sustainability standards in the insurance sector and create a joint sustainable protocol for the insurance companies (of both countries) to adhere and work on common and coordinated actions to better contribute to sustainable development53. The joint sustainable protocol is expected to be ready for its publication on March 2022; in the present, both Superintendencies are developing a series of workshop on this topic for insurance companies to better understand sustainability business and ESG risks[54].

2.6.2 Climate finance offered and mobilized in Costa Rica

The main sources used by the financial sector for climate finance in Costa Rica are largely public and private international sources. Public international sources include multilateral financial institutions and regional and bilateral development banks (USD $168 million); and private international finance include capital markets, specifically green bonds (USD $520 million). As per the national climate finance offered and mobilized the volume is only 1% against 99% coming from international sources55. Most state commercial banks, a few local private commercial banks and microfinance institutions offer climate finance. That is, they offer financial products – mainly credits – for the financing of climate change mitigation and adaptation measures. The terms and conditions of these appropriations can be summarized as follows:

- Amounts are determined based on investment.
- Interest rates are favorable or preferential in most cases.
- Loan maturities can range up to 15 years.
- Collateral requirements vary but are mostly the same as for any credit in general.

Most climate credits include special conditions, and, in many cases, terms are more attractive than those of a comparable personal or business credit. They target both individuals and companies (MSMEs) and are awarded in national currency and US dollars. The national climate finance is destined primarily to meet electricity saving needs, energy generation, with renewable or alternative sources, more efficient vehicles, reduction of environmental impact, such as saving water and waste management, and ecotourism. Other sector such as forestry is hardly financed by the national financial sector.

Analysis of climate finance barriers and opportunities in Costa Rica reveals capacity barriers to the extent that financial institutions do not necessarily have sufficient knowledge for identifying and evaluating investments in attractive climate action measures, such as forestry. It also reveals a certain financial barrier

53 Costa Rica and Panama build a common insurance roadmap for sustainable development. AED (2021). Alianza Empresarial para el Desarrollo (AED). 23/08/2021. https://www.aedcr.com/noticias/costa-rica-y-panama-construyen-una-ruta-comun-en-seguros-con-miras-al-desarrollo-sostenible.

54 Conducta Empresarial Responsable SECTOR ASEGURADOR – Riesgos ASG. Superintendencia General de Seguros de Costa Rica. 2021 https://www.sugese.fi.cr/seccion-publicaciones/Presentaciones/CER-SectorSeguros-RiesgosASG2.pdf

55 Diagnóstico del rol del sector financiero en el financiamiento climático en Costa Rica. Proyecto Acción Clima II. Econolor. 08/2017. https://cambioclimatico.go.cr/wp-content/uploads/2017/02/giz2018-0277es-diagnostico-sector-financiero.pdf

in the sense that the supply of climate finance remains relatively limited, focused on certain sectors, types of investments and destinations. Customer demand-side knowledge barriers are also identified.

2.7 COMPLEMENTARITY WITH OTHER PROJECTS FOR CLIMATE FINANCE

Several initiatives are underway in Costa Rica that are of relevance to and will be leveraged by the proposed Readiness grant. During inception, a stock take of current progress will be undertaken as part of the stakeholder mapping exercise to confirm the entry points and synergies for the proposed activities.

2.7.1 Climate ACTION Project II - GIZ

The Climate Action II Project, financed by the GIZ for 4.5 million euros, is a project that lasted from 2016-2019 that included a component of MRV climate finance and climate mechanisms for traceability, which developed instruments for climate finance mobilization, as well as methods for monitoring the volume, source, and utilization of resources.

As aforementioned, the project collaborated with SUGEF to develop a methodology for capturing climate change information at the level of lending operations information on climate change at the level of credit operations that all supervised financial institutions manage on a daily basis56. The monitoring included the development of a comprehensive guideline on the classification of credit operations according to climate change criteria57, the incorporation of new reporting fields into the information requirements that SUGEF requests from financial institutions, the process of integrating this information into SINAMECC**58**.

The project also organized dialogue tables with the financial sector in which representatives of banking and insurance companies discussed the relevance of climate change, specifically climate risks, with the financial sector and how it can be incorporated into project portfolio and services to become more resilient to climate change. As a result, the SUGECE, the Chamber of Banks and financial institutions have expressed their interest in continuing to open spaces for awareness, dialogue, and training for address new and better mechanisms of incursion of the financial sector in the country's climate change goals and the NDP.

2.7.2 Climate ACTION Project III - GIZ

In May 2021, the project Acción Clima III initiated with a budget of 10 million euros. Its main goal is to support the country in implementing national climate objectives in specific sectors and contribute to the dissemination of local experiences at the regional and international levels. This phase will run to April 2026.

It includes 5 components:

- Climate governance: The project relates climate governance with the increase of mitigation capacities, as well as the institutional and human capacities necessary for the design, implementation and monitoring of climate change programs (which is what defines the decision levels in relation to the climate issue),
- Climate finance: The MINAE in cooperation with ACCIÓN Clima III will develop information and tools for the mobilization of climate financing, as well as methods and practices for the monitoring of their volume, origin, and use (whose function is to orient resources to environmental issues),
- Climate action at the local level: The intermediaries are MINAE´s directors and professionals, as well as those of other relevant ministries, public institutions, municipalities, companies, organizations, organized civil society and regional institutions.
- Support of the NDC: Climate forums in order to exchange experiences concerning Costa Rica's efforts to implement its NDCs will be anchored at a national and local level, and the country´s experiences in low-carbon development communicated regionally and internationally. Cooperation with municipalities will be an important part of this component.
- Regional interface: The project is directed at the entire Costa Rican population, public institutions, private and public companies, as well as their respective employees in Costa Rica and other countries in the region.

Both projects, Accion Clima II and III, are very relevant for this Readiness Proposal because it will complement specifically the climate finance angle described above (#2) by introducing a solid climate-related financial risk disclosure methodology for the entire financial sector, that will link the channeling of climate

56 Proyecto Acción Clima II. Hacia un modelo de desarrollo bajo en emisiones en Costa Rica. Logros y experiencias 2016-2019. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). 2020. https://cambioclimatico.go.cr/wp-content/uploads/2019/11/proy-ACII-logros_y_experiencias-FINAL-baja2.pdf

57 Climate Finance Monitoring in Financial Institutions Supervised by SUGEF in Costa Rica. GFLAC. 2019. https://www.sugef.fi.cr/informacion_relevante/manuales/manual_sicveca/crediticio/GUIA%20DE%20MONITOREO%20DE%20FINANCIAMIENTO%20CLIMATICO%20PARA%20ENTIDADES%20FINANCIERAS%20DE%20COSTA%20RICA.pdf

58 Proyecto Acción Clima II. Hacia un modelo de desarrollo bajo en emisiones en Costa Rica. Logros y experiencias 2016-2019. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). 2020. https://cambioclimatico.go.cr/wp-content/uploads/2019/11/proy-ACII-logros_y_experiencias-FINAL-baja2.pdf

finance flows towards risk mitigation investments to the actual climate-related risk mapping in the country. Both initiatives are hence complementary, and the proposed Readiness grant is deemed an important contribution via the dimension of climate-related financial risk disclosure not considered in the Climate ACTION III project.

2.7.3 NDC Support Programme - UNDP

The United Nations Development Programme (UNDP), through the NDC Support Programme, supports the MINAE's DCC in the implementation and updating of the NDC.

The Programme involves the following activities:

- Conduct a gender gap analysis for key sectors;
- Strengthen governance mechanisms for coordination with civil society;
- Integrate adaptation actions into Costa Rica's National Climate Change Metrics System (SINAMECC);
- Develop and promote the use of climate finance categorization in the banking sector as part of a climate finance monitoring, reporting and verification (MRV) system; and,
- Train the financial sector in presenting the information on climate-related financial instruments to the SUGEF

This project as well as the proposed Readiness grant are both designed to meet the objectives planned in the NDC, specifically in working with regulatory financial institutions such as SUGEF to identify sustainable investments.

2.7.4 GCF projects in implementation or preparation

Project	Status	Objective	Complementarity and linkage
Strategic frameworks support for Argentina, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay and Uruguay through UNEP Advancing a regional approach to e-mobility in Latin America	Under implementation (2020-2022) US$ 2,000,000	The grant will support ten Latin-American countries (Argentina, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, and Uruguay) to identify and address the main barriers for electric mobility by providing the necessary assessments, capacities, and financing alternatives to accelerate adoption of electric mobility technology.	The proposed Readiness grant will support this approved proposal in identifying and aligning taxonomies for climate financial flows – including electric mobility; especially for investments in privately managed fleets and charging infrastructure.
Advancing a regional approach to e-mobility in Latin America	Under implementation (2020-2022) US$ 800,000	This grant consists of an amendment of the above described GCF Readiness grant "Advancing a regional approach to e- mobility in Latin America"	See above.
Building sub-national capacities for the implementation of the National Adaptation Plan (NAP) in Costa Rica	Under implementation (2018/2022) US$2,800,000	The readiness aims to build sustainable country capacity in identifying, prioritizing, planning, and implementing measures that address a diversity of local adaptation needs. The ultimate objective of the project is to reduce country´s vulnerability to the impacts of climate change and variability, by building adaptive capacity and resilience through the integration of adaptation into regional and municipal planning, including government entities, the private sector, and civil society.	The project has a component of funding strategy for adaptation initiatives, the Financial Resource Mobilization Strategy for Adaptation. This component is relevant for this Readiness proposal because it will estimate the NAP cost and the appropriate financial sources to bridge the investment gap. Also, the readiness is developing climate risk and vulnerability maps, which will support this Readiness proposal to identify and

			assess the risks in the financial sector.

2.8 MAIN CHALLENGES, GAPS AND PROPOSED APPROACH

2.8.1 Main challenges and gaps identified

As aforementioned, on previous sections, Costa Rica is a regional leader in adopting measures to cope climate change mitigation and adaptation actions. It has developed and adopted its long-term strategy (LTS) – National Decarbonization Plan (NDP) 2018-2050 - committing the country to net-zero emissions by 2050 and it also has a nationally determined contribution (NDC) which is a strong public policy commitment to achieving a low-carbon and resilient development.

With these long-term commitments, the government is trying to better understand how to align financial flows consistent with the country's NDC and NDP goals. However, players across Costa Rica's financial sector (public and private) are in an incipient stage of integrating climate change and broader sustainability concerns into their investment decisions and portfolio allocations. The main barriers already identified that are currently hindering public and private actors to implement and financial national climate goals are (for the purposes of this proposal):

- The lack of a GCF Country Programme that guides the public and private investments into NDC and NDP goals.
- The lack of enabling and unified strategic, institutional, conceptual and financial structures and capacities for climate finance, shared among all stakeholders.
- Lack of adequate prudential regulatory mechanisms, that include specific taxonomies and methodologies that guide the financial sector in promoting climate finance
- Low capacities and knowledge of financial institutions about climate risk management concepts and practices due to a lack of climate risk data and applicable tools
- Lack of shared taxonomies to classify finance vis-à-vis their climate impact and vulnerability, limiting a proactive steering of climate financial flows
- Limited ability of attracting climate finance from regional and international capital markets and public investors.

As such, it is important to mention that derived from these barriers, there are some capacity-building and knowledge gaps such as:

- The lack of a unified taxonomy, which hinders the identification and classification of sustainable economic activities with the ultimate goal to reorient capital flows towards national climate change priorities. In the absence of formally agreed-upon definitions, market actors may also tend to introduce their own; the result is a lack of comparability, reliability, accountability, and higher transaction costs.
- The lack of an adequate taxonomy which hinders the identification of high-impact investments, or eligible activities to bond issuers.
- The lack of climate-related financial risk disclosure methodologies which hinders the quantification of risk exposures which in turn impedes the initiation of proactive counter measures and climate risk mitigation strategies.
- The lack of a solid regulatory framework, including detailed stipulations on operational and reporting requirements, which impedes a proactive promotion of climate finance in line with the recently updated NDC, and the NDP.

In a nutshell, the above barriers and gaps hinder the mobilization of private financial flows to meet the national climate objectives. It is hence of utmost importance to build an enabling environment for the public and financial actors for conveying a common vision of the challenges and opportunities of climate investments. This, in turn, will enable the country to support its defined NDCs and NDP goals in cooperation with the private financial sector, leveraging the necessary private funds.

2.8.2 Overall approach

The proposed Readiness grant will provide the guiding structure for the Costa Rican financial sector to mobilize the required resources to finance a low-emission and climate-resilient economy and thoroughly integrate climate-related risks into risk management. As such, the proposal's activities aim to fill the aforementioned key gaps by updating the GCF Country Programme, and by transferring and developing a unified set of taxonomy definitions for climate investments, same as introducing a set of methodologies to identify, measure and disclose climate-related financial risks. The resulting methodologies and tools will enable Costa Rica's financial sector to integrate both dimensions into daily operations – and start quantifying its potential climate-related financial risk (physical and transition) exposure, same as start building portfolios that support the decarbonization and resilience of its investments. Although the taxonomy and the climate-related financial risks methodologies and tools can only be a first step in laying the foundations to improve the regulatory framework, it is important to work in enhancing the enabling environment that can drive the adoption and implementation of these methodologies and tools. Therefore, this proposal aims to:

- Develop a GCF Country Programme, aligned to the NDC and NDP goals.
- Strengthen inter-institutional coordination mechanisms and the regulators and regulatory frameworks, at country level to guide climate finance, following a participatory approach to promote Costa Rica at the forefront of regional climate finance.
- Define and pilot a sustainable finance taxonomy that embodies Costa Rica's climate change priorities.
- Develop and pilot methodologies and tools to identify, measure and disclose climate-related financial risks following the TCFD recommendations in the banking (physical and transition risks) and insurance (physical risk) sectors.
- Design, organize and conduct online trainings for financial institutions (banks, insurers, and investors) and financial regulators to raise general awareness and knowledge about taxonomy, climate-related financial risks (challenges and business opportunities), as well as the development of specific green financial products.
- Conduct a pre-feasibility study to analyze how a GCF full proposal can help to mainstream climate mitigation and adaptation in the financial sector.
- Develop a concept note to be ready for submission to the GCF that mainstreams climate mitigation and adaptation in the financial sector, based on the findings of this Readiness grant proposal. The objective is to catalyze private capital towards the implementation of Costa Rica's NDC and NDP goals.

In sum, the proposed Readiness activities will lay the groundwork and provide the macro framework for promoting a low-emission and climate-resilient economy as well as to leverage NDC and NDP financing.

2.8.3 Methodological approach

The Readiness proposal aims to transfer the international best practices and lessons learned, and adjust them to the Costa Rican context by leveraging existing policies, structures, and capacities. Therefore, it is expected to increase awareness and capacity of Costa Rica's financial sector (both public and private) to actively engage in NDC and NDP financing.

2.8.3.1GCF Country Programme (output 2.1.1)

To enable a comprehensive and coordinated approach, the Readiness proposal will support the development of Costa Rica GCF Country Programme, for driving the country's proposal and programme pipeline with the GCF. The methodological approach to be followed will be the GCF Country Programme Guidance (2021)[59] by including the country context; the climate finance strategy and priorities; proposal and programme priorities for the GCF; policy, strategy, planning and institutional needs; and multi-stakeholder engagement process. Although there was a GCF Readiness (CRI-RS-001) approved for the GCF Country Programme development in Costa Rica, the deliverable was not finished and hence the budget was returned to the GCF. However, inputs, lessons learned, deliverables, and information from the GCF Readiness will be taken into consideration when developing deliverables under output 2.1.1, specifically the deliverable Climate Finance Priorities. The recently published Costa Rica's Guide for accessing non-reimbursable funds from the GCF and nomination of DAEs by the NDA will be the baseline for the development of this output.

2.8.3.2 Costa Rica Taxonomy (output 2.4.2)

A sustainable finance taxonomy is a set of criteria to catalog sustainable economic activities aligned with national climate, and environmentally sustainable goals. Its purpose is to provide a strong signal to investors, and other financial stakeholders, and assist their decision making – by clearly identifying the business opportunities and benefits in investing in climate and environmentally sustainable goals[60].

The development of the Costa Rica taxonomy on sustainable finance will build upon and leverage the existing "Guidance for reporting information on climate finance in financial institutions". The SUGEF and SICVECA are currently applying and piloting this guidance for monitoring the climate financial flows in the banking sector. The Readiness grant proposal for Costa Rica will use this Guidance and the pilot exercise as a baseline for the development of a taxonomy, it will aid to the conceptual and methodological framework of climate change information, specifically the activities and sub-activities already classified for: transport, energy, urban development and territorial planning, infrastructure, industry, waste management, agriculture,

59 GCF Country Programme Guidance (January 2021)
60 BIS, A taxonomy of sustainable finance taxonomies (October 2021)

environment, tourism, and risk management and response. The taxonomy will be tested and piloted through financial entities, such as banks, insurers and reinsurers and other financial sector participants.

The taxonomy will consider actions that embody the Costa Rica's NDC, NDP, National Adaptation Policy (NAP) 2018-2030, the National Climate Change Strategy, among other national jurisdiction relevant for the achievements of the Paris Agreement.

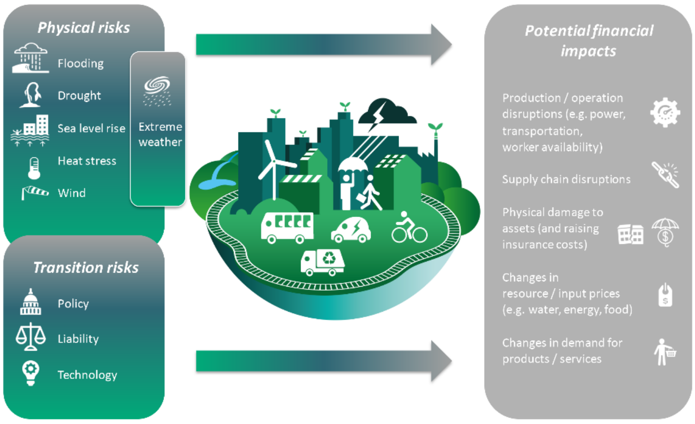
The development of the Costa Rica Taxonomy will consider an array of sustainable finance taxonomies such the European Union taxonomy (EU taxonomy), as a methodological reference. The EU Taxonomy has also been used as a reference within the International Platform on Sustainable Finance (where UNEP FI is an observer) for the development of globally comparable and interoperable sustainability approaches and tools to identify, verify and align investments with sustainability goals, including definitions and taxonomies, taking due account of local specificities and transition considerations. The IPFS has also aid to develop the Common Ground Taxonomy resulting from an in-depth comparison exercise that puts forward areas of commonality between the EU and China's taxonomies.

The relevance of a sustainable finance taxonomy in Costa Rica is to provide clear guidance to the market by defining a common language and a clear definition of what is green or environmentally sustainable and what is not, with the ultimate goal of helping to mobilize capital for climate finance and NDC and NDP financing, attract investors and unlock the Costa Rica's green investment potential, which will stimulate the economy and generate jobs, while achieving environmental and social co-benefits, in greater terms than traditional investments in the short-term and beyond.

In that context, this Readiness proposal will put an emphasis on providing the methodological basis for the financial sector to monitor its climate finance flows, while developing concrete tools to make this monitoring operational and manageable in the national context.

2.8.3.3 Climate-related financial risk disclosure (output 2.4.3)

Now more than ever, financial actors have recognized the existential risks that climate change and associated systemic risk factors pose to society and the economy. Physical impacts of a warming world can devalue assets and disrupt vital supply chains (physical risks). At the same time, the need to rapidly transition to a low-carbon economy will create major challenges for many businesses (transition risks). These climate impacts may first be felt in sectors of the real economy but will have major financial implications as well. As the infographic at the right shows, both physical and transition risks can have financial ramifications. Thus, financial institutions are seeking to better understand the nature of these risks and determine strategies for thriving in a changing world.



In addition to financial actors, regulators and supervisors have also recognized the risk that climate change poses to the financial system. In 2015, the G20's Financial Stability Board (FSB) launched the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD provides financial institutions and private companies with a structured framework for disclosing their climate risks (see infographic at the left). With over 1000 corporate adopters, the TCFD has become the de facto standard for climate risk disclosures. The aim of these disclosures is to help financial markets better evaluate climate impacts through a transparent and comparable set of standards.

Since the publication of the FSB's TCFD recommendations, UNEP FI has run a series of pilot programs to assist financial entities in implementing the TCFD framework and issuing meaningful climate disclosures. Participants in these pilots explored physical and transition risks (and litigation risks for insurers) and also developed practical approaches for evaluating these risks using climate scenario analyses. Almost 100 financial institutions (banks, investors, and insurers) from all around the world have participated in these pilots. These institutions have been supported by nearly a dozen technical partners from climate modelers to climate risk experts. These experiences have allowed UNEP FI to take on a leadership role in developing good practices regarding climate risk in the financial sector. The pilot programs have created numerous tools, frameworks, and guides to empower both participating institutions and those throughout the financial industry to better manage and disclose their climate risks.

Particularly, the UNEP FI's TCFD Global Pilots relevant for the scope of this Readiness grant proposal are:

- **UNEP FI's TCFD pilot programme for banks:** Since 2017, the Program has been working to better equip the banking industry to implement the recommendations of the TCFD. Now in its third phase of work, the programme has brought together more than 50 banks on six continents to pilot the recommendations and jointly develop approaches, methodologies, tools, and guidance for assessing and physical and transition risks. The pilot created methodologies that were adaptable and flexible to banks across geographies and that would promote consistency and comparability. The first phase of the project developed transition and physical assessment models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities. The second phase built on the previous work, helping banks enhance their climate risk toolkits and improve their climate risk disclosures. The work focused on the four pillars of TCFD disclosures – Governance, Strategy, Risk Management, and Metrics and Targets – developing tools, frameworks, and thought papers that enabled participants to better address each of the recommended disclosures within these pillars. Beyond building capacity for participants, the Phase II outputs aimed to establish good practices for TCFD disclosures across the financial sector. The third phase commenced in January 2021 and is currently being developed. It includes nearly 50 banks and investors who are exploring ways to add depth, granularity, and nuance to their climate risk assessments, consolidate best practices in climate risk management, and standardize climate disclosures across the industry. More information can be found here: https://www.unepfi.org/climate-change/tcfd/tcfd-for-banks/

- **UNEP FI's TCFD pilot programme for insurers:** since 2019, has involved 22 leading insurance an reinsurance from across the globe, representing more than 10% of the global industry premium, to pilot the recommendations of the TCFD. The group worked on the development of methodologies to evaluate the financial impact that physical, transition and litigation risks may have on their underwriting portfolios. More information can be found here: https://www.unepfi.org/climate-change/tcfd/tcfd-for-insurers/

This Readiness grant proposal will take a hands-on approach to content delivery and will focus on combining global good practices with country-specific considerations. This Readiness grant proposal for banks and insurers and reinsurers will leverage the convening power of the UNEP FI to involve leading climate modelers, climate experts, and regulators in this work. This Readiness grant proposal focuses on helping Costa Rica financial institutions, specifically banks and insurers and reinsurers, to begin and enhance the process of adopting the TCFD recommendations and assessing the climate risks and opportunities they are exposed to, and preparing for changing regulatory expectations and economic drivers. This program will enable participating institutions to better manage their climate risks and play an active role in the green recovery and in accelerating the low-emission and climate-resilient transition.

Physical and transition risks are similar in nature, both forming part of wider ESG frameworks to be implemented within financial institutions; nevertheless, the actual management of each dimension is different: while physical risks can be identified based on the availability of respective climate data and risk maps, transition risks are being caused by changes in legislation, regulation, or consumer behavior.

The knowledge of transition risks into insurance companies is still in a very early stage; very few concepts and methodologies have been developed at the international level and their impact needs further assessment. Hence, it is best advised to focus this proposal into identifying, quantifying, assessing, and managing physical risks in the insurance sector; and once the insurance sector has well understood the methodologies and tools for physical risks, further readiness proposals or technical assistance could aid the insurance sector to develop and adopt methodologies and tools for transition risks.

The objective of designing the methodologies and tools needed to identify, measure, and disclose identified climate-related financial risks is to link concrete climate-related financial risks to respective financial flows addressing these risks. Only in combination of both dimensions (measuring and disclosure risks and financing investments that mitigate them) can the financial sector actively support the country's NDC and NDP implementation with a unified and shared understanding of climate finance. The resulting guidelines and tools will enable the financial sector in Costa Rica to integrate both dimensions into day-to-day operations and begin to quantify not only its potential exposure to climate risk (physical and transitional), but also form the basis of climate loan portfolios that support the decarbonization and resilience of its investments.

This Readiness grant proposal will leverage on UNEP FI deep experience on leading capacity building around TCFD implementation to enable participating institutions to better manage their climate risks and position their businesses to navigate the low-carbon transition

GCF concept note (Output 4.1.1, 4.1.2)

Based on the update GCF Country Programme and the findings from outputs 2.4.2 and 2.4.3, the Readiness Proposal will conduct a pre-feasibility study, and will develop a concept note for mainstreaming climate mitigation and adaptation in the financial sector, in addittion to identify a potential AE, which could take over the concept note and move forward with a full proposal and its implementation. The methodological approach of the pre-feasibility study will be based on comparing scenarios with and without the project under a projection of climate change and against a baseline situation, and compare those scenarios to each other to determine the impact of the project. This would include data collection, research, cost benefit analysis, as well as market research and estimated GHG reduction calculations[61]. For mainstreaming climate change in the financial sector, the study may include studies on specific technological solutions proposed. Based on this study, a concept note will be developed and validated (by relevant stakeholders) with the aim to combine methodologies and tools developed under this proposal with concrete financial opportunities.

Capacity-building and Lessons learned (Output 2.4.4 and 5.1.1)

The above presented methodological approaches for Outputs 2.1.1, 2.4.1, 2.4.2, 2.4.3, 4.1.1, 4.1.2 will be complemented with strong capacity building at national level via an online training course (Output 2.4.4) as well as at regional level via bilateral coordination between Panama and Costa Rica as well as the participation in selected regional conferences (Output 5.1.1). The methodological approach to follow will be to leverage UNEP FI extensive expertise, worldwide and regionally, on capacity training, online courses, and webinars.

2.9 DETAILED DESCRIPTION OF READINESS GRANT OUTCOMES, OUTPUTS AND ACTIVITIES

The proposed Readiness grant proposal will be implemented via the below detailed activities which are summarized in their relation to targeted outputs and outcomes in the logical framework (section 3).

Outcome 2.1 GCF recipient countries have developed Country Programmes to guide GCF investment and programming of readiness support resources

Output 2.1.1 The Country Programme, relevant to the NDC and the NDP goals, has been developed and ready to be approved by the NDA

Activity 2.1.1a: Review of existing relevant strategies and plans and priorities aligned with the NDC and the NDP goals by identifying and mapping low emission climate resilient development priorities in line with the NAP, climate change strategy, and other strategic sectors plans.

61 GCF Project Preparation Facility Guidelines (PPF) (October 2020)

The proposal aims to develop, with the NDA leadership, the GCF Country Programme that responds to their country context, in terms of legal and institutional frameworks, and climate goals captures in its NDC, NDP and NAP goals. Therefore, the goals is to incorporate the most relevant and strategic climate change strategies. As such, this activity envisions to make a desk research and a consultation to review the existing strategies and plans aligned with the NDC and NDP goals. This will help to identify and map low emission climate resilient development priorities in line with the NAP, climate change strategy, and other strategic sectors plans.

This activity will review the national the Sustainable Development Goals (SDG) agenda, the climate change profile and projections, at national, sub-national or sectoral levels based on the most recent climate information and science, including ongoing assessment that could generate new data over time, such as the National Decarbonization Plan (NDP 2018-2050), same as investment opportunities already identified in the NDCs, NAPs, TNAs, TPs and long-term national strategies most relevant to the country.

Information and results from the GCF Readiness (CRI-RS-001), specifically the deliverable Climate Finance Priorities will be reviewed and assessed to further develop this activity. The recently published Costa Rica's Guide for accessing non-reimbursable funds from the GCF and nomination of DAEs by the NDA will be the baseline for the development of this output. As a result of this activity, it is expected to have the first draft of GCF Costa Rica Country Programme.

Activity 2.1.1b: Lead consultations on the first draft with the NDA and relevant stakeholders to: identify proposal and program priorities for the GCF proposal pipeline; and to establish policy, strategy, planning and institutional needs regarding the GCF project pipeline

This activity envisions to identify development priorities in alignment with the SDG agenda, NDC, NDP (2018-2050), NAP and other strategic sector plans and that are consistent with the GCF's initial results management framework. This identification will be founded in a wide consultation with participants such as a) public sector and autonomous institutions, e.g Ministry of Transportation, Ministry of Agriculture, Water and Sanitation Institute (AyA), Electricity Institute (ICE), among others; b) private sector through the Union of Chambers (Union de Camaras-umbrella for entrepreneurial groups) and interested productive sectors; c) local governments (municipalities); d) NGO's, academia and civil society; and, e) potential Accredited Entities. It is expected to hold at least 5 consultations to be carried out for this activity. The deliverable will be one report on the consultation process with the NDA, GCF, AE and relevant stakeholders.

Activity 2.1.1c: Draft Country Programme for climate action for the GCF (adaptation, mitigation and sustainable responsible finance) with a final proposal of development priorities for Costa Rica and finance coordination matrix, in alignment with Fund´s objectives

This activity envisions to have a final draft for Costa Rica's Country Programme ready to be shared with the GCF by the NDA. The deliverable will include Costa Rica's climate change, climate finance priorities, and GCF objectives, based on a coordination matrix. The Country Programme, in consultation with the NDA, may be developed into two staged. The first stage may include a climate finance strategy or NDC and NDP funding, covering a wide range of climate change priorities over a 10-year period, spanning all sources of climate finance (public and private). The second stage may include a programming plan focused on the GCF, which includes the NDA's priorities for funding during a given programming cycle, including the preparatory support program. The Country Programme will have indicators and metrics on environmental, social and gender issues that are directly related to its NDC and NDP.

Special consideration will be given to ensure that climate risks and opportunities to the financial sector are well defined; and also it will ensure to promote financial de-risking instruments aligned with GCF risk appetite in order to enhance private financial sector participation, and hence to align financial flows consistent with the goals of the Paris Agreement. The Country Programme would help the NDA to identify, assess, and prioritize which project proposals should be submitted to the GCF funding as a concept note (output 4.1.1). Also, the proposal will take into consideration the lessons learned, the deliverables, and the results from GCF Readiness CRI-RS-001, whose main objective was to strengthen the institutional capacities of the NDA to promote a greater engagement with the GCF.

Outcome 2.4 Strategies to transforming and attracting private sector investment for low emissions and resilience developed and being used

Output 2.4.1: Workplans and constitutive arrangements for the Financial Advisory Group (FAG) established to develop 1) Costa Rica's sustainable finance taxonomy; and 2) methodologies and tools for identifying, assessing, and managing climate-related financial risks.

Activity 2.4.1a: Identify and map relevant (national) financial actors to support and participate in the elaboration of Costa Rica´s sustainable finance taxonomy, and methodologies and tools for climate-related financial risks

This activity will identify and map key national and international stakeholders from the public and private financial sector: regulators, supervisors, government institutions, commercial banks, insurance companies, and banking association, and other financial sector associations. Some of these identified stakeholders will include national and international experts that have a deep understanding of Costa Rica's GHG emission profile and vulnerability to climate change, and its potential for investment opportunities and challenges to the financial sector. During the mapping and identification exercise, gender-equality concerns will be considered.

As a result of this exercise, there will be an action plan report, that includes a mapping of key financial actors, the identification and assessment of existing institutional coordination mechanisms, and the identification of the finance landscape (specifically taxonomy and climate-related financial risks) and the interactions between the stakeholders. The activity will be completed with a detailed report that will include: i) a map of key stakeholders for developing the national sustainable finance taxonomy, and the climate-related financial disclosures (methodologies and tools); ii) a stakeholder engagement action plan report to work on the 2 already identified workstreams (sustainable finance taxonomy, and climate-related financial risks).

Activity 2.4.1b: Deliver a workshop with key national and international financial actors with the objective of defining workplans and a constitutive agreement for the elaboration of Costa Rica´s sustainable finance taxonomy, and methodologies and tools for identifying, assessing, and managing climate-related financial risks

As such, a workshop will be conducted to: i) present the GCF proposal objective, timeline and milestones; ii) to deliver a training on taxonomy and climate-related financial risks; and iii) to showcase the relevance of this GCF proposal for proactively engage financial sector players in low-emission and climate-resilient investments. It is expected to have at least 40 participants (based on the already identified actors on activity 2.4.1a).

This activity will also aid to establish two agreed workplans: i) to develop the sustainable finance taxonomy, and ii) to develop climate-related financial risks methodologies and tools. The workplans will include specific stakeholders, roles, milestones, and a constitutive agreement where members agree to follow the workplan. The workplans will include, inter alia, concrete activities, in a period of 12-18 months, as well as specifications of a reporting framework, e.g., via semester progress reports. In-person meetings will be hosted to the possible extent, complemented with virtual meetings (if necessary). The gender balance will be ensured during the group composition. The workplans will represent the execution and follow up of the activities of outputs 2.4.2 and 2.4.3.

Output 2.4.2: The sustainable finance taxonomy is developed, piloted, and endorsed by relevant national financial actors.

Activity 2.4.2a: Analyze the synergies and differences between the SICVECA monitoring component for climate financial flows in the banking sector (the Guidance implementation) and the international best practices on sustainable finance taxonomies (via technical analysis, surveys and interviews).

In order to develop an in-depth understanding of Costa Rica's starting point in the development of the sustainable finance taxonomy, it's necessary to technically analyze and assess which are the similarities and differences between the SICVECA monitoring component for climate financial flows in the banking sector and a full taxonomy on climate finance. Specifically, how the financial institutions are reporting the information required by the SUGEF; which activities and sub activities are already identified in the "Guidance for reporting information on climate finance in financial institutions supervised by SUGEF in Costa Rica", that are relevant for the taxonomy; and generally, how to create a taxonomy based on what the country government has already established (in terms of institutionalism and regulatory measures).

Therefore, beyond the technical analysis, relevant institutions will be interviewed to understand how the current system works and which methodological and reporting elements should be extrapolated for creating a taxonomy. Special attention will be paid in how the SUGEF, the MINAE, and the financial institutions work hand in hand to monitor and report climate change information; specifically, into the SICVECA online platform system.

It is expected to interview SICVECA users, that could be managers, mid-level employees and credit, business development and other departments. In order to avoid duplication of efforts, the Ministry of Environment and Energy, together with Central Bank and regulatory authorities, will lead the coordination with other international actors and partners, such as, but not limited to, Interamerican Development Bank and CAF – Development Bank of Latin America. A qualitative/quantitative assessment report will explain the level of incorporation and usage of the SICVECA by financial institutions and the SUGEF, and its methodological relevance for developing a national taxonomy.

It is important to highlight that the current SICVECA monitoring component for climate financial flows in the banking sector will come into effect in January 2022. The SUGEF has recently extended the deadline for the banking sector to start reporting. The reason for the term extension is to allow banks to adapt their information systems to the required data to comply with the reporting model defined by the regulator. This means that the reporting system will be in a very incipient state in the country, when the activities of this Readiness grant proposal begin. The lessons learned from the piloting of the SICVECA component on monitoring climate financial flows in the banking sector will be considered in the development of the activities of the Readiness grant proposal. Thus the Readiness grant's purpose is to scale this first monitoring exercise, under a transparency framework, to a taxonomy of climate financial flows, as a strategy to foster capital flows towards sustainable investment, and, subsequently, apply it, as a second pilot phase, to the main actors of the financial system – banks, insurance, and investors.

Activity 2.4.2b: Develop the first draft of the sustainable finance taxonomy aligned with national climate change priorities (mitigation and adaptation).

Considering the analysis developed under Activity 2.4.2a, a first draft will be developed which explains in detail the methodologies for developing technical screening criteria for climate change mitigation and adaptation objectives. The first draft will also contain a full list of technical screening criteria to determine what economic activities can be considered climate friendly, and hence can be considered Taxonomy-aligned. The first draft will contain a summary of the sector-based economic activities covered by the technical screening criteria. To that end, regional and global examples of similar taxonomies will be reviewed and after contextualizing the EU taxonomy to the country, its application to the Costa Rican reality will be tested. As a result, the first draft will contain:

- Technical methodology
- Definition of the broad strategic goal
- Review of national climate change priorities
- Definition of strategic goals and milestones, aligned with NDCs and NDP goals, and national policies on climate change policies/goals
- Priorization of economic sectors and associated activities, according to historic emissions per sector, and GDP composition by sector.
- Review of public sector budget classification systems, and measuring, reporting and verification (MRV) systems used to track and report on climate finance
- Definition of target users (for example: banks, insurance companies, project developers, issuers of green bonds, green funds, asset owners and managers, investors)
- Technical annexes by economic sector

Activity 2.4.2c: Create the technical roundtables for discussing and developing the eligibility criteria and requirements per economic sectors/subsectors for Costa Rica's sustainable finance taxonomy

Technical roundtables will be created to engage local technical experts to review and draft the second version of the sustainable finance taxonomy. The technical roundtables will be created based on the technical annexes by economic sector previously developed under Activity 2.4.2b. It is expected to have at least 5 technical roundtables with the caveat that if it is necessary more technical roundtables could be established. Each technical roundtable will be led by a Technical Lead appointed by the technical roundtable members and will provide support and expertise to validate and review the eligible activities. The technical roundtables will be established and agreed by one (1) constitutive agreements signed by their members.

Activity 2.4.2d: Conduct workshops per technical roundtable for discussing and developing the eligibility criteria and requirements for Costa Rica's sustainable finance taxonomy

The members of the technical roundtables and the Technical Leads will participate in a workshop to discuss and develop the eligibility criteria and requirements for the sustainable finance taxonomy. It is expected to have at least 150 participants, and the participants will be divided by technical roundtables to discuss the technical annexes and incorporate comments to the first draft of the sustainable finance taxonomy. A gender balance will be sought.

Activity 2.4.2e: Incorporate the recommendations received by the technical roundtables into the working document of Costa Rica's sustainable finance taxonomy

After the workshops and the round of comments, a second draft and the taxonomy tool will be developed same as the tool (software-based, Excel or otherwise) to help users of the taxonomy to apply it to their own portfolios. As part of the tool deliverables, a short technical user manual will be added.

Activity 2.4.2f: Conduct an open consultation of the sustainable finance taxonomy and tool to receive comments/feedback from relevant stakeholders, incorporate the comments/feedback, and develop the final taxonomy and tool ready to be published by the local authorities

The second draft and the tool will be shared for open consultation. The objective is to have a formal consultation with stakeholders, should include both those who will be directly affected by the taxonomy and those involved in ensuring its correct application. Stakeholders will be given a suitable platform (yet to be defined) and reasonable time frame to provide inputs and views to ensure the usability of the taxonomy and promote its acceptance. The aim is to hold the consultations as widely as possible and extend well beyond implementation to ensure proper and timely feedback for regular improvement.

It is expected to receive comments and feedback from an array of stakeholders, such as: private sector companies, banks, insurance companies, NGOs, international organization, development financial institutions, environmental and climate policy makers and regulators, representatives of key economic sectors to be affected/benefited, academia, among others.

The technical roundtables and their Technical Lead, with assistance of the SC, and the Taxonomy Workstream members, the PCU, and the Climate Finance Taxonomy Expert (as part ot the TT) will answer the comments and feedback received, and will make the adjustments to the second draft. The final draft of the sustainable finance taxonomy and the final tool will be ready to be published by local authorities.

Activity 2.4.2g: Provide recommendations for financial regulators, supervisors, Costa Rica's Central Bank, and policy makers to define the governance mechanism for the sustainable finance taxonomy implementation and the taxonomy's reporting system framework

Based on the findings and lessons learned from the sustainable finance taxonomy process development, a first set of recommendations to policy makers and regulatory authorities (SUGEF, SUGESE, SUPEN, SUGEVAL, and BCCR) will be issued. The recommendations will elaborate on defining the governance mechanism to implement and regularly improve the sustainable finance taxonomy. It will also contain recommendations related to the reporting process and reporting system, same as the climate financial flow disclosure. Once developed, the recommendations will be shared with regulators and policy makers for their action/implementation.

Activity 2.4.2h: Pilot and evaluate the implementation of the sustainable finance taxonomy and its tool to banking entities' portfolios and processes

This activity implies the first steps to assess the baseline situation analysis in the banking sector to test the feasibility to apply the sustainable finance taxonomy and tool developed under Activity 2.4.2f. The assessment will analyze if the defined taxonomy reflects their actual operations, as well as financing and investment realities. It will also evaluate the availability of information and the structure of information systems in financial institutions. It is expected to contact at least 100% of Costa Rica's Banking Association (ABC, by its initials in Spanish) to conduct the diagnosis report. To date, ABC has 12 associated entities (ABC has 12 associated entities (BCT, BAC Credomatic, Banco Nacional, DAVIVIENDA, Scotiabank, Banco Popular, BCR, Banco Promerica, Banco Lafise, Cathay Banco, Citi, Banco Improsa).

Afterwards, the piloting process will be conducted with at least 3 banking entities to test the sustainable finance taxonomy and its tool to core banking products (namely retail banking, small and medium enterprises -SMEs, lending and corporate banking, including trade, export, and project finance) and portfolios for labelling and disclosure purposes across the economic sectors and activities included in the sustainable finance taxonomy.

As a result of the piloting process, a guidance document for banks will be developed. The aim is to deliver a document on the practical implementation of the sustainable finance taxonomy and its tool to the final users (client advisors, loan, or investment officers, among others). The document will include case studies, and recommendations (lessons learned) for further scale-up on labelling and disclosure purposes.

During the piloting phase, it will be identified the most relevant factors for the banking entities in the application of the taxonomy in their portfolios in order to be considered in Output 5.1. capacity building.

Activity 2.4.2i: Develop the business model, concept, and budget of an online reporting platform/module of sustainable finance taxonomy under the framework of the SINAMECC and SICVECA Platforms and following the feedback from the regulators.

A concept and budget will be developed to integrate the sustainable finance taxonomy as part of SINAMECC and SICVECA platforms, taking regulatory recommendations into consideration. The reporting system will help the NDA, the financial regulators, the wider public and private stakeholders, to monitor the development and results of the taxonomy, as well as to identify tendencies, e.g., as consequence of changes in implementation.

This activity implies the application of the sustainable finance taxonomy in the portfolios of the selected banks, insurers and reinsurers, and investors to assess if the defined taxonomy reflects their actual operations, as well as financing and investment realities. It is also important to evaluate the availability of information and the structure of information systems in financial institutions. Equally, initial estimations on operational integration will be verified by running the envisioned process from end to end. The conceptual solutions will be tested by applying them to example processes and portfolios and analyzing their concept-reality fit.
The deliverable will be one (1) business model, concept and budget for the online reporting system of the sustainable finance taxonomy developed as part of the SINAMECC and SICVECA Platforms. The business model will consider the development and structuring of public application programming interfaces (APIs) so that financial institutions can integrate their systems with the SINAMECC and SICVECA platforms to automate reporting on climate financial flows based on the defined Costa Rica's sustainable finance taxonomy.

It is expected the API will integrate information from the financial sector, related to the taxonomy. The integration of the API to SINAMEC and SICVECA platforms will allow the regulators to monitor the development and results of Costa Rica's climate finance mobilization, as well as to identify trends, for example, as a result of implementation changes.

Output 2.4.3 Framework for the identification, assessment and disclosure of climate related financial risks and opportunities for banking and insurance sectors are developed, piloted and endorsed by relevant national financial actors

Activity 2.4.3a: Identify the (national) climate data sources to develop the methodologies and tools for identifying, assessing, and managing climate-related financial risks (climate-data gap analysis)

This activity entails mapping, reviewing, and analyze the available national climate data sources, and data and information on climate change projections and climate risk assessments and vulnerability assessments for different sectors relevant to be considered in the development of the methodologies and tools to assess the impact of the climate-related financial risks. The information should be provided at the sectoral and geographic granularity. Policy makers, academia, research centres, and universities will be contacted to look for this information; some resources that might be useful are: National Communications, climate risk maps, vulnerability maps, risk assessment plans, climate change vulnerability index, among others. In addition, a meeting with the NAP Technical Committee will be hold to complete this climate-data gap analysis. The identification and availability of this data will aid to create climate scenario analysis that explore how climate risks feed into the financial risks faced by banks and insurers.

Activity 2.4.3b: Assess how financial institutions (banks, insurance companies, securities, and pension funds) in Costa Rica incorporate climate change in their risk management through surveys and structured interviews.

Costa Rica has made good progress in the evaluation, dissemination and management of vulnerability and climate change risk, at country level. In the present (November 2021), the BCCR under the Group for Strategic Analysis of Climate Change (GAECC, by its initials in Spanish), is evaluating how to improve the understanding of the risks associated with climate change for the financial system, in order to strengthen the monitoring of systemic risks and prudential supervision. Besides this, there are no public nor private initiatives to identify, measure, manage, and disclosure climate risks in the financial system; therefore this activity envisions to conduct a qualitative assessment, through a survey and interviews with the actors from the financial sector (banks and insurers) in order to understand the starting point of the sector in climate-related disclosure.

A first step aims to assess how the main financial players in Costa Rica currently incorporate climate change in their risk management, and how this translates in their resilience capacity to climate change. Therefore, it is expected to design and conduct a national survey, hand in hand with the regulatory and supervisory entities (CONASSIF) with the objective of capturing the level of knowledge, sophistication and progress made related to the identification, measurement, management and disclosure of climate-related financial risks, that currently exists in the Costa Rican financial services sector.

The purpose will be to better understand the challenges and opportunities that the financial sectors faces when trying to integrate climate factors into risk management, considering the core elements of climate-related disclosures recommended by the TCFD – Governance, Strategy, Risk Management, and Metrics and Targets. The survey will also measure the level of understanding that the different levels of financial institutions have about the impacts of climate change on their portfolios, in addition to the current impacts to which they are already exposed (physical and transition risks). Strengths and weaknesses that will contextualize the opportunities and threats of the industry to climate change. A report will be prepared summarizing findings on the main obstacles to identifying, measuring, and managing financial risks related to climate change. The results of this activity will be considered in Output 5.1. capacity building.

Activity 2.4.3c: Create two working groups (one for banks, and other for insurance companies) for testing the methodologies and tools for identifying, assessing, and managing climate-related financial risks in pilot participants' portfolios

With the aim of developing and piloting the methodologies and tools targeted to the banking sector and to the insurance sector, two working groups (each per sector) will be created. The objective is to use the same methodologies but targeted to the two different working groups. As such, two workplans will be created to be followed by the two working groups including with specific stakeholders, roles, milestones, and constitutive agreements for the piloting phase.

It is expected to contact 100% of Costa Rica's Banking Association (ABC, by its initials in Spanish), which has 12 associated entities; the Association of Private Insurance Companies of Costa Rica (AAP, by its initials in Spanish), which has 11 associated entities; and the INS.

Activity 2.4.3d: Develop the methodologies and tools, aligned with the TCFD recommendations, to quantitatively analyzing the level of exposure of the banking sector to climate-related financial risks (physical and transition risks)

The objective is to develop country-customized methodologies and tools to quantitatively analyses the level of exposure of bankings institutions to climate-related financial risks (transition and physical risks) by prioritizing economic sectors from a banking perspective, taking into account the impacts on credit, the market and operational risk.

Key sectors of banking will be addressed in both dimensions of relevance, physical and transition risks. While similar in nature, both forming part of wider ESG frameworks to be implemented within financial institutions, the actual management of each dimension is different: while physical risks can be identified based on the availability of respective climate data and risk maps, transition risks are being caused by changes in legislation, regulation, or consumer behavior.

The activity will focus on combining global good practices with country-specific considerations. Risk management methodologies and tools developed and piloted internationally by UNEP FI in the framework of the TFCD Pilot Programme for Banks will be used as a base to develop methodologies and tools. The methodologies used for the identification and measurement of climate physical and transition risks under these two global pilots were supported by Oliver Wyman (risk of transitions for banks) and Acclimatize (physical risk to banks). In order to exemplify the methodology, for example, the TCFD Pilot Programme for Banks applied a common methodology aimed at translating climate scenarios into credit risk parameters. The methodology assumes translation of climate scenarios into financial risk drivers through changes in firms' revenues, in the costs of goods, and in property values. These financial risk drivers, as well as the impact of the scenarios on credit parameters, are then assessed at borrower level, focusing on selected sectors or portfolios depending on the type of climate-related risk. Borrower-level impacts are then extrapolated on a sectoral level, and the climate impact is used to adjust credit risk metrics.

These UNEP FI methodologies and tools will consider countries' climate scenarios and models, vulnerability maps and other relevant climate data already identified in Activity 2.4.3a. In order to analyze this, the Readiness proposal will develop metrics to assess climate risks in short, medium- and long-term credit portfolios. These metrics shall take into account economic activities, geography, credit rating and maturity of the transaction, as well as the respective sensitivities to specific climate threats. This initial portfolio information will be compared to Costa Rica's climate scenarios and models, based on the National Vulnerability Index Map and the Climate Risk Map. Based on the coincidence of climate sensitivities with exposures, real inherent climate risk can be defined for the respective investment portfolios and sub-portfolios.

To country-customized the methodologies and tools will be considered all existing type of information required to develop the assessment of climate-related financial risks in each country, which broadly are:

- data describing physical and transition risk drivers, needed to translate climate risk drivers into economic risk factors;
- data describing the vulnerability of exposures, linking climate-adjusted economic risk factors to exposures;
- financial exposure data, needed to translate climate-adjusted economic risk into financial risk.

The data needed to map risk exposures and translate climate-related risks into financial risk estimates may be only partially available and may not adequately meet traditional data quality standards, such as the length of history, completeness, and granularity needed to support the risk decision-maker. If this would be the case, the proposal may look for international climate data and/or information that could help to construct the methodologies and tools.

This activity will deliver the following:

1. A technical document addressed to the banking sector for identifying, measuring, and disclosing physical risks. It will contain the following elements to consider: objective (describes the purpose or result to be obtained from the process or procedure), justification (describes why the process exists and importance and what would happen if it is not carried out), scope (sets the limits that the process will have, these are determined by identifying the start and end events, as well as the stages it includes), participants (participants are the persons, systems or other processes or procedures that perform the activities), and diagrams (the model or diagram that show the entire process graphically);
2. A technical document addressed to the banking sector for identifying, measuring, and disclosing transition risks. It will contain the following elements to consider: objective (describes the purpose or result to be obtained from the process or procedure), justification (describes why the process exists and importance and what would happen if it is not carried out), scope (sets the limits that the process will have, these are determined by identifying the start and end events, as well as the stages it includes), participants (participants are the persons, systems or other processes or procedures that perform the activities), and diagrams (the model or diagram that show the entire process graphically);
3. A tool in Excel that can be used for climate risk calculation and credit portfolio vulnerability analysis for the banking sector.

Activity 2.4.3e: Develop the methodologies and tools, aligned with the TCFD recommendations, to quantitatively analyzing the level of exposure of the and insurance sectors to climate-related financial risks (physical risks)

The objective is to develop country-customized methodologies and tools to quantitatively analyses the level of exposure of the underwriting portfolios in the insurance sector to climate-related financial risks (physical risks) based on forward-looking climate scenarios and science-based manner. Key sectors will be addressed for the physical risks, which is usually identified based on the availability of respective climate data and risk maps. The particular objectives are to: i) provide insights at a coarse resolution (country level) on risk relativities for all physical hazards relevant to the country; and ii) to provide higher resolution (resolution sufficient for insurance portfolio analyses) estimated changes for one key peril, likely extreme precipitation and related flooding.

The activity will focus on combining global good practices with country-specific considerations. Risk management methodologies and tools developed and piloted internationally by UNEP FI in the framework of the TCFD Pilot Programme for Insurers will be used as a base to develop methodologies and tools. The methodologies used for the identification and measurement of climate physical risks this pilots was supported by PWC and Columbia University[62]. The Pilot Programme applied a common methodology aimed at translating climate scenario analysis into climate-related risks and opportunities for insurance-related portfolios in the future. The methodology assumes translation of climate scenarios analysis with consistent

62 For more detail on UNEP FI methodologies, please refer to:

- Navigating a new climate: assessing credit risk and opportunity in a changing climate. Part 2: Physical-related risks and opportunities. Acclimatise. 07/2018. https://www.unepfi.org/publications/banking-publications/navigating-a-new-climate-assessing-credit-risk-and-opportunity-in-a-changing-climate/
- Extending our horizons: Assessing credit risk and opportunity in a changing climate. Part I: Transition-related risks and opportunities. Wyman O., UNEP FI et al. 04/2018 https://www.unepfi.org/publications/banking-publications/extending-our-horizons/
- Insuring the climate transition Enhancing the insurance industry's assessment of climate change futures. UNEP FI. 01/2021 https://www.unepfi.org/psi/insuring-the-climate-transition-the-final-report-on-the-project-of-un-environment-programmes-principles-for-sustainable-insurance-initiative-to-pilot-the-tcfd-recommendations/

cause-effect chains on insured assets for prioritized products. Then, the climate's impact effect will be illustrated into insured assets and on reinsurer's financial performance.

These UNEP FI methodologies and tools will consider countries' climate scenarios and models, vulnerability maps and other relevant climate data already identified in Activity 2.4.3a. In order to analyze this, the Readiness proposal will develop metrics to assess climate physical risks in short, medium- and long-term credit portfolios. These metrics shall take into account scenarios/temperature pathways, specific timeframes, selection of hazards, geographies and business line of interest, and selection of key physical risks and opportunities. This initial portfolio information will be compared to Costa Rica's climate scenarios and models, based on the National Vulnerability Index Map and the Climate Risk Map. Based on the coincidence of climate sensitivities with exposures, real inherent climate risk can be defined for the respective investment portfolios and sub-portfolios.

As described in Activity 2.4.3d, the type of information required to develop this assessment are: physical risk drivers, data describing the vulnerability of exposures, linking climate-adjusted economic risk factors to exposures, financial exposure data, needed to translate climate-adjusted economic risk into financial risk. The data needed to map risk exposures and translate climate-related risks into financial risk estimates may be only partially available and may not adequately meet traditional data quality standards, such as the length of history, completeness, and granularity needed to support the risk decision-maker. If this would be the case, the proposal may look for international climate data and/or information that could help to construct the methodologies and tools.

This activity will deliver the following:

4. A technical document addressed to the insurance sector for identifying, measuring, and disclosing physical risks. It will contain the following elements to consider: objective (describes the purpose or result to be obtained from the process or procedure), justification (describes why the process exists and importance and what would happen if it is not carried out), scope (sets the limits that the process will have, these are determined by identifying the start and end events, as well as the stages it includes), participants (participants are the persons, systems or other processes or procedures that perform the activities), and diagrams (the model or diagram that show the entire process graphically);
5. A tool in Excel that can be used for climate risk calculation and credit portfolio vulnerability analysis to physical risks for the insurance sector.

Activity 2.4.3f: Pilot and validate the methodologies and tools defined in Activities 2.4.3d/e on banks and insurance companies' portfolios.

The developed methodologies and tools will then be piloted with banks and insurance companies (members of two working groups) to finalize a version that can be shared with and applied by the wider financial sector, the report will include the working groups validation process. As such, a practical guidance document will be developed, aiming to provide recommendations for users on the methodologies and tools implementation. The target users are client advisors, bank officials, insurance personnel, among others. The practical guidance documents will be targeted for: i) banks, and ii) insurance companies.

Activity 2.4.3g: Provide recommendations for regulators and policy makers to implement TCFD recommendations in Costa Rica.

This Readiness proposal, based on the final methodological framework and the piloting test with financial institutions, will also provide recommendations on policy measures that should be considered by the country' regulatory and supervisory authorities and policy makers to improve the resilience of the financial system to climate-related financial risks. Specifically, this set of recommendations will support the implementation of the roadmap that is currently developing the Costa Rica's Central Bank for incorporating climate change lens into macroeconomic and financial stability. These recommendations will also contribute to the development and implementation of the national sustainable insurance strategy for the adoption of measures against climate change agreed by the General Superintendency of Insurance (SUGESE).

The recommendations will elaborate on a reporting framework for climate-related financial risks in the finance sector to be built upon the proposed solutions to the banking and insurance sectors. To that end, processes and information management systems within financial institutions will be evaluated, in order to ensure that recommendations to policy makers and regulatory entities are aligned with installed capacities of financial institutions. Once developed, the recommendations will be shared with regulators and policy makers.

Activity 2.4.3.h: Develop the concept idea and estimated budget for an online reporting system of the climate-related financial risk exposure (both physical and transition) under the framework of the SINAMECC and SICVECA Platforms

As in activity 2.4.2i, the concept idea and estimated budget for an online reporting system will be developed. This reporting could be generated under the SINAMECC and the SICVECA's platforms, to help the PSC, BCCR, SUGEF, the climate-risks workstream members, and the wider public and private stakeholders, to monitor the development and results of the climate risks challenges and opportunities linked to Costa Rica's NDC and NDP financing.

The deliverable will be one (1) concept idea and estimated budget for the online reporting system of the of the climate-related financial risk exposure developed as part of the SINAMECC and SICVECA Platforms. It is expected that both SUGEF and SUGESE would host and maintain the online reporting system. The concept idea will consider the development and structuring of public application programming interfaces (APIs) so that financial institutions can integrate their systems with the SINAMECC and SICVECA platforms to automate reporting on climate-related financial risks based on the methodologies and tools developed.

It is expected the API will integrate information from the financial sector, related to the climate-risk disclosure. The integration of the API to SINAMEC and SICVECA platforms will allow the regulators to monitor the development and results of Costa Rica's climate-risk disclosure, as well as to identify trends, for example, as a result of implementation changes.

Due to the fact the sources of information and data, differ in nature and volume, between climate-risks and the taxonomy; these two activities (2.4.2i and 2.4.3h) were separated. Nevertheless, both are envisioned to be embedded into SICVECA's platform; therefore, it its necessary to quantify how and how much this adjustment will entail.

Output 2.4.4: Capacity within financial institutions is built on climate taxonomy, climate-related financial risks disclosure, green products/lines, including green bonds.

Activity 2.4.4a: Design and implement an online training program within financial institutions regarding: i. Costa Rica Taxonomy, ii. Costa Rica Climate Risk Management Methodology, iii. Green finance line/product/service design, including green bonds

The online training programme will be mainly developed on the sustainable finance taxonomy and the climate-related financial disclosures methodologies and tools developed and validated throughout the Readiness proposal.The training programme has two objectives: i) to train financial entities participating during the piloting process for both the taxonomy and the climate-related risk financial disclosures; and ii) to train financial institutions, policy makers, regulators, supervisors and stakeholders interested in better understanding the application of the sustainable finance taxonomy, the climate-related risk disclosures, and the business opportunities for green finance line/product/service design, including green bonds.

The materials will be divided into the following modules:

- Sustainable Finance Taxonomy:

-Submodule for the users (financial institutions) during the piloting and implementation process under activity 2.4.2h.

-Submodule for future users (financial institutions, policy makers, regulators, supervisors and stakeholders) of the sustainable finance taxonomy methodology and tool; for the application and further scale-up.

- Climate-related financial risk disclosure:

-Submodule for users during the piloting and implementation process under activity 2.4.3f.

-Subdmodule for future users (financial institutions, policy makers, regulators, supervisors and stakeholders) of the climate-related financial risks methodology and tool; for the application and further scale-up.

- Green finance line/product/service design, including green bonds:

Submodule for financial institutions, policy makers, regulators, supervisors and stakeholders who wish to better understand and/or learn about the array of green finance options that could be leveraged in Costa Rica by using the sustainable finance taxonomy.

The training programme will be developed in collaboration with UNEP FI, building on its extensive experience and expertise in designing and delivering trainings on green finance and climate-related financial risk management. The effectiveness of the training programme will be measured through an online questionnaire that will be disseminated to the participants before and after training. The gender balance will be ensured among participants on the training programme. Financial sector institutions will be encouraged to participate in the training programme, including the members of the SC, workstreams, technical roundtables, working groups, and key identified stakeholders within the financial institutions. It is planned to engage at least 10 institutions in the training programme. The financial sector institutions will be encouraged to participate in the training. The final list of participants will be discussed and consolidated by the SC.

Outcome 4.1 An increase in the number of quality project concept notes developed and submitted

Output 4.1.1: Pipeline identified and priorization assessments

Activity 4.1.1a: Identify, prioritize and select financial instrument(s) that will be developed in the concept note

Based on the readiness proposal results, the PCU will identify, prioritize and select potential financial instrument(s) that will be developed in the concept note instrument(s) in coordination with the NDA and the FAG members, which includes the private sector (financial and non-financial institutions). These actions will ensure that the concept note is aligned with Costa Rica's GCF Country Programme.

Activity 4.1.1b: Conduct a pre-feasibility study for a concept note

Based on the activities already carried out in the readiness proposal, a pre-feasibility study will be developed to evaluate and analyze how the GCF could aid to mainstream climate change mitigation and adaptation in the financial sector. Leveraging on the readiness findings, the pre-feasibility study will assess which are the capacity gaps in terms of providing green credit lines to direct beneficiaries (i.e., cooperatives), increasing green finance for MSMEs with risk sharing facilities; de-risking and crowding in debt and equity capital, and supporting climate investment vehicles among the Costa Rican financial institutions. The pre-feasibility study will cover operational, technological, market demand, and budgetary considerations.

Output 4.1.2 A concept note for mainstreaming climate mitigation and adaptation in the financial sector is developed, validated by relevant stakeholders, and ready to be submitted to the GCF by Costa Rica's NDA

Activity 4.1.2a: Based on activity 4.1.1b, develop a GCF concept note and conduct an initial assessment of potential accredited entities (AE) to execute the proposal.

Finally, the above activities under 4.1.1a will be summarized in the first draft of the GCF concept note. The elaboration of the concept note will include initial assessment and, where appropriate, initial coordination with potential accredited entities (AEs) that can participate to leverage private sector capital.

Activity 4.1.2b: Engage the NDA, GCF, AE, and relevant stakeholders to validate and incorporate feedback

In order to develop a robust concept note that is very well aligned with Costa Rica's updated GCF Country Programme (output 2.1.1), it is important to engage during the development process the NDA, the GCF, AE and relevant stakeholders (public and private) to incorporate feedback in the concept note. The PCU will hold at least 5 meetings with relevant stakeholders to introduce and validate the draft of the concept note. The result will be a report on the engagement process, with a list of potential accredited entities (AE) to execute the proposal.

Activity 4.1.2c: Identify potential Accredited Entities (AE) to take up the concept note for further development to a full funding proposal.

This activity intends to support the NDA in the identification of potential accredited entities (AEs), possible private sector institutions, that can take over the drafted concept note for further development to full funding proposal and subsequent implementation.

Activity 4.1.2d: Develop the final draft of a GCF concept note ready to be submitted by the NDA to the GCF

Finally, this activity will develop the final draft GCF concept note ready for submission by the NDA to the GCF. The elaboration of the concept note will include initial assessment and, where appropriate, initial coordination with potential accredited entities (Aes) that can participate in mainstreaming climate mitigation and adaptation into the financial sector, and to leverage private sector capital.

Outcome 5.1: Best practices with respect to institutional capacity building and coordination, direct access, and pipeline development are developed and disseminated to strengthen engagement by NDAs, DAEs, and delivery partners with the GCF.

Output 5.1.1: Lessons learned, and activities results are shared and disseminated with national and international finance sector audiences as well as the wider climate change policy community, as well as the wider climate change policy community, thus ensuring the practical use of the deliverables and procedures of classification designed for this purpose.

Activity 5.1.1a: Disseminate lessons learned and activities results including workshop outcomes, PSC decisions, Costa Rica taxonomy/climate-related financial risk disclosure methodology details, results from testing and piloting in the form of news releases via the DCC website and details via the SINAMECC and SICVECA platforms.

In order to disseminate the results and solutions developed within the framework of the proposed Readiness activities, the SINAMECC and SICVECA platforms will be used, which produces climate-related information, aimed at all potential public and private actors as decision-makers in politics, regulators, investors, international organizations, associations and actors of the national economy, civil society organizations, among others.

The lessons learned and at least 10 press releases will be disseminated through the relevant channels, aimed at all possible public and private actors, such as policy decision makers, regulators, investors, international organizations, associations, and economic actors. National, civil society organizations, among others. This activity is mainly focused on informing the general public (as a key audience for the SINAMECC and SICVECA platforms) as well as the financial sector.

Activity 5.1.1b: Participate in regional conferences and networking events to a) learn from experiences in the region and apply lessons learned, as well as b) provide own insights to other countries with similar objectives and initiatives.

Several initiatives in neighboring countries on the same topics presented in the readiness proposal are underway in some leading countries with considerable progress like Costa Rica. In order for Costa Rica to take advantage of the lessons learned, especially to adjust international best practices to the different realities in the target countries, but also to share similar experiences with other countries that lag behind in similar initiatives. Two representatives (1 of FAG and 1 of NDA) will participate in work sessions, workshops, conferences, or networking events organized at the regional level. This activity is mainly focused on informing the regional community about climate change and public policy actors, mainly through participation in regional events and initiatives.

As events, it is foreseen to participate in the following:

- IDB REDES: The Network of Regulators for Sustainable Development (REDES) is an initiative of the Inter-American Development Bank (IDB), in collaboration with Central Banks and Financial Supervisors for Greening the Financial System, NGFS, as well as of the International Organization of Securities Commissions, IOSCO. It aims to support financial regulators, supervisors, central banks, and public agencies on the development of country-level strategies toward sustainable financial sectors.63
- UNEP-FI Regional Roundtable: The virtual Roundtables will bring together 3000+ UNEP FI members and sustainable finance practitioners for insights into advances in sustainable finance in 5 regions across the globe. The events will provide insight into key developments such as the benefits of sustainable finance integration in national economies, Principles for Responsible Banking and the reporting framework, positive impact finance for the Sustainable Development Goals, implementation progress of the Principles for Sustainable Insurance, climate related disclosures, sustainable infrastructure and cities, green bonds, innovation in sustainable finance, blue economy finance and ESG in underwriting.64
- NGFS events: The Network's purpose is to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. To this end, the Network defines and promotes best practices to be implemented within and outside of the Membership of the NGFS and conducts or commissions analytical work on green finance. It regularly organizes events for members and the wider public.65

This activity focuses primarily on informing the regional climate change community and public policy actors, mainly via participation in regional events and initiatives. It therefore contributes to a greater regional

63 Network of Regulators for Sustainable Development (REDES). IADB. https://www.iadb.org/en/financial-markets/redes
64 UNEP FI Regional roundtables on sustainable finance 2021. UNEP FI. https://www.unepfi.org/events/roundtables/unep-fi-regional-roundtables-on-sustainable-finance-2021/
65 Origin and Purpose. NGFS. https://www.ngfs.net/en

knowledge exchange that will foster the development of regional capacities with NDAs, DAEs, Delivery Partners as well as private financial sector actors.

3. LOGICAL FRAMEWORK

Outcomes	Baseline[1]	Targets	Outputs	Activities (brief description)	Deliverables[2]
Outcome 2.1 GCF recipient countries have developed Country Programmes to guide GCF investment and programming of readiness support resources	The GCF Country Programme that was planned under Readiness (CRI-RS-001) was not developed; hindering the public policy initiatives aimed at mobilizing climate finance (such as the NDC and NDP goals). However, the “Guide for accessing to non-reimbursable funds from the GCF and nomination of DAEs” (developed by the NDA) will be taken as the baseline for the development of GCF Country Programme.	The NDA has a robust GCF Country Programme that identifies and prioritizes project proposals, aligned with the NDC and the NDP goals.	**Output 2.1.1:** The Country Programme, relevant to the NDC and the NDP goals, has been developed and ready to be approved by the NDA.	**Activity 2.1.1a:** Review of existing relevant strategies and plans and priorities aligned with the NDC and the NDP goals by identifying and mapping low emission climate resilient development priorities in line with the NAP, climate change strategy, and other strategic sectors plans.	**Deliverable 2.1.1a**: First draft of GCF Costa Rica Country Programme
				Activity 2.1.1b: Lead consultations on the first draft with the NDA and relevant stakeholders to: identify project and program priorities for the GCF project pipeline; and to establish policy, strategy, planning and institutional needs regarding the GCF project pipeline	**Deliverable 2.1.1b**: One (1) report on the consultation process with the NDA, GCF, AE and relevant stakeholders. *It is expected to hold at least 5 consultations to be carried out for this activity.* Participants may include a) public sector and autonomous institutions; b) private sector and interested productive sectors; c) local governments (municipalities); d) NGO’s, academia and civil society; and, e) potential Accredited Entities.
				Activity 2.1.1c: Draft Country Programme for climate action for the GCF (adaptation, mitigation and sustainable responsible finance) with a final proposal of development priorities for Costa Rica and finance coordination matrix, in alignment with Fund´s objectives	**Deliverable 2.1.1c:** Final draft of GCF Costa Rica Country Programme ready to be approved by the NDA

Outcome 2.4 Strategies for transforming and attracting private sector investment for low emissions and resilience developed and being used	Costa Rica has already established numerous structures and initiatives to tackle climate change. Nevertheless, there are no specific methodologies and tools to aid the financial sector to align financial flows consistently with national climate change goals, and to better prepare them to face climate-related financial risks that will arise in the near future; hence, hindering the financial sector engagement in investing in low-emission and climate-resilient projects.	Financial sector players in Costa Rica have the required information, methodologies, and tools to proactively engage in NDC and NDP financing. Specifically, the sustainable finance taxonomy and methodologies and tools for identifying, assessing, managing, and disclosing climate-related financial risks in the banking and insurance sectors are developed	**Output 2.4.1:** Workplans and constitutive arrangements for the Financial Advisory Group (FAG) established to develop 1) Costa Rica's sustainable finance taxonomy; and 2) methodologies and tools for identifying, assessing, and managing climate-related financial risks.	**Activity 2.4.1a**: Identify and map key relevant (national) financial actors national/international stakeholders to support and participate in the elaboration of Costa Rica´s sustainable finance taxonomy, and methodologies and tools for climate-related financial risks	**Deliverable 2.4.1a**: One (1) action plan report, including a mapping of key financial actors for its implementation.
				Activity 2.4.1b: Deliver a workshop with key national and international financial actors with the objective of defining workplans and a constitutive agreements for the elaboration of Costa Rica´s sustainable finance taxonomy, and methodologies and tools for identifying, assessing, and managing climate-related financial risks	**Deliverable 2.4.1b (i)**: One (1) workshop report (40 expected participants) *Evidence of stakeholder participation (40 expected participants -disaggregated by gender) will be provided, including training materials, pre and post training surveys.*
					Deliverable 2.4.1b (ii): Two (2) agreed workplans: 1) Sustainable finance taxonomy workstream, and 2) Climate-related financial risks workstream; including specific stakeholders, roles, milestones, and constitutive agreement for its implementation. *Evidence of constitutive agreements will be provided*
			Output 2.4.2 The sustainable finance taxonomy is developed, piloted, and endorsed by relevant national financial actors.	**Activity 2.4.2a**: Analyze the synergies and differences between the SICVECA monitoring component for climate financial flows in the banking sector (the Guidance implementation) and the international best practices on sustainable finance taxonomies (via technical analysis, surveys and interviews).	**Deliverable 2.4.2a**: One (1) qualitative/quantitative assessment report explaining the level of incorporation and usage of the SICVECA and its methodological relevance for developing a sustainable finance taxonomy.
				Activity 2.4.2b: Develop the first draft of the sustainable finance taxonomy aligned with national	**Deliverable 2.4.2b:** First draft of the sustainable finance taxonomy which contains: strategic objective, national

				climate change priorities (mitigation and adaptation).	climate change priorities, methodology, prioritization of economic sectors, technical annexes per eligible economic sectors to meet national climate mitigation and adaptation objectives.
				Activity 2.4.2c: Create the technical roundtables for discussing and developing the eligibility criteria and requirements per economic sectors/subsectors for Costa Rica's sustainable finance taxonomy	**Deliverable 2.4.2c:** One (1) constitutive agreement with the number of technical roundtables and their members, by economic sector/subsector. *It is expected to have at least 5 thematic technical roundtables*
				Activity 2.4.2d: Conduct workshops per technical roundtable for discussing and developing the eligibility criteria and requirements for Costa Rica's sustainable finance taxonomy	**Deliverable 2.4.2d:** One (1) workshop report with evidence of stakeholder participation, pre and post participation surveys, list of participants – disaggregated by gender, and aide-mémoire of the technical discussions. *It is expected to have at least 150 participants.*
				Activity 2.4.2e: Incorporate the recommendations received by the technical roundtables into the working document of the Costa Rica's sustainable finance taxonomy	**Deliverable 2.4.2e (i):** Second draft of the sustainable finance taxonomy which incorporates the review from the technical roundtables.
					Deliverable 2.4.2e (ii): Tool (software-based, Excel or otherwise) to help users of the taxonomy to apply it to their own portfolios. *The tool itself as main deliverable, accompanied by a short technical user manual.*
				Activity 2.4.2f: Conduct an open consultation of the sustainable finance taxonomy and tool to receive comments/feedback from relevant stakeholders, incorporate the comments/feedback, and develop the final taxonomy and tool	**Deliverable 2.4.2f (i):** Online publication of the second draft of the sustainable finance taxonomy and the tool for open consultation *Evidence of online publication and the comments and feedback received, same as the responses to the comments.*

				ready to be published by the local authorities.	**Deliverable 2.4.2f (ii):** Final draft of the sustainable finance taxonomy and final tool ready to be published by the local authorities.
				Activity 2.4.2g: Provide recommendations for financial regulators, supervisors, Costa Rica's Central Bank, and policy makers to define the governance mechanism for the sustainable finance taxonomy implementation and the taxonomy's reporting system framework	**Deliverable 2.4.2g:** One (1) report with strategic recommendations for financial regulators and supervisors, Costa Rica's Central Bank, and policy makers to define the governance mechanism for the sustainable finance taxonomy implementation and the taxonomy's reporting system framework.
				Activity 2.4.2h: Pilot and evaluate the implementation of the sustainable finance taxonomy and its tool to banking entities' portfolios and processes	**Deliverable 2.4.2h (i):** One (1) diagnosis report with the assessment on how the banking sector incorporate loan classification into operational management (base line situation analysis) *It is expected to contact at least 100% of ABC's members to participate in the surveys (12 associated entities)*
					Deliverable 2.4.2h (ii): One (1) report with the results of the piloting test of the sustainable finance taxonomy and its tool to core banking products. *It is expected to contact at least 100% of ABC's members. It is expected to run the pilot with at least 3 banking entities participating. (12 associated entities)*
					Deliverable 2.4.2h (iii): One (1) guidance document for banks on the practical implementation of the sustainable finance taxonomy and its tool, including case studies and recommendations for further scale-up.
				Activity 2.4.2i: Develop the business model, concept, and budget of an online reporting platform/module of sustainable finance taxonomy under the framework of the SINAMECC and	**Deliverable 2.4.2i:** One (1) business model, concept and budget for the online reporting system of the sustainable finance taxonomy developed as part of the SINAMECC and

				SICVECA Platforms and following the feedback from the regulators.	SICVECA Platforms. (Approximately 30 pages in length) *The business model should consider the development and structuring of public application programming interfaces (APIs) so that financial institutions can integrate their systems with the SINAMECC and SICVECA platforms to automate reporting on climate financial flows based on the defined Costa Rica's sustainable finance taxonomy.*
			Output 2.4.3 Framework for the identification, assessment and disclosure of climate related financial risks and opportunities for banking and insurance sectors are developed, piloted and endorsed by relevant national financial actors	**Activity 2.4.3a**: Identify the (national) climate data sources to develop the methodologies and tools for identifying, assessing, and managing climate-related financial risks (climate-data gap analysis)	**Deliverable 2.4.3a:** One (1) report with the (national) climate data sources to develop the methodologies and tools for identifying, assessing, and managing climate-related financial risks (climate-data gap analysis)
				Activity 2.4.3b: Assess how financial institutions (banks and, insurance companies) in Costa Rica incorporate climate change in their risk management through surveys and structured interviews.	**Deliverable 2.4.3b**: One (1) report with survey results on prevalent climate-related financial risk methodologies and processes. *It is expected to contact at least 100% of ABCs members (12 associated entities) 100% of AAPs members (11 associated entities); and the INS.*
				Activity 2.4.3c: Create two working groups (one for banks, and other for insurance companies) for testing the methodologies and tools for identifying, assessing, and managing climate-related financial risks in pilot participants' portfolios	**Deliverable 2.4.3c (i):** Two (2) workplans per working group: 1) Banking sector working group, and 2) Insurance companies; including other specific stakeholders, roles, milestones, and constitutive agreements for the pilot phase. *Evidence of constitutive agreement per working group will be provided.*
				Activity 2.4.3d: Develop the methodologies and tools, aligned with the TCFD recommendations, to quantitatively analyzing the level of exposure of the banking sector to climate-related financial risks (physical and transition risks)	**Deliverable 2.4.3d (i):** One (1) technical document which explains in detail the methodologies for identifying, measuring, and disclosing identified physical risks in the banking sector
					Deliverable 2.4.3d (ii) One (1) technical document which explains in detail the

					methodologies for identifying, measuring, and disclosing identified transition risks in the banking sector
					Deliverable 2.4.3d (iii): (One) tool (software-based, Excel or otherwise) to help the banking sector to use the TCFD methodology and to effectively disclose climate-related risks (transition and physical) and opportunities in their own activities. *The main deliverable is the tool itself, accompanied by a user manual.*
				Activity 2.4.3e: Develop the methodologies and tools, aligned with the TCFD recommendations, to quantitatively analyzing the level of exposure of the and insurance sectors to climate-related financial risks (physical risks)	**Deliverable 2.4.3e (i):** One technical document which explains in detail the methodologies for identifying, measuring, and disclosing identified physical risks in the insurance sector.
					Deliverable 2.4.3e (ii): (One) tool (software-based, Excel or otherwise) to help the insurance sector to use the TCFD methodology and to effectively disclose climate-related risks (physical) and opportunities in their own activities. *The main deliverable is the tool itself, accompanied by a user manual.*
				Activity 2.4.3f: Pilot and validate the methodologies and tools defined in Activities 2.4.3d/e on banks and insurance companies' portfolios.	**Deliverable 2.4.3f (i):** One (1) report on the piloting process, including the working groups validation *It is expected to contact at least 100% of ABC's and AAP's members (12 and 11, respectively, associated entities), and the INS. It is expected to run the pilot with at least 2 financial institutions (1 bank & 1 insurance company) for participating in the piloting and validation process*
					Deliverable 2.4.3f (ii): One practical guidance document on the implementation of the Climate-related financial risk Management Methodology for the Banking Sector, including case studies and recommendations for scale-up.

					Deliverable 2.4.3f (iii): One practical guidance document on the implementation of the Climate-related financial risk Management Methodology for the Insurance Sector, including case studies and recommendations for scale-up.
				Activity 2.4.3g: Provide recommendations for regulators and policy makers to implement TCFD recommendations in Costa Rica.	**Deliverable 2.4.3g:** One (1) strategic report that includes recommendations for regulators and policy makers to continue implementing TCFD recommendations in Costa Rica
				Activity 2.4.3.h: Develop the concept idea and estimated budget for an online reporting system of the climate-related financial risk exposure (both physical and transition) under the framework of SINAMECC and SICVECA platforms and to be hosted and maintained by the SUGEF and SUGESE.	**Deliverable 2.4.3h:** One (1) concept idea and estimated budget for the online reporting system of the climate-related financial risk exposure developed as part of the SINAMECC and SICVECA Platforms. (Approximately 30 pages in length) The concept idea should consider the development and structuring of public application programming interfaces (APIs) so that financial institutions can integrate their systems with the SINAMECC and SICVECA platforms to automate reporting on climate-related financial risks based on the methodologies and tools developed.
			Output 2.4.4: Capacity within financial institutions is built on sustainable finance taxonomy, climate-related financial risks exposure and management, green products/lines, including green bonds.	**Activity 2.4.4a:** Design and implement an online training program within financial institutions regarding: i. Costa Rica Taxonomy-Module ii. Costa Rica Climate-related financial risk management iii. Green finance line/product/service design, including green bonds The objective is to train financial entities during the piloting process, and to train financial entities, policy	**Deliverable 2.4.4a (i):** 1 (one) Training programme syllabus, including materials and guidelines. *The materials will be based on the result of activities 2.4.2g/h and 2.4.3a/c, same as the stakeholder validation reports on taxonomy and climate-related financial risks.* **Deliverable 2.4.4a (ii):** One (1) modular training course launched on existing training platform, providing details via a summary report (including URL, log-in credentials, and screen shot).

				makers, regulators, supervisors and stakeholders interested in better understanding the application of the sustainable finance taxonomy, the climate-related risk disclosures, and the business opportunities for green finance line/product/service design, including green bonds.	**Deliverable 2.4.4a (iii):** One (1) report on first intake with at least 30 participants - including course ratings and certifications. List of system generated participation list and participants' details (disaggregated by gender)
Outcome 4.1 An increase in the number of quality project concept notes developed and submitted	A variety of bilateral and multilateral donors are financing climate action projects in Costa Rica. However, there are no currently concept notes developed nor in the pipeline to mainstream climate mitigation and adaptation in the financial sector.	There are concrete concept notes developed in the GCF Costa Rica Country Programme, with a strong component for mainstreaming climate change mitigation and adaptation in the financial sector.	**Output 4.1.1:** Pipeline identified and prioritization assessments	**Activity 4.1.1a:** Identify, prioritize and select financial instrument(s) that will be developed in the concept note.	**Deliverable 4.1.1a**: One (1) report on the identification, prioritization and selection of financial instrument(s) to address in the concept note.
				Activity 4.1.1b: Conduct a pre-feasibility study for a GCF concept note	**Deliverable 4.1.1b:** 1 (one) pre-feasibility study for a GCF concept note
			Output 4.1.2 A concept note for mainstreaming climate mitigation and adaptation in the financial sector is developed, validated by relevant stakeholders, and ready to be submitted to the GCF by Costa Rica's NDA	**Activity 4.1.2a:** Based on activity 4.1.1b, develop a draft GCF concept note and execute an initial assessment of potential accredited entities (AE) to execute the project.	**Deliverable 4.1.2a:** First draft of the GCF concept note.
				Activity 4.1.2b: Engage the NDA, GCF, AE, and relevant stakeholders to validate and incorporate feedback	**Deliverable 4.1.2b**: One (1) report on the engagement process with the NDA, GCF, AE and relevant stakeholders, with an initial assessment of potential accredited entities (AE) to execute the proposal. *It is expected to hold at least 5 meetings with relevant stakeholders to introduce and validate the draft of the concept note.*
				Activity 4.1.2c: Identify potential Accredited Entties (AE) to take up the concept note for further development to full funding proposal.	**Deliverable 4.1.2c**: One (1) report on the engagement process with the NDA and AEs with a list of potential accredited entities (AE) to move forward with the drafted concept note.
				Activity 4.1.2d: Develop the final draft of a GCF concept note ready to be submitted by the NDA to the GCF	**Deliverable 4.1.2d**: One (1) concept note for mainstreaming climate mitigation and adaptation in the financial sector, ready to be submitted. *Approximately 30 pages in length.*

Outcome 5.1: Best practices with respect to institutional capacity building and coordination, direct access, and pipeline development are developed and disseminated to strengthen engagement by NDAs, DAEs, and delivery partners with the GCF	The country has no proactive mechanisms in place that ensure the communication of climate finance progress and ensure the exchange of lessons learned at a regional level.	The country disseminates the lessons learned and the best practices of the FAG decisions, and the national process of adopting the Costa Rican taxonomy and the methodology for climate-related financial risk disclosures. The country shares its experience with other national counterparts and regional country governments as part of the south-south cooperation.	**Output 5.1. 1:** Lessons learned, and activities results are shared and disseminated with national and international finance sector audiences as well as the wider climate change policy community, thus ensuring the practical use of the deliverables and procedures of classification designed for this purpose.	**Activity 5.1.1a:** Disseminate lessons learned and activities results including workshop outcomes, PSC decisions, Costa Rica taxonomy/climate-related financial risk disclosure methodology details, results from testing and piloting in the form of news releases via the DCC website and details via the SINAMECC and SICVECA platforms.	**Deliverable 5.1.1a:** (i)At least 10 news releases disseminated via the SINAMECC SICVECA platform. The news will be mirrored into DCC and financial regulator website Each news release will be of approximately 1-2 pages in length. (ii) One (1) report of at least 4 information events (every 6 months with at least 25 participants each) to communicate the implementation progress to a broader external audience of stakeholders
				Activity 5.1.1b: Participate in regional conferences and networking events to a) learn from experiences in the region and apply lessons learned, also b) provide own insights to other countries with similar objectives and initiatives.	**Deliverable 5.1.1b:** One (1) report on key learnings from at least four participations by two representatives (of the FAG and/or NDA) in regional networking and knowledge events and conferences.

4. THEORY OF CHANGE

GOAL

The proposed Readiness project is to support Costa Rica to mobilize private finance for the implementation of its national climate goals as articulated in its Climate Change Strategy and Updated NDC1, through scaling up of the national taxonomy and the development of related methodologies for the financial sector to identify, assess and manage its exposure to climate related financial risks, as well as recommendations targeted at regulators/supervisors and policy-makers to influence the regulatory framework.

GOAL STATEMENT

IF Costa Rica builds enabling and unified strategic, institutional, conceptual and financial structures and capacities for climate finance at the national and subnational level, THEN the country will be able to promote and support private sector engagement for climate finance **BECAUSE** all involved actors from public and private sector's part form a shared taxonomy and risk management methodology to jointly build and distribute mechanisms to finance low carbon and resilient investments.

OUTCOMES

- Outcome 2.1 GCF recipient countries have developed Country Programmes to guide GCF investment and programming of readiness support resources
- Outcome 2.4 Strategies for transforming and attracting private sector investment for low emissions and resilient to climate change
- Outcome 4.1 An increase in the number of quality project concept notes developed and submitted
- Outcome 5.1 Best practices with respect to institutional capacity building and coordination, direct access, and pipeline development are developed and disseminated to strengthen engagement by NDAs, DAEs, and delivery partners with the GCF

OUTPUTS

- Output 2.1.1 The Country Programme, relevant to the NDC and the NDP goals, has been developed and ready to be approved by the NDA
- Output 2.4.1 Workplans and constitutive arrangements for the Financial Advisory Group (FAG) established to develop 1) Costa Rica's sustainable finance taxonomy; and 2) methodologies and tools for identifying, assessing, and managing climate-related financial risks.
- Output 2.4.2 The sustainable finance taxonomy is developed, piloted, and endorsed by relevant national financial actors.
- Output 2.4.3 Framework for the identification, assessment and disclosure of climate related financial risks and opportunities for banking and insurance sectors are developed, piloted and endorsed by relevant national financial actors
- Output 2.4.4 Capacity within financial institutions is built on sustainable finance taxonomy, climate-related financial risks exposure and management, green products/lines, including green bonds.
- Output 4.1.1 Pipeline identified and prioritization assessments
- Output 4.1.2 A concept note for mainstreaming climate mitigation and adaptation in the financial sector is developed, validated by relevant stakeholders, and ready to be submitted to the GCF by Costa Rica's NDA
- Output 5.1.1 Lessons learned, and activities results are shared and disseminated with national and international finance sector audiences as well as the wider climate change policy community, thus ensuring the practical use of the deliverables and procedures of classification designed for this purpose.

INPUTS

Input 1: Existing enabling climate change country responses, including NDCs and NDP
Input 2: Progress in complementary private climate finance monitoring by the superintendency of financial entities
Input 3: EU taxonomy and TCFD recommendations as international best practice methodologies
Input 4: Engagement of national stakeholders to include public and private climate finance

BARRIERS

Barrier 1: Lack of a GCF Country Programme which guides the public and private investments into NDC and NDP goals
Barrier 2: Lack of enabling and unified strategic, institutional, conceptual and financial structures and capacities for climate finance, shared among all stakeholders
Barrier 3: Lack of adequate prudential regulatory mechanisms, that include specific taxonomies and methodologies that guide the financial sector in promoting climate finance
Barrier 4: Lack of capacities and knowledge of financial institutions about climate risk management concepts and practices due to a lack of climate risk data and applicable tools
Barrier 5: Lack of shared taxonomies to classify finance vis-à-vis their climate impact and vulnerability, limiting a proactive steering of climate financial flows
Barrier 6: Limited ability of attracting climate finance from regional and national capital markets and public investors

RISK

Risk 1 - Operational: Delays in implementation due to hiring processes for consultancy firms taking longer than expected
Risk 2 - Institutional: Technical and coordination needs exceed the EE's capacity; difficulty in establishing a collaborative dialogue between FIs and EE to initiate sector engagement
Risk 3 - Market barriers: No enabling conditions established to deploy and apply the pilot solutions of proposed taxonomy and risk methodologies.
Risk 4 - Institutional coordination: Institutional and technical weaknesses that may interfere in the effective implementation of the activities
Risk 5 - Stakeholder engagement: Low engagement by national and sectoral stakeholders during project implementation
Risk 5- Covid-19: Limited face-to-face interactions and travel restrictions require for data collection for the development of proposal; delays in project implementation

ASSUMPTIONS

Assumption 1: High commitment of Costa Rica to fight climate change by developing a GCF Country Programme for climate finance mobilization (public and private sources)
Assumption 2: Climate finance methodologies (taxonomy and risk disclosure) can be transferred and adjusted to Costa Rica, including the build-up of local capacities
Assumption 3: A system of taxonomy of financial flows and climate-related financial risk management methodologies encounter demand from FIs and interest of regulators in the country
Assumption 4: Suitable site-specific climate solutions can be identified and categorized (Panama taxonomy) and data is available that can be used for climate-related financial risk disclosure

Goal and goal statement

The Theory of Change diagram illustrates the linkages between the proposal's goal and the proposal's outputs and outcomes. It also shows how the chosen project's structure contributes towards overcoming the current barriers that hinder climate finance public and private mobilization, and work on an identified base of risks and assumptions. In doing so, the proposal will thus advance the country's progress towards enabling unified strategic, institutional, conceptual and financial structures and capacities for climate finance through the development of methodologies and tools to promote and support private sector engagement for climate finance.

Therefore, the vision of the proposal is to support Costa Rica to mobilize private finance for the implementation of its national climate goals as articulated in its Climate Change Strategy 2012-2021, the updated NDC, and the NDP 2018-2050, through the development of a robust GCF Country Programme, same as a well-defined national sustainable finance taxonomy, based on the "Guidance for reporting information on climate finance in financial institutions" and related methodologies for the financial sector - banks, insurers and investors - to identify, assess and disclosure its exposure to climate related financial risks. Specifically, recommendations will include policy measures under the regulatory framework that should be taken by the regulatory and supervisory authorities improve the resilience of the financial system to climate-related financial risks.

IF Costa Rica builds enabling and unified strategic, institutional, conceptual, and financial structures and capacities for climate finance at the national and subnational level, **THEN** the country will be able to promote and support private sector engagement for climate finance **BECAUSE** all involved actors from public and private sectors part form a shared taxonomy and risk management methodology to jointly build and distribute mechanisms to finance low-emission and climate-resilient investments.

It is understood that by building and sharing capacities among all stakeholders to manage climate finance flows (updating the existing guidance for climate finance monitoring tested with the banking sector to a full national taxonomy and testing it to the entire financial sector – banks, insurers and investors) and identify climate-related financial risks and opportunities (implementation of TCFD recommendations), the financial sector will be able to play a proactive role in support for the ambition of the updated NDC and NDP of Costa Rica. This is expected, due to the effect of introducing a shared set of commonly accepted standards of what constitutes a climate investment that allows comparability and accountability.

Outcomes

The four interrelated outcomes that the proposal will run to achieve this vision will be implemented concurrently and in a complementary way. Each outcome is critical for the delivery of the others:

1. The first outcome (2.1): <u>GCF recipient countries have developed Country Programmes to guide GCF investment and programming of readiness support resources</u> - will support the NDA to develop Costa Rica's GCF Country Programme to respond to a crescent demand of a unified national strategy for GCF finance mobilization. It aims to guide public and private investments for financing national climate strategies, already identified in the NDC and NDP goals by covering a wide range of climate change priorities over a 10-year period, spanning all sources of climate finance (public and private). The activities (2.1.1a, 2.1.1b, 2.1.1c) envisioned under this outcome will support the development of the following outcomes by setting an institutional vision for climate finance mobilization.
2. The second outcome (2.4): <u>Strategies to transform and attract private sector investments for low emissions and resilient to climate change –</u> aims to provide the methodologies and tools to assess the challenges and opportunities of sustainable finance investments and climate-related financial risks, whom are well aligned with national climate goals, climate interests of investors, financial intermediaries, and the real economy alike. The activities (2.4.1a - 2.4.1b, 2.4.2a - 2.4.2i, 2.4.3a – 2.4.3h) envisioned under this outcome will aid to overcome: i) the lack of adequate prudential regulatory mechanisms, that include specific taxonomies and methodologies that guide the financial sector in promoting climate finance; ii) the low capacities and knowledge of financial institutions about climate risk management concepts and practices due to a lack of climate risk data and applicable tools; and iii) the lack of shared taxonomies to classify finance vis-à-vis their climate impact and vulnerability, limiting a proactive steering of climate financial flows; and hence mobilize private finance for the implementation and financing of the national climate goals.
3. The third outcome (4.1): <u>An increase in the number of quality project concept notes developed and submitted –</u> aims to ensure pipeline identification and prioritization assessment, and the development of concept notes to leverage additional support and the development of a concept note for mainstreaming climate change mitigation and adaptation in the financial sector, to leverage the previous work done in Outcomes 2.1 and 2.4 with financial institutions (specially commercial banks and insurance companies). As such, it aims to hinder the limited ability of attracting climate finance from regional and international capital markets and public investors by selection a green financial instruments, conducting a

prefeasibility study, and engaging relevant actors to evaluate the concept note to be submitted by the NDA.

4. The fourth outcome (5.1): Best practices regarding institutional capacity building and pipeline coordination, direct access and development are developed and disseminated to strengthen the engagement of NDAs, and DAEs with the GCF – aims to strengthening regional capacity building efforts by supporting the NDA and relevant actors to take advantage of the lessons learned by countries that are in a more advanced stage, while sharing the lessons learned with other countries that are still in the processor at an early stage in the process.

The four outcomes are seen as coherent pillars of a single approach for mobilizing private finance for NDC and NDP implementation and financing. They will be brought about through outputs that will put in the place the establishment of an enabling condition to promote and support private sector engagement for climate finance by developing a series of activities and deliverables such as GCF Country Programme, consultation processes, action plans, workshops, workplans, constitutive agreements, qualitative and quantitative assessments, sustainable finance taxonomy, constitutions of technical roundtables, tools, open consultation, recommendations for financial regulators and supervisors, diagnosis on the piloting and implementation processes, identification of climate data sources, assessment of financial institutions, development of methodologies and tools to analyze the level of climate-risk exposure, updated climate scenarios, an online reporting system, and online training program, and identified AE, pre-feasibility study, GCF concept note, dissemination of lessons learned, news releases, information events, participation in regional conferences, among others. These outputs are intended to build the evidence base for building the enabling environment and laying the groundwork for the macro framework for promoting a low-emission and climate-resilient economy as well as to leverage NDC and NDP financing. And thus, overcoming the barriers that hinder the mobilization of private financial flows to meet the national climate objectives.

Outputs

To support Outcome 2.1, for providing the NDA a robust GCF Country Programme, the readiness proposal will support the Output 2.1.1 - the Country Programme, relevant to the NDC and the NDP goal, has been developed and ready to be approved by the NDA by reviewing existing relevant strategies and plans and priorities aligned with the NDC and NDP goals (activity 2.1.1a), leading consultation process with relevant stakeholders to establish policy, strategy, planning, and institutional needs regarding the GCF project pipeline (activity 2.1.1b), and draft a final GCF Country Programme ready to be approved by Costa Rica's NDA (activity 2.1.1c).

The support of Outcome 2.4, which is key focus of the Readiness proposal because it will provide concrete engagement of Costa Rica's private sector in climate finance, the following outputs are designed:

1. Output 2.4.1 – Workplans and constitutive arrangements for the Financial Advisory Group (FAG) established to develop 1) Costa Rica's sustainable finance taxonomy; and 2) methodologies and tools for identifying, assessing, and managing climate-related financial risks.For the execution of this Output, the Readiness proposal will identify and map relevant national financial actors to support and participate in the elaboration of the sustainable finance taxonomy and the methodology and tools for climate-related risks (activity 2.4.1a); also, it will deliver a workshop where key financial actors can better understand of the scope and the objective of the proposal; and hence, to define the workstreams, workplans, and constitutive agreements to develop: i) sustainable finance taxonomy, and ii) the climate-related financial risks methodologies and tools (activity 2.4.1b). The proposal's assumption that will aid to better execute this output is the growing demand from financial institutions and financial regulators and supervisors to work on these 2 workstreams. As mentioned in Section 2, the SUGEF is currently working on climate finance classification for private financial institutions; and the BCCR is currently identifying and assessing the level of exposure of climate-related risk into the macro-economic and financial stability of Costa Rica.

2. Output 2.4.2 – The sustainable finance taxonomy is developed, piloted, and endorsed by relevant national financial actors. A series of activities need to happen in order to have a ready to be published taxonomy. First, it's imperative to analyze the current activities by the financial regulator of monitoring climate financial flows in the banking sector, and assess the international best practices on sustainable finance taxonomies (activity 2.4.2a). Second, it is important to develop the first draft aligned with national climate mitigation and adaptation priorities (activity 2.4.2b). Then, the technical roundtables, during a workshop, will provide targeted inputs in relation to economic sectors and activities (activities 2.4.2c and 2.4.2d). The second draft must reflect the technical roundtables inputs (activity 2.4.2e). Next, it is important to conduct an open consultation (activity 2.4.2f) with the aim of receiving comments and feedback from relevant stakeholders and have a taxonomy and tool ready to be published the by the local authorities (2.4.2f ii). As such, this output also looks forward to pilot and evaluate the adequacy of the taxonomy and its tool into banking entities' portfolios and processes, and overall core banking

products (activity 2.4.2h), and linking the taxonomy to the already established SINAMECC and SICVECA Platforms (activity 2.4.2i).

3. Output 2.4.3 – Frameworks for identification, assessment and disclosure of climate-related financial risks and opportunities for banking and insurance sectors are developed, piloted and endorsed by relevant national financial actors. As a first stage, it is important to identify the climate data sources (activity 2.4.3a) and to assess how banks and insurance companies currently incorporate climate-related risks (activity 2.4.3b); this baseline will help to construct the methodologies and tools. The frameworks will be developed for: i) banks, and for ii) insurance companies. As such, two working groups will be established (activity 2.4.3c) to develop, pilot, and validate the methodologies and tools to quantitatively analyzing the level of exposure of the banking sector to climate-related financial risks (physical and transition risks); and the level of exposure of the and insurance sectors to climate-related financial risks (physical risks). As a result of this process, recommendations will be provided to the financial regulators and supervisors (activity2.4.3g), and policy makers to implement TCFD recommendations; and also linking the frameworks to the SINAMECC and SICVECA Platforms (2.4.3h). The assumption envisioned for these 2 previous outputs is that these methodologies and tools (taxonomy and risk disclosure) are already tested and can be easily transferred and adjusted to Costa Rica's political, economic, and climate change context, including the build-up of local capacities.

4. Output 2.4.4: Capacity within financial institutions is built on sustainable finance taxonomy, climate-related financial risks exposure and management, green products/lines, including green bonds. The online training programme (activity 2.4.4a) will be delivered: i) to enhance capacity during the piloting processes (taxonomy and climate-related risk disclosures); and ii) to raise awareness and expertise on the results of outputs 2.4.2 and output 2.4.3.

Together, these four outputs will enable the country to develop strategies for the attraction of private sector investment for low emissions and resilient to climate change with a homogenous group of private sector financial intermediaries.

As a result, and focusing on the identified opportunity to increase in the number of quality project concept notes developed and submitted, an identification, prioritization and selection of financial instrument(s) to address in the concept note will be developed (activity 4.1.1a), in addition to conducting a prefeasibility study (4.1.1b); a previous concept note for mainstreaming climate mitigation and adaptation in the financial sector will be developed under Output 4.1.2 by developing the first draft (activity 4.1.2a), engaging the NDA, GCF, AE, and relevant stakeholdes (activity 4.1.2b), identifying potential accredited entities, which could take over the concept note and move forward with a full proposal and its implementation (4.1.2c) and finally to develop a final draft of a GCF concept note ready to be submitted by the NDA (activity 4.1.1d).. The concept note will be elaborated and ready to be submitted to the GCF by the NDA, increasing the number of quality project concept notes developed and submitted by Costa Rica's NDA.

Finally, the proposed Readiness activities will be embedded into the wider regional context by disseminating lessons learned and activities from this proposal on developing the methodologies and tools for the sustainable finance taxonomy and the climate-related financial risk disclosures (activities 5.1.1a and 5.1.1b).

Inputs

Four key inputs will be used to leverage the implementation of the proposed Readiness grant:

1. Existing enabling climate change country responses, including NDCs and NDP goals that will aid to draft the GCF Country Programme and the sustainable finance taxonomy.

2. Progress in complementary private climate finance monitoring by the superintendency of financial entities (SUGEF), that will leverage the work for the sustainable finance taxonomy and the climate-related risks disclosures.

3. With the international taxonomies and the TCFD recommendations, these best practice standards will be adapted to the local context ensuring financial, political, and climate local expertise.

4. Finally, the proposal will take advantage of existing efforts and engagement of national stakeholders, currently mainly driven by the private sector, but to include the public sector at a comparable level. As such, this proposal aims to promote and support private sector engagement for climate finance; therefore, it is imperative to have an open space where both public and private actors can engage in the development of this proposal's activities.

Barriers, risks, and assumptions

The framework under the theory of change overcomes six main groups of identified barriers. The first one related to lack of a GCF Country Programme which guides the public and private investments into NDC and NDP goals, which is very linked to the second barrier: lack of enabling and unified strategic, institutional, conceptual and financial structures and capacities for climate finance, shared among relevant stakeholders.The third barrier focuses on the lack of adequate prudential regulatory mechanisms, that include specific taxonomies and methodologies that guide the financial sector in promoting climate finance. The fourth is the lack of capacities and knowledge of financial institutions about climate risk management concepts and practices due to a lack of climate risk data and applicable tools. The fifth is the lack of a taxonomy to classify finance vis-à-vis their climate impact and vulnerability, limiting a proactive steering of climate financial flows. Finally, the last barrier denotes a limited ability of attracting climate finance from regional and international capital markets and public investors.

Finally, several risks that could potentially harm the ability of the proposal to translate outputs into outcomes, were identified in the TOC Diagram. Subsequently, a set of assumptions were formulated to ensure the successful implementation of activities:

- Since the proposal's design there is a high commitment from Costa Rica's NDA and relevant actors to fight climate change by developing a GCF Country Programme for climate finance mobilization (public and private sources), which will aid to lead consultations with relevant actors to establish policy, strategy, planning and institutional needs regarding the GCF project pipeline, to have a final draft of the Country Programme ready to by submitted by the NDA, develop pre-feasibility studies and a concept note for mainstreaming climate mitigation and adaptation in the financial sector (activities 2.1.1.b, 2.1.1c, 4.1.1a, 4.1.1b, 4.1.2a, 4.1.2b, 4.1.2c, 4.1.2d).
- The climate finance methodologies (taxonomy and risk disclosure) can be transferred and adjusted to Costa Rica, including the build-up of local capacities, which will aid to ensure activities under outputs 2.4.2, 2.4.3, and 2.4.4 are aligned to both the best international practices, and the local context (financial, economic, and climate change priorities).
- A system of taxonomy of financial flows and climate-related financial risk management methodologies encounter demand from FIs and interest of regulators in the country, which will ad to leverage current national initiatives on climate financial flows lead by the SUGEF, and the identification and assessment of exposure of climate-related risk into the macro-economic and financial stability of Costa Rica.
- The suitable site-specific climate solutions can be identified and categorized (Costa Rica taxonomy) and data is available that can be used for climate-related financial risk disclosure, which will aid to identify the (national) climate data sources to develop the methodologies and tools for identifying, assessing, and managing climate-related financial risks (climate-data gap analysis) (activity 2.4.3a).

5. BUDGET, PROCUREMENT, IMPLEMENTATION AND DISBURSEMENT PLAN

5.1 Budget plan

Please see the Budget Plan in Excel.
Overall financial management and procurement of goods and services under this Readiness request will be guided by the UNEP regulations, rules, policies, and procedures as well as its programme manual. For specific workshops (see budget note B3), UNDP will be used as a payment agency. The fees derived from the realization of these administrative processes will be the ones listed in the UNDP Universal Price List.

5.2 Procurement plan

Please see the completed procurement plan developed in the specified GCF format and attached.

Please note that overall financial management and procurement of goods and services under this readiness and preparatory support proposal will be guided by UN regulations, rules, policies, and procedures. Procurement of goods and services follow the general principles stated under clause 7 "Procurement Policies and Processes" of Second Amended and Restated Framework Readiness and Preparatory Support Grant Agreement entered into between UNEP and GCF on 2 June 2020. UNEP will comply with its obligation under clause 7(a) of the Framework Agreement, which states "The procurement of Goods and Services for Approved Readiness Support Proposals, whether by the Delivery Partner or by a third party, shall be done in accordance with the rules, policies and procedures of the Delivery Partner.

For this Readiness and Preparatory Support proposal, UNEP will be responsible for the implementation of the readiness activities and for all procurement and contractual services, as well as reporting on the progress of this implementation in close coordination and strategic guidance from the NDA/FP.

5.3 Implementation Plan

Please refer to the implementation plan in the respective annex.

5.4 Disbursement schedule

UNEP as the Delivery Partner (DP) for this Readiness and Preparatory Support Proposal will submit requests for disbursement for approved proposals to the GCF in accordance with the Framework Readiness and Preparatory Support Grant Agreement between the GCF and UNEP. Disbursement requests will be signed by the authorized representative of UNEP and will include details of the bank account into which the grant will be deposited. UNEP, the Delivery Partner for this R&P Support Proposal for Costa Rica, will administer the grant disbursed by the GCF in accordance with UNEP's regulations, rules, and procedures including maintenance of records of grant, disbursements, and expenditure.

Please choose one option among the two below and delete the one that does not apply to you. Please fill in information under brackets:

☒ **Readiness Proposal that falls within a Framework Agreement with the GCF**

Disbursements will be made in accordance with Clause 4 *"Disbursement of Grants"* and Clause 5 "*Use of Grant Proceeds by the Delivery Partner*" of the Second Amended and Restated Framework Readiness and Preparatory Support Grant Agreement between UNEP and GCF dated 2 June 202June 2020. The Delivery Partner is entitled to submit 2 request*(s)* for disbursement each year and additionally, for proposals approved between the 2 request dates, an Interim Request for Disbursements may be submitted within 30 days of the date of the notification of the relevant approval by the Fund.

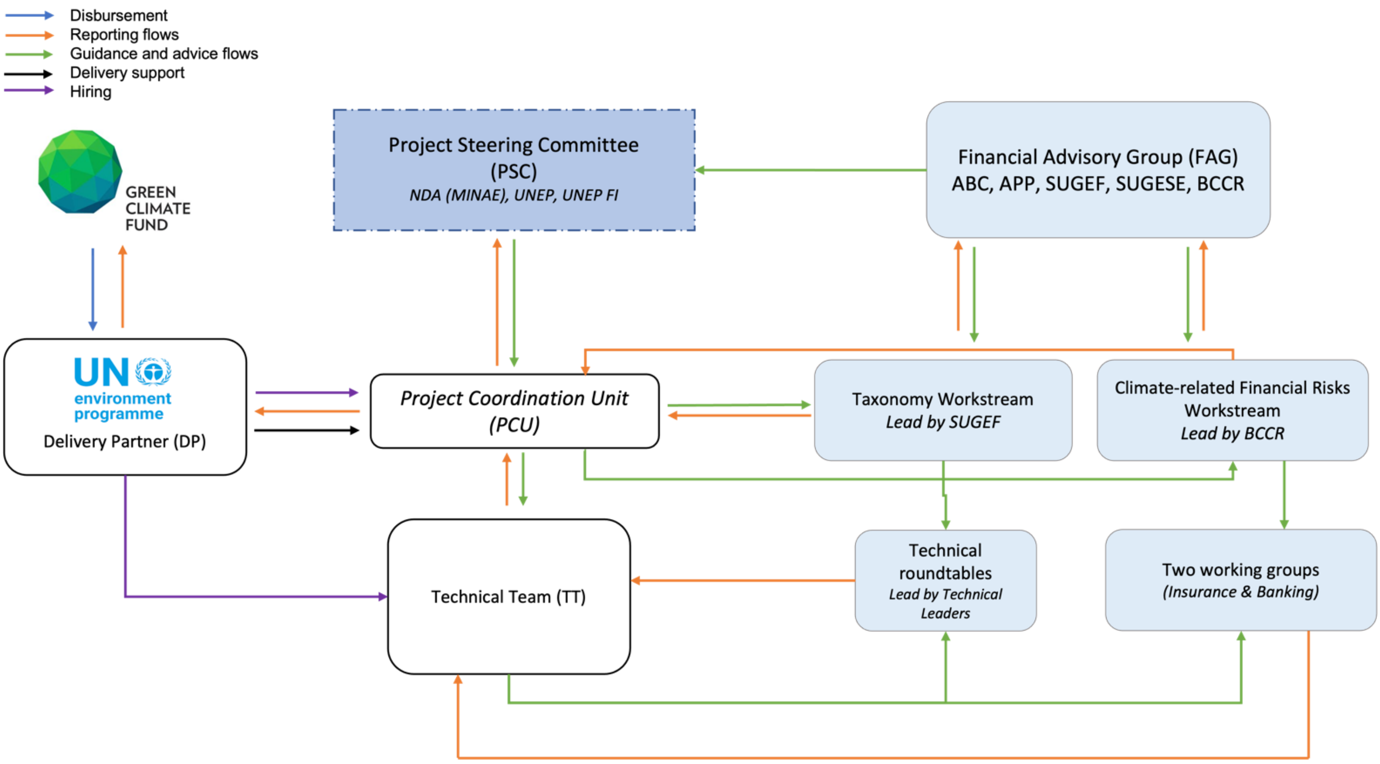
Indicative disbursement request	Indicative requested amount ($)
First disbursement request (within 30 days of approval of project)	USD 313,665.50
Second disbursement (after 12 months)	USD 313,665.50

6. IMPLEMENTATION ARRANGEMENTS AND OTHER INFORMATION

6.1 Implementation arrangements

The proposed implementation arrangements are showed in Figure 1 below. The proposed implementation arrangements will aid the Delivery Partner (DP), UNEP, to executive the activities and develop high quality deliverables on time and with the validation of relevant stakeholders. **Blue arrows** indicate disbursement from the GCF to UNEP as the Delivery Partner for the Readiness grant. **Orange arrows** indicate reporting flows. **Green arrows** indicates guidance and advice flows. **Black arrow** indicates Delivery Support from UNEP to the Project Coordination Unit (PCU). **Purple arrows** indicate hiring processes.

Figure 1. Proposed Implementation Arrangements



The proposal implementation arrangements are described here. The figure above provides the funding flows, as well as guidance and advisory, reporting and hiring lines between the entities involved in the proposal.

i. Delivery Partner (DP)

UNEP has a Framework Agreement with the GCF to act as a Delivery Partner (DP) for GCF Readiness grants. Costa Rica's NDA (MINAE) has nominated UNEP to be its DP for this proposal, where the funds will be disbursed from the GCF to UNEP to undertake the Readiness grant implementation, in close coordination with the NDA. Therefore, there won't be sub-granting funds, obligations, nor capacity assessment or call for action because it is not envisioned to work with any implementing partners.

As the DP, UNEP (through its Latin America and the Caribbean Office located in Panama) will oversee the Readiness grant implementation and will manage the funds for the activities under this readiness grant as per UN regulations, rules, and procedures. UNEP Office for Latin America and the Caribbean will implement the proposal at the national level in close coordination with UNEP FI office in Geneva as well as the Latin America and Caribbean Network Coordinator.

UNEP will agree on a plan with (NDA) -MINAE to monitor the implementation of the activities using the grant proceeds. UNEP will be responsible for implementation of the readiness support and will carry out all fiduciary and financial management, procurement of goods and services, monitoring and reporting activities under this proposal in compliance with UNEP's policies and procedures and the Second Amended and Restated Framework Readiness and Preparatory Support Grant Agreement dated 2 June 2020. UNEP's operating policies and procedures will follow the UNEP programme manual.

As the DP for this Readiness support, UNEP will be responsible for overseeing the implementation and evaluation of the proposal in coordination with the Project Coordination Unit (PCU), including providing the necessary scientific expertise and technical support to the startup, implementation, evaluation, and closure. Also, it will technically review and approve all deliverables developed by the PCU and the TT.

Also UNEP will be responsible, in close collaboration with the NDA, to convene the Project Steering Committee (PSC) every 6 months to report the progress of the activities and deliverables; same as receiving support, guidance and feedback from the PSC for the implementation of the proposal.

UNEP FI, a Unit within UNEP's Resources and Market Branch and part of UNEP's legal entity, will technically support the PCU by providing technical inputs, organizing workshops, and overseeing that deliverables under outputs 2.4.2, 2.4.3, and 2.4.4 are provided in the quality expected.

UNEP FI will provide technical assistance to the PSC and the SC. Under Output 2.4.3, it will support the PCU and the TT to oversee the development of activities 2.4.3a, 2.4.3b, 2.4.3c, 2.4.3d, 2.4.3e, 2.4.3f, 2.4.3g, and 2.4.3h. Due to its vast expertise on capacity training to financial institutions, UNEP FI will provide technical guidance for output 2.4.4 and will work closely with the TT for the review of the deliverables under activity 2.4.4a.

ii. National Designated Authority (NDA)

MINAE, as Costa Rica's NDA, will be responsible for the leadership, coordination, and stakeholder engagement at the national level. As per the design, under the guidance of NDA, outputs and activities will be closely coordinated and communicated between DP and NDA. Further, DP has and will continue to consult with the NDA in inviting them to participate in the recruitment interviews and/or procurement evaluations. This will provide an opportunity for the NDA to build capacity to work with international standards and processes.

The NDA will convene the Project Steering Committee (PSC), in close collaboration with the DP, every 6 months to inform the progress of the outputs and activities. As part of the SC, the NDA will provide direct and science-based technical support to the activities under outputs 2.1.1, 2.4.2, 2.4.3, 2.4.4, 4.1.1, 4.1.2 and 5.1.1.

The NDA will also work in close collaboration with the DP and the PCU to execute activities under outputs 2.1.1 and 4.1.1 and 4.1.2, specially provide inputs and validate the GCF Country Programme and the GCF concept note.

iii. Project Steering Committee (PSC)

The Project Steering Committee (PSC) will be composed of: NDA (MINAE) as the chair, UNEP FI, UNEP as a co-chair. The PSC will have a high decision-making capacity and will primarily serve to provide proposal oversight and advisory support, including a) overseeing proposal implementation; b) provide technical guidance of the outputs; and c) reviewing annual budget and workplans. The PSC will meet at least every six months with ad hoc meetings held when necessary to deal with emerging issues – to discuss the proposals main performance indicators and provide strategic guidance. Also, the PSC will support in disseminating the proposal's lessons learned and best practices under activity 5.1.1a in order to share the country's experience with other national counterparts and regional country governments as part of the south-south cooperation. This last activity also envisions a close coordination between Panama's proposal with this one (for more information please refer to Section 2. Situation Analysis – Introductory Note). The objective is to create knowledge transfer, avoid repeated mistakes as well as share lessons learned among both PSCs (Costa Rica and Panama). Both PSCs will convene every six months in order to exchange information on each readiness grant's progress. Where adequate and applicable, developed material can also be shared among the parties.

iv. Financial Advisory Group (FAG)

The FAG will perform the role of a strategic steering body during the implementation phase of this Proposal (24 months).The FAG's main role will be to ensure that the financial sector (public and private) players in Costa Rica have the required information, methodologies, and tools to proactively engage in NDC and NDP financing. Specifically, the FAG will aid to develop and pilot the sustainable finance taxonomy and the methodologies and tools for identifying, assessing, managing, and disclosing climate-related financial risks in the banking and insurance sectors (outputs 2.4.2 and 2.4.3). Under the BCCR's leadership, the FAG will develop the workplans, workstreams, and constitutive agreements under outcome 2.4.

Under the BCCR leadership, the FAG will provide guidance and technical inputs to the PSC and will establish a feedback mechanism between the financial system (banking and insurance industries) and policymakers (NDA) with the aim of supporting country's public policies. The BCCR will also coordinate the FAG members to participate in the Taxonomy Workstream and the Climate-related financial risks Workstream (further described below), and it will support as an strategic ally to conglomerate the relevant stakeholders needed for the proposal's implementation.

The following institutions will form the structural basis of the FAG:

- Ministry of Environment and Energy (MINAE), because within its functions is:
    - Formulate, plan, and execute the natural resources, energy, mining, and environmental protection policies of the Government of the Republic, as well as the direction, control, promotion, and development in the aforementioned fields. It shall also carry out and supervise research, technical exploration, and economic studies of the sector's resources.
    - Promote and administer legislation on the conservation and rational use of natural resources, with a view to obtaining their sustained development, and ensuring compliance with them.
    - Encourage and develop environmental training programs at all levels of education and to the general public.
    - Advise public and private institutions in relation to environmental planning and the development of natural areas.
    - Overviews the SINAMECC platform for the cross-sectorial MRV frameworks of national climate change metrics systems, including climate finance flows.
- Central Bank of Costa Rica (BCCR) is the organization whose main objective is to control inflation, it works together with the National Council for the Supervision of the Financial System (CONASSIF) to meet its objectives. It is also responsible for promoting the efficiency of the internal and external payment system and maintaining its normal functioning, among other tasks[66]. Recently the BCCR formed the Group for Strategic Analysis of Climate Change (GAECC, by its initials in Spanish), as a body that will address the actions of the BCCR on climate change issues in a transversal manner in the different axes its Strategic Plan 2020-2023. The Central Bank will chair the FAG, as a head of the financial sector, it will lead the first meetings of the FAG, since its dual characteristics (public and financial) give it authority for them. Some of the primary functions, which are relevant to FAG's role, are:
    - The determination of general credit policies and the monitoring and coordination of the National Financial System.
    - Promote a stable, efficient, and competitive financial intermediation system.
    - The management as director and bank-cashier of the State.
    - Integrate risks associated with climate change in the monitoring of financial stability and prudential supervision (strategic line of action: E2.6).
    - Strengthen analytical capacity and macroeconomic macroeconomic modelling to strengthen forecasting and monetary policy analysis, including the study of variables such as employment and climate change (strategic line of action: E1.5).
- The SUGEF is the financial supervisory body that oversight activities over all entities that carry out financial intermediation, in strict compliance with legal and regulatory provisions. It also overviews the SICVECA platform in which institutions submit information required by the SUGEF for supervisory purposes. Some of the primary functions, which are relevant to FAG's role, are:
    - To supervise the operations and activities of the financial institutions under its control.
    - To issue such general rules as may be necessary for the establishment of sound banking practices.
    - To issue the general rules and guidelines it deems necessary to promote the stability, solvency and transparency of the operations of the supervised entities.
    - To collect credit information related to climate change under the SICVECA platform, to identify whether their new credit operations include climate change adaptation and mitigation elements and to classify such operations accordingly.
- The General Superintendence of Insurance (SUGESE). It is the responsible entity responsible for the authorisation, regulation and supervision of persons, whether natural or legal, involved in acts or contracts relating to the business of insurance, reinsurance, public offering and the conduct of insurance business. Some of the primary functions, which are relevant to FAG's role, are:
    - Ensure a stable and transparent insurance market that responds to the needs of Costa Rican consumers.
- The Costa Rican Banking Association (ABC) is the entity that associated all public and private banks in Costa Rica (12 banks). Some of the primary functions, which are relevant to FAG's role, are:

66 About BCCR. Central Bank of Costa Rica. https://www.bccr.fi.cr/sobre-bccr

- Promote banking activity.
- To represent and support the interests of the National Banking System.
- To collaborate with the authorities for the development of the Financial Sector.
- To watch over the financial health of the country.
- To host the Risk Club with the objective to strengthen the dissemination of risk culture in Costa Rica and to serve as a forum for the exchange of ideas and experiences on best practices in the area of risks derived from financial activity. The CGRCR is formed by professionals from financial institutions, large corporations, service companies, academic institutions and regulatory bodies, who work on a regular basis or are involved in risk management and control.

- The Association of Private Insurers of Costa Rica (AAP) is a non-profit organisation that represents private companies (11 insurance companies: (Adisa, ASSA, BMI, Davivienda seguros, Seguros LAFISE, Océanica de seguros, PanAmerican Life, Sagicor, SM Seguros, Quálitas) operating in the country with the aim of promoting the development of the insurance market through the contribution of knowledge, dynamism, innovation and efficiency. Some of the primary functions, which are relevant to FAG's role, are:
  - To represent the insurance industry to seek the development of a fair, dynamic, inclusive, transparent, competitive and profitable market for investors and to offer protection and security to consumers. To host the Risk Committee (10 members) which is relevant for the purposes of this proposal.

i. Taxonomy Workstream

Under activity 2.4.1a and 2.4.1 b, key relevant financial actors will be identified to form the Taxonomy Workstream, under the guidance for the FAG members. It is envisioned that the Taxonomy Workstream is led by SUGEF and will provide oversight and guidance to the proposal implementation, specifically under output 2.4.2. The Taxonomy Workstream will primarily serve to provide advisory support, including technical guidance for proposal implementation, and it will ensure synergy and coordination among the Workstream's members, as well as avoid any overtime in the activities. Its scope of work will be further established under output 2.4.1, where its workplan and constitutive agreement will be agreed by its members.

The Taxonomy Workstream will work closely with the TT (specifically the International Expert in Climate Finance Taxonomy), PCU, DP, and NDA. The technical roundtables under the Taxonomy Workstream (composition to be determined) will provide technical advisory on economic sectors and activities that will be included on the taxonomy. The technical roundtables will be led by an appointee Technical Leader, which is envisioned to be a national well-known expert on her/his field, that voluntarily will provide technical advice.

ii. Climate-related financial Risks Workstream

Under activity 2.4.1a and 2.4.1b, key relevant financial actors will be identified to form the Climate-related financial risks Workstream, under the guidance for the FAG members. It is envisioned that the Climate-related financial risks Workstream is led by BCCR, and will provide oversight and guidance to the proposal implementation, specifically under output 2.4.3. The Workstream will primarily serve to provide advisory support, including technical guidance for proposal implementation, and it will ensure synergy and coordination among Workstream's members, as well as avoid any overtime in the activities.

The Workstream will work closely with the TT (specifically the consultants specialized on climate-related financial risks in the banking and insurance sectors), PCU, DP (including UNEP-FI), and NDA. The two working groups (one for banks and other for insurance companies) under the Workstreams (composition to be determined) will provide technical advisory and will be key for the piloting and validation of the methodologies and tools.

iii. Project Coordination Unit (PCU)

Under the direct supervision of the DP, a Project Coordination Unit (PCU) will be established for the supervision of day-to-day activities and for developing activities and deliverables. The PCU will draw detailed terms of reference, perform procurement and human resources duties, manage funds according to the terms in the grant agreement, provide technical inputs, organize events, oversee that all deliverables are provided by the TT in a timely and efficient way, and report progress to the DP and the GCF. The PCU will be in charge of developing deliverables (2.4.1a, 2.4.1b, 2.4.2b, 2.4.2c, 2.4.2e, 2.4.3a, 2.4.3b, 2.4.3c, 2.4.3g, 4.1.1a, 4.1.2a, 4.1.2b, 4.1.2c, 4.1.2d, 5.1.1a (ii), 5.1.1b).The PCU will be composed of the Climate Finance Specialist (Project Coordinator; international Consultant to be hired), and the Climate Change Expert Support (national consultant to be hired).

The PCU's objective will be to manage, coordinate, and follow up the activities established under the this proposal; hence, acting as a coordination focal point for the TT, technical roundtables, and working groups. It is important to establish this coordination focal point so participants during the implementation of outputs 2.1.1, 2.4.1, 2.4.2, 2.4.3, 2.4.4, 4.1.1, 4.1.2 and 5.1.1 have a counterpart for the follow up the development of activities and deliverables.

iv. Technical Team (TT)

The Technical Team (TT) will be established for the conceptual as well as for the technical development of the deliverables. It will be responsible for developing the deliverables on time and with high quality. The TT will be formed by contracted individual consultants to develop specific deliverables under outputs 2.4.1, 2.4.2, 2.4.3, 2.4.4, 4.1.1, 4.1.2 and 5.1.1. Due to the scope of the deliverables, the TT will closely work with the technical roundtables and the two working groups to receive technical guidance and hence, to pilot and validate the methodologies and tools.

6.2 Implementation and execution roles and responsibilities

To implement this proposal, the Readiness team entails in Costa Rica various international and national full-time consultants, short-term individual consultants, plus UNEP staff in the LAC office on part-time basis.

The Costa Rica's NDA agrees to follow UNEP's internal process whenever they are invited to participate in the hiring and/or procurement process, as evaluators. UNEP's procurement process is explained in detail in the procurement plan annexed to this proposal. UNEP's procurement process is a competitive bidding process.

UNEP Staff

UNEP, as the DP, will assign a Programme Officer (PO) as the responsible staff for proposal supervision to ensure consistency with GCF and UNEP policies and procedures. The functions of the PO will include but will not be limited to the following: a) participating in the PCU meetings; b) acts as a co-chair in the PSC; b) the clearance of periodic Progress Reports and Project Implementation Reviews; c) the technical review of proposal deliverables, d) providing input to periodic readiness portfolio reporting to GCF; and e) preparing requests for disbursements.

The PO will work closely with a UNEP Administrative assistant (AA), whose main function will be to provide assistance to the PCU on the proposal's operation and management related to reporting, procurement, contract managements, administration, and others that may arise under the Framework Readiness and Preparatory Support Grant Agreement.

Both the PO and the AA will not be hired under the proposal's budget, instead they will be allocated part-time basis to overview the proposal's implementation. They are both fluent in Spanish and English to easily respond to the GCF and NDA's inquiries.

The PO will work closely with UNEP FI Latin America and the Caribbean Network Coordinator (UNEP's staff), under DP's role, whenever it is necessary to review technical documents and provide guidance and review to deliverables, specifically under output 2.4.3, and 2.4.4. It's role will be specifically relevant for the creation of the two working groups and the overview of deliverables 2.4.3c, 2.4.3d (i, iii, iii), 2.4.3e (i, iii, iii) 2.4.3f (i, iii, iii), 2.4.3g. Also UNEP FI Climate Change Coordinator (UNEP's staff) will participate in the PSC for providing high-level guidance. Both UNEP FI's staff will not be hired under the proposal's budget, instead they will be allocated part-time basis, both are fluent in Spanish and English to easily respond to the working group and PSC inquiries.

UNEP Consultants

The PCU will be composed of the Climate Finance Specialist (Project Coordinator; international consultant to be hired), and the Climate Change Expert Support (local consultant to be hired). Evidence of the Terms of Reference (TORs), and the contracts will be provided.

Position	Brief TORs
International Consultant - Climate Finance specialist	In coordination with UNEP PMO and AA, he/she will ensure effective management of the readiness support PCU by maintaining delivery of proper technical, operational, financial, and administrative outputs, while tracking the proposal progress through monitoring, evaluation and reporting. The international consultant will be responsible for quality assurance of all the proposal deliverables (provides technical feedback) and for the development of deliverables under Output 2.4.1 (Deliverable 2.4.1a, 2.4.1b (ii)), Output 2.4.2, Output 2.4.3 (Deliverable 2.4.3a, 2.4.3c, 2.4.3h),Output Output 4.1.1 (Deliverable 4.1.1a), 4.1.2 (Deliverables 4.1.2a, 4.1.2b, 4.1.2c, 4.1.2d) and Output 5.1.1 (Deliverables 5.1.1a ii, 5.1.1b). He/She will ensure proposal

	coordination activities of the PCU, Technical Team, the PSC, the FAG, SC, the technical team/roundtables, and the two working groups. The consultant will coordinate activities communications between the NDA, UNEP, and PSC by providing Project's outcomes, outputs, and activities updates and raising potential threats/risks to the proposal. Qualifications: - University degree (Master's degree) in economics, finance, administration, public policy, political science, international relations, engineering, science, or other related studies. - Professional experience in climate change, sustainable finance, and project/programme management (at least 7 years). - Professional experience in Costa Rica - In-depth knowledge of climate finance. - Previous experience in managing large funding with similar initiatives across the LAC Region. - Experience in engaging with a range of high-level stakeholders and/or officials. - Ability to communicate findings to high-level and mid-senior level management. - Fluent in Spanish and English.
Local Consultant - Climate Change Expert Support	He/she will provide support to the International Consultant (Project Coordinator) in undertaking research data/analysis and supporting in ensuring the quality of the deliverables, in addition to provide support in the organization of technical discussions and the development of deliverables under Output 2.4.1 (Deliverables 2.4.1a, 2.4.1b), Output 2.4.2 (Deliverables 2.4.2b, 2.4.2.c, and 2.4.2e (i)), Output 2.4.3 (Deliverables 2.4.3b, 2.4.3c, 2.4.3g),4.1.2 (Deliverables 4.1.2a, 4.1.2b, 4.1.2c, 4.1.2d) and Output 5.1.1 (Deliverables 5.1.1a ii, 5.1.1b). The local consultant will support in the coordination of the activities of the PCU, Technical Team, the PSC, the FAG, the technical roundtables, and the two working groups. As part of his/her responsibilities, the local consultant will undertake desktop review to support for the development of the draft GCF Concept Note by supporting the development of deliverables under output 4.1.1. Qualifications: - University degree (Bachelor's) in economics, finance, administration, political science, international relations, or other related studies. - Professional experience in project management related to climate change (5 years). - Knowledge of climate finance, taxonomies, and climate risks is desirable. - Previous experience in supporting large funding with similar initiatives across the LAC Region. - Fluent in Spanish and English.

The technical team's selection process will follow UNEP's hiring rules. Evidence of the Terms of Reference (TORs), and the contracts will be provided. Any readiness grant products will be approved by the DP. The TT will be formed by:

Position	Brief TORs
Local Expert on GCF processes	The consultant will review Costa Rica's National Adaptation Plan (NAP), National Decarbonization Plan (NDP), institutional decision-making system to access and utilize GCF Fund, No Objection procedures, climate change vulnerability assessment, National Determined Contribution report, national policy agenda and sector related strategies to identify area of priorities with respect to climate change. He/She will organize and conduct as deemed necessary stakeholders' consultations with government institutions, civil society (including women NGOs), academia, private sector, and UN and

	international organizations. He/She shall carry out bilateral meetings with key stakeholders as necessarily for the development of the country programme document (Output 2.1.1). Also, the consultant will be in charge to do a deep analysis of relevant project proposals and Accredited Entities; and specifically, to ensure a multi-stakeholder participation in the process of the development of the Country Programme, specifically from the private financial sector. The consultant will be also responsible to conduct, at least, one workshop to review and validate GCF Country Programme and present a potential project pipeline in the country. Responsible for Output 2.1.1. (Deliverable 2.1.1a, 2.1.1b and 2.1.1c) Qualifications: - University degree (Master's degree) in economics, finance, administration, public policy, political science, international relations, engineering, science, or other related studies. - At least 5 years of demonstrated work experience with the GCF processes and operations and/or GCF Readiness matters - Professional experience in Costa Rica - In-depth knowledge of climate change, green finance, national political context, climate finance. - Experience in engaging with a range of high-level stakeholders and/or officials. - Ability to communicate findings to high-level and mid-senior level management. - Fluent in Spanish and English.
International Expert in Climate Finance Taxonomy	The consultant will be responsible for deliverables under output 2.4.2 (2.4.2a, 2.4.2b, 2.4.2c, 2.4.2d (i, ii), 2.4.2e (i, ii), 2.4.2f, 2.4.2g (i, ii, iii), 2.4.2h and accompany the development of deliverable 2.4.2i (i). He/She will carry out the gap analysis, prioritization of sectors, development of the technical documents, participate in technical discussions in order to address comments in coordination with the Climate Finance Specialist Consultant and Climate Change Expert Support Consultant. Also, the consultant shall perform technical discussions for the development of the Costa Rican Taxonomy together with the aforementioned consultants. The consultant will closely collaborate with the Taxonomy Leader workstream and the technical roundtables (and their technical leaders). His/her responsibilities focus on delivering the final draft of the sustainable finance taxonomy, including all drafted technical documents of the revised economic sectors for the taxonomy. The International Expert in Climate Finance Taxonomy will prepare and implement the pilot test phase. The consultant will be responsible for deliverables under 2.4.4 (related to Taxonomy), transforming outputs 2.4.2 into a comprehensive training syllabus and developing a complete set of training materials for the proper dissemination of the technical documents. The consultant will be responsible to summarizing, editing and translating technical documents into a non-technical language all expected deliverables under the aforementioned deliverables related to climate taxonomy, climate-related financial risks exposure, and sustainable/green financial products. Please note that this expert will focus in delivering the taxonomy trainings to Costa Rica officials, regulators and banks, on the methodology and tools used. The consultant will also support in the online reporting system concept and budget for climate finance flows. Qualifications: - Master's degree (or equivalent degree/experience) in Environmental Management, Engineering, sciences, or a related field is mandatory. - At least 7 years of solid experience, technical specialization and proven experience working on sustainable finance, with special focus on sustainable taxonomies in LAC. - Proven working experience in the analysis and formulation of financial strategies and/or macroeconomic policies.

	- Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation. - Proven experience working with Latin American and Caribbean countries. - Proven experience in supporting policy and regulatory formulation for macroeconomic and financial stability. - Experience in developing high-quality research based on interviews, focus groups, surveys, and secondary research. - Proven experience in analyzing sustainable taxonomies from a national/regional/global perspective, with the ability to offer practical policy advice on issues based on the LAC region reality and context. - Ability to deliver at speed and to adapt to client / country needs. - Fluent in Spanish and English.
Local Consultant (IT specialized)	He/she will provide functional and technical specifications under output 2.4.2 (deliverables 2.4.2i) by developing an online reporting system concept and budget: i) one for an online reporting system of climate finance flows. Qualifications: - University degree in computer science, information systems, or related field. - Proficiency with database languages. - Excellent written and verbal communication. - Good interpersonal skills. - Creative problem-solving skills. - Analytical mindset. - Good time management and organizational skills.
International Consultant specialized on climate-related risks the banking sector (physical risks)	The International Consultant specialized in climate-related risks will be responsible for developing and piloting the methodology and tool for assessing physical climate-related financial risk in the portfolio of the banking sector under output 2.4.3 (deliverables 2.4.3d (i, iiii), 2.4.3f (ii), and provide inputs to 2.4.3f (i)). Also, she/he will analyze and apply information sources at national and international level to estimate physical risks associated with climate change; and she/he will carry out a preliminarily proposed tools to monitor the exposure and vulnerability of banks, according to the results of the analysis. She/he will be responsible for developing and piloting the methodology and tool for assessing physical climate-related financial risk in the portfolio of the banking sector under output 2.4.3 (deliverables 2.4.3f -i, ii). Finally, she/he will provide inputs for the online training (output 4.1.1) on the methodology and tools developed and piloted. Qualifications: - Technical knowledge of climate risk assessment of financial institutions portfolios to evaluate investments, credit, assets, etc. exposure to climate sensitive sectors. - Proven experience in stress testing physical climate-related financial risk. - Proven working experience in risk advisory, quantification, analysis and brokerage services for a variety of organizations and communities and for new and emerging risks. - Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation. - Proven experience working with Latin American and Caribbean countries. - Experience in developing high-quality research based on interviews, focus groups, surveys, and secondary research.

International Consultant specialized on climate-related risks the banking sector (transition risks)	The International Consultant specialized in climate-related risks will be responsible for developing and piloting the methodology and tool for assessing transition climate-related financial risk in the portfolio of the banking sector under output 2.4.3 (deliverables 2.4.3d (ii, iii), 2.4.3f (ii), and provide inputs to 2.4.3f (i)). Also, she/he will analyze and apply information sources at national and international level to estimate transition risks associated with climate change; and she/he will carry out a preliminarily proposed tools to monitor the exposure and vulnerability of banks, according to the results of the analysis. She/he will be responsible for developing and piloting the methodology and tool for assessing transition climate-related financial risk in the portfolio of the banking sector under output 2.4.3 (deliverables 2.4.3f -i, ii). Finally, she/he will provide inputs for the online training (output 4.1.1) on the methodology and tools developed and piloted. Qualifications: - Technical knowledge of climate risk assessment of financial institutions portfolios to evaluate investments, credit, assets, etc. exposure to climate sensitive sectors. - Proven experience in stress testing transition climate-related financial risk. - Proven working experience in risk advisory, quantification, analysis and brokerage services for a variety of organizations and communities and for new and emerging risks. - Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation. - Proven experience working with Latin American and Caribbean countries. - Experience in developing high-quality research based on interviews, focus groups, surveys, and secondary research.
International Consultant specialized on climate-related risks the in insurance sector (physical risks)	The International Consultant specialized in climate-related risks will be responsible for developing and piloting the methodology and tool for assessing physical climate-related financial risk in the portfolio of the insurance sector under output 2.4.3 (deliverables 2.4.3e (i, ii), 2.4.3f (iii), 2.4.3f (iii) and providing inputs to 2.4.3f (i)) Also, she/he will analyze and apply information sources at national and international level to estimate transition risks associated with climate change; and she/he will carry out a preliminarily proposed tools to monitor the exposure and vulnerability of insurance companies, according to the results of the analysis. She/he will be responsible for developing and piloting the methodology and tool for assessing physical climate-related financial risk in the portfolio of the insurance sector under output 2.4.3 (deliverables 2.4.3f -i, ii). Finally, she/he will provide inputs for the online training (output 4.1.1) on the methodology and tools developed and piloted. Qualifications: - Technical knowledge of climate risk assessment of financial institutions portfolios to evaluate investments, credit, assets, etc. exposure to climate sensitive sectors. - Proven experience in testing physical climate-related financial risk. - Proven working experience in risk advisory, quantification, analysis and brokerage services for a variety of organizations and communities and for new and emerging risks. - Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation.

	- Proven experience working with Latin American and Caribbean countries. - Experience in developing high-quality research based on interviews, focus groups, surveys, and secondary research.
Local Consultant (IT specialized)	He/she will provide functional and technical specifications under output 2.4.3 (deliverables 2.4.3h) by developing an online reporting system concept and budget: i) for an online reporting system for climate-related financial risk exposure (both physical and transition). Qualifications: - University degree in computer science, information systems, or related field. - Proficiency with database languages. - Excellent written and verbal communication. - Good interpersonal skills. - Creative problem-solving skills. - Analytical mindset. - Good time management and organizational skills.
International Expert in Climate Finance Taxonomy Training	The international expert will be responsible for Output 2.4.4 with the objective i) to train financial entities participating during the piloting process for the taxonomy; and ii) to train financial institutions, policy makers, regulators, supervisors and stakeholders interested in better understanding the application of the sustainable finance taxonomy, and the business opportunities for green finance line/product/service design, including green bonds. It will transform the piloting results from output 2.4.2 into a syllabus and materials developed into a online training course, to be delivered on an existing platform (TBD). Qualifications: - Master's degree (or equivalent degree/experience) in Environmental Management, Engineering, sciences, Finance, Business, or a related field is mandatory. - At least 7 years of solid experience, technical specialization and proven experience working on sustainable finance, with special focus on sustainable taxonomies in LAC. - Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation. - Proven experience working with Latin American and Caribbean countries. - Proven experience in training. - Excellent written communication. - Creative problem-solving skills. - Analytical mindset. - Good time management and organizational skills. - Fluent in Spanish and English.
International Expert in Climate Risk Training	The international expert will be responsible for Output 2.4.4 with the objective i) to train financial entities participating during the piloting process for climate-related risk financial disclosures, and ii) to train financial institutions, policy makers, regulators, supervisors and stakeholders interested in better understanding the application of the sustainable finance taxonomy, and the business opportunities for green finance line/product/service design, including green bonds. It will transform the piloting results from output 2.4.3 into a syllabus and materials developed into a online training course, to be delivered on an existing platform (TBD). Qualifications:

	- Master's degree (or equivalent degree/experience) in finance, economics, or related field, and a strong background in macroeconomics and finance - At least 7 years of solid experience of climate risk assessment of financial institutions portfolios to evaluate investments, credit, assets, etc. exposure to climate sensitive sectors. - Proven experience with integrating sustainable and climate knowledge in the financial sector for climate mitigation and adaptation. - Proven working experience in risk advisory, quantification, analysis and brokerage services for a variety of organizations and communities and for new and emerging risks. - Proven experience in training. - Excellent written communication. - Ability to communicate concise, articulate, insightful and persuasive economic analysis in writing and orally; - Creative problem-solving skills. - Analytical mindset. - Good time management and organizational skills. - Fluent in Spanish and English.
Local Consultant for Online Training	The local consultant will responsible for Output 2.4.4 with the objective i) to train financial entities participating during the piloting process for both the taxonomy and the climate-related risk financial disclosures; and ii) to train financial institutions, policy makers, regulators, supervisors and stakeholders interested in better understanding the application of the sustainable finance taxonomy, the climate-related risk disclosures, and the business opportunities for green finance line/product/service design, including green bonds. It will transform the piloting results from outputs 2.4.2 and 2.4.3 into a syllabus and materials developed into an online training course, to be delivered on an existing platform (TBD). Qualifications: - University degree or equivalent in software development, computer programming, IT, or related - At least 5 years of relevant experience in eLearning software development - Proven previous experience in working with the UN on similar products. - Previous experience in designing materials for financial institutions would be a strong asset. - Fluent in Spanish and English.
Local Consultant for Graphic Design	He/she will be responsible for developing graphic design for a sub-page on the National Climate Transparency Platform, the website, or the Secretariat’s website (TBD), for news releases, as well as presentation materials in knowledge sharing events (which will be re-used during regional conference participations). Qualifications: - University degree or equivalent in Visual Arts, Graphic design or Communications. - At least 3 years of relevant experience in graphic production from start to published/printed product with knowledge of printing processes (offset and digital) and color management including the use of design software such as Adobe Design Premium, In-Design, CorelDraw, Final Cut HD. - Proven previous experience in working with the UN on similar products. - Previous experience in designing materials for development organizations would be a strong asset.

	- Demonstrated experience working with and creating materials for multilingual global audiences. - Fluent in Spanish and English.
International Consultant – Green Finance Expert	The consultant will carry out an assessment of which are the capacity gaps in terms of providing green credit lines to direct beneficiaries (i.e., cooperatives), increasing green finance for MSMEs with risk sharing facilities; de-risking and crowding in debt and equity capital, and supporting climate investment vehicles among Costa Rica's financial institutions. The final document will also identify potential green investments under the selected financial instrument in order to develop project pipeline. The consultant will be responsible to for the delivery 4.1.1b under Output 4.1.1. Qualifications: - University degree or equivalent in finance, economics, engineering, or related areas. - At least 5 years of relevant experience in developing GCF Readiness pre-feasibility studies, concept notes related to climate change, particularly Green and Climate Finance. Experience in the financial sector is desired. - Proven previous experience in working with large set of data base, interpreting economic information. - Previous experience in designing similar products. - Fluent in Spanish and English.

6.3 Risks and mitigation measures

Please include a set of identified risks and mitigation actions for each. Please use the risk table below that identifies the probability of a given risk occurring and the entity that will manage the risk. Please refer to Part III Section 6.3 of the Readiness Guidebook for further information on how to complete this section.

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
Operational	Delays in implementation due to lack of government or local financial institutions' support or participation, especially under the current covid-19 scenario	Low	High	The NDA, the financial regulators, the BCCR, and financial institutions have an increasing interest on sustainable finance taxonomy, and climate-related financial risks. As mentioned in Section 2, there already ongoing initiatives for developing these methodologies and tools. Therefore, there is an increasing interest on this capacity building. As per COVID19 situation, it is no longer envisioned to have a spike on the	UNEP and NDA

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
				upcoming months. If it's the case, the majority of the activities could be developed under this circumstance.	
Operational	Delayed procurement of goods, consulting and other services hinder proposal implementation	Low	Medium	UNEP will utilize its existing networks and partnerships to procure the relevant consultants. Since the proposal no longer envisions implementation partners nor consultancies, it is expected to shorten the amount of time for procurement of goods, consulting, and other services.	UNEP and NDA
Operational	Lack of available data to feed especially the application of TCFD recommendations for climate-related financial risk disclosure	Low	Medium	The level of complexity of the tools and methodologies to be developed will be adjusted depending on the availability, as well as resources and data within participating financial institutions to establish a baseline on portfolio risk exposure, alongside the recommendations to regulators/ supervisors	UNEP and NDA
Institutional	Technical and coordination needs exceed AE's capacity	Low	Medium	UNEP will hire two (2) consultants as part of the PCU to enhance the proposal's coordination. A close technical coordination with UNEP-FI to take advantage of lessons learned from similar proposals will further build capacity.	UNEP, UNEP FI , and NDA
Institutional	Difficulty in establishing a collaborative dialogue between banks and AE to	Low	High	The respective dialogue is already in place based on	UNEP and NDA

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
	initiate sector engagement.			established and proven structures – the proposed proposal strengthens and leverages these structures.	
Market	Not enough interest to pilot the methodologies and tools for the sustainable finance taxonomy and for the climate-related financial disclosures	Low	Medium	The proposal will leverage the existing initiatives within the CONASSIF and BCCR, this commitment plus the already advanced success examples in the region will aid to raise interest for the piloting of methodologies and tools	UNEP, UNEP-FI
Institutional coordination	Institutional and technical weaknesses that may interfere in the effective implementation of the activities	Medium	High	While current initiatives have not yet provided targeted success amidst existing efforts, the global expertise of UNEP-FI from other institutions and markets will help to bring lack of capacities in and provide a gap bridging function.	UNEP, UNEP-FI and NDA
Stakeholder engagement	Little engagement by national and sectoral stakeholders during proposal implementation and/or having a narrow range of stakeholders that represent small sectors of the population without including those sectors most affected by climate change impacts.	Low	High	The proposal will ensure from an early start a high political buy-in by relevant stakeholders and establishing direct coordination mechanisms via the Project Steering Committee. Similarly, the proposal considers participative processes to consult and validate all the proposed proposal solutions.	UNEP, UNEP-FI and NDA
Covid-19 risk	The limited face-to-face interactions and travel restrictions could hinder	Medium	Medium	UNEP will provide tools for remote collaboration and	UNEP

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
	to collect adequate data for the development of the proposal or that could delay the activities.			engagement. It is expected to hire local consultants to avoid this COVID19 risk	
Delays at proposal's inception phase	Delays that may be experienced such as putting in place arrangements to start proposal implementation e.g., procurement given the number of consultants/consultancy firms to be procured	Medium	Medium	Lessons learned from the past, and ongoing GCF projects will be taken into consideration to improve proposal implementation. The proposal does not envision implementing partners, instead the TT and the PCU will be formed by international and national consultants. As such, UNEP FI has a track record in developing Terms of Reference (TORs) and working with consultants that could develop the deliverables under output 2.4.3; and UNEP has track record in developing similar TORs and working/hiring consultants for the PCU and for the TT consultants that could develop deliverables under outputs 2.1.1, 2.4.2, 2.4.3, 4.1.1, an 5.1.1.	UNEP
Lack of country ownership	Sustainability of the outputs/deliverables (e.g. how will maintenance of the systems and tools be ensured, as well as the longer-term use of the taxonomy and risk assessment method)	Low	High	The proposal will deliver recommendations regarding the sustainable finance taxonomy governance mechanism for the maintenance of the taxonomy, tools, and systems; also it will provide a concept and budget for an online reporting system under the framework of SICVECA and SINAMECC platforms.	UNEP NDA Local authorities

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
				As per the frameworks for the climate-related risks disclosures, it is expected to have the BCCR, SUGEF, and SUGESE as the owners of the methodologies and tools. A set of recommendations will be delivered to the financial regulators to further scale-up the proposal's findings	
Prohibited Practices money laundering or terrorist financing	Potential risks and vulnerabilities related to prohibited practices, money laundering or terrorist financing.	Low	High	The Proposal will be implemented in accordance with UN regulations, rules and policies including the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat. The financial management and procurement in proposal will be guided by UN Financial Regulations, Rules, and practices, as well as UNEP's operations manual.	UNEP
Unequal proposal benefits delivered to men and women, urban and rural populations, non-indigenous and indigenous populations, amogst other differential factors, because of limited engagement with	Exclusion of underrepresented communities such as women and most vulnerable communities from proposal benefits including consultation and training.	Medium	Medium	To avoid exclusion of underrepresented communities such as women the proposal will use practical guidelines to integrate gender into activities and outputs correctly, as well as criteria and activities checklists (IUCN 2011). Gender aspects will also be taken into consideration when i) procuring consultants, ii) establishing the composition of the Project Steering Committee, and iii) identifying the prioritized	UNEP and NDAs

Risk category	Specific risk(s) / Risk(s) description	Probability of occurrence (low, medium, high)	Impact level (low, medium, high)	Mitigation action(s)	Entity(is) responsible to manage the risk(s)
represenative groups and a limited ability and capacity to reach these communities and consider their participation in proposal activities.					

6.4 Gender consideration

Gender aspects will also be taken into consideration when i) procuring consultants, and ii) establishing the composition of the PSC, the technical roundtables, and the two working groups. Also, the proposal has been designed so that traditional underrepresented communities have an active role in the proposal activities. To avoid exclusion of underrepresented communities the proposal will use the following practical guidelines (Lentisco 2017) to integrate gender into activities and outputs correctly, as well as criteria and activity checklists (IUCN 2011). Principles and guidelines for the consideration of the gender approach along the proposal are described in the following table:

Table 3. Gender consideration

Technical guidelines	Activities	Gender mainstreaming actions
A. Understand the context by including information on gender-differentiated impacts and incorporate the need to address the gaps within the project's outputs.	Workshops, technical round tables, the steering committee and other gatherings within the project will be designed to ensure that men, women and other diversities are engaged in the process with meaningful participation. Visual material and participative methodologies will also follow gender-sensitive approaches, like inclusive verbal and visual language.	• Climate-risks products and deliverables will be aligned with laws and studies on gender equality in the country, such a vulnerability assessments. • Meaningful participation of women and men, in all their diversities, will be ensured throughout the project's duration. • Stakeholders with knowledge on gender issues, gender-climate change, indigenous rights and human rights will be Identified, reach out to, and consulted for their input on the project's outcomes. • Gender mainstreaming in existing climate change measures, with a special focus on those measures within the financial sector, relevant to the outcomes of the project, will be explored throughout the project's deliverables. • A gender climate change situation analysis, directed at understanding the importance of mainstreaming gender in the financial sector and climate finances, will be conducted. • The gender-climate change nexus will be promoted by training climate change/ finance/ taxonomy experts/technicians on these issues.
B. Prepare an climate-risk planning framework	All work conducted by consultants and other stakeholders will follow a gender-sensitive approach. All work should be participatory and ensure stakeholder engagement where relevant. Products and	• Socio-economic scenarios in the climate-risk assessments will be identified. • Partnerships with those organisations already working on gender-sensitive climate finance (i.e. 2X Challenge) will be established. • Communication will be tailored to different stakeholders.

	deliverables handed in by consultants should at least provide one recommendation that is gender-sensitive relevant to their field. The recommendations will provide guidance for actions to address the particular needs of women and men to provide equitable benefits.	• Climate change/ finance/ taxonomy technicians will be trained on the importance of the gender-climate change nexus within the finance sector. • Attempt to incorporate gender criteria within climate taxonomies will be explored where appropriate
C. Monitor, review, report and communicate	Women, men, indigenous communities and other relevant stakeholders are included for some the activities. Gender aspects will be taken into consideration when designing indicators within the monitoring and reviewing system.	• Report on the meaningful participation of stakeholders. • Collect sex-disaggregated data across standard question sets on investment performance and impact. • Communicate findings on finance and gender with stakeholders.

6.5 Monitoring

UNEP as the Delivery Partner will agree on a plan with the NDA to technically overview the development of the activities and deliverables. UNEP will be fully responsible in the overall monitoring, reporting, and evaluation of the project proposal. The PCU will create a monitoring and evaluation (M&E) framework and build capacity to conduct M&E activities. In this sense, the PCU will establish mechanisms to learn from the process of preparing, developing, and implementing the Readiness grant (Output 5.1.1). The logframe will be used in the M&E to assess progress towards achieving the agreed deliverables. This will also allow provision of timely support and guidance from NDA, when needed. The proposal progress is reported against the M&E, which is based on the logical framework and the budget.

For monitoring purposes and for ensuring country's and beneficiaries' ownership, the proposal will use the following metrics (indicators) to measure the following:

- private stakeholder participation during outputs 2.1.2, 2.4.1, 2.4.2, 2.4.3, 2.4.4, 4.1.1, 5.1.1.
- post implementation use and sustainability of the tools and knowledge developed during outputs 2.4.2, 2.4.3
- sustainability of the outputs after the readiness support grant has been completed during output 5.1.1.
- how the proposed readiness support activities will enable/benefit the implementation of NDCs and climate change mitigation and adaptation activities therein, during outputs 2.1.2, 2.4.2, 2.4.3, 4.1.1.
- how the implementation of the readiness support grant will develop/build the capacity of the private sector during outputs 2.4.2, 2.4.3, 2.4.4.
- how the concept note development will include the private sector, during output 4.1.1.
- how the concept note will be aligned to the country priorities for climate change action including the priority pipeline to be articulated in Costa Rica's GCF country programme, during output 4.1.1

The Project Steering Committee (PSC) will play a key role in the monitoring of proposal progress providing proposal oversight and advisory support, during the proposal's implementation phase (24 months) including a) overseeing proposal implementation, and b) reviewing the annual budget and work plan. ——The PSC will convene at least every six months with ad hoc meetings held as and when necessary to deal with emerging issues – to discuss the proposals main performance indicators against the M&E framework and will provide strategic guidance for its implementation on due time and according to the budget. In accordance to the terms of the Framework Agreement between GCF and UNEP, semi-annual progress reporting, annual audited financial statements, quarterly financial reports, semi-annual co-finance reports, and a final report will be presented.

Output 5.1.1 is to share and disseminate lessons learned and activities results with national and international finance sector audiences as well as the wider climate change policy community, thus ensuring the practical use of the deliverables. Therefore, successes, challenges, and lessons learned will be documented and disseminated throughout the proposal execution (13 months as stated on the implementation plan) and after proposal completion. During the proposal execution, for all meetings, consultations, and workshops, minutes and reports will be developed summarizing main messages, agreements, and lessons learned (Deliverables 2.4.1a, 2.4.2c, 2.4.2e ii, 5.1.1a i – ii, 5.1.1b). Similarly for the piloting process (Deliverables 2.4.2g ii, 2.4.3f i) and for the online training programme (2.4.4a i, ii) performance monitoring reports will be used as feedback inputs to improve the training or strategies implemented. The four planned regional visits (Activity 5.1.1b) will be top opportunities for Costa Rica's representatives to exchange knowledge and good practices on the sustainable finance taxonomy and climate-related risks disclosures with other LAC countries. After proposal completion, dissemination of challenges and lessons learned will be done using SICVECA and SINAMECC platforms. In addition, government representatives and actors from the financial sector will participate in many activities of this proposal and will benefit of workshops, discussions (under the technical roundtables and the two working groups), and trainings; therefore, the proposal seeks to strengthen institutional and technical capacities that will remain after proposal completion. In this sense, all these strengthened actors will continue to disseminate and share experiences in their day-to-day work.

6.5 Other Relevant Information

The NDA will directly engage with the GCF and review and approve reporting by the delivery partner. The NDA will provide feedback on implementation of support activities and engage with the readiness support beneficiaries. The NDA steers and support all readiness activities in the country and therefore will be in a position to provide guidance during the implementation of the proposal and developing readiness proposals/ preparing funding proposals. The NDA engages with UNEP through regular exchange. The NDA's decision to work with UNEP in this readiness request is motivated by UNEP's experience implementing similar readiness grants/proposals in other countries, so lessons learned from those grants could be applied to Costa Rica.

UNEP's comparative advantage on climate change lies in its broad role on addressing environmental challenges globally within the UN system. The organisation brings over 25 years of experience in climate change issues, and a long term, systemic, and comprehensive approach to climate change mitigation and adaptation that differs materially from that of other actors in that it is linked, where possible, to other environmental concerns of countries such as pollution, natural resource depletion and ecosystem degradation. UNEP also focuses on linking the science of climate change to policy in a manner that makes it distinctive. In addition, UNEP Financial Initiative (UNEP FI) has been working since 2017 to better equip the banking industry to implement the recommendations of the FSB-TCFD, which has involved more than 40 banks on six continents, as well as has been supporting since 2019 the insurance sector through the TCFD- PSI, which has involved 22 insurance groups globally. SUGESE and SUGEF are supporting institutions of UNEP FI. Therefore, UNEP is uniquely placed to work with the GCF to ensure the protection and sustainable use of the environment and the transition to a green economy. The mandate of the GCF resonates at the core of UNEP's purpose, seeking to foster with the GCF a shared vision towards achieving these goals. The UNEP-GCF partnership will, therefore, catalyse and sustain green solutions to mitigating and adapting to climate change.

Under the Second Amended and Restated Framework Readiness and Preparation Support Grant Agreement signed between UNEP and the GCF on 2 June 2020, UNEP engages with countries that have selected it as a Delivery Partner for GCF-funded climate readiness activities including classic readiness, such as NAPs, REDD+ readiness projects and proposals, PPFs. UNEP provides a wider range of services to countries seeking its support as Delivery Partner in line with the newly adopted Readiness and Preparatory Support Programme: Strategy for 2019-2021 and UNEP Program of Work for climate change.

Participative process: The proposal will raise awareness and will contribute to increasing the involvement of the economic sectors, civil society, academia, and the private sector through the inclusion of participative processes (technical roundtables and working groups) including the dissemination and lessons learned, by publishing news releases and organizing information events (deliverables 5.1.1a); and the upload of the this proposal's deliverables under output 2.4.2, 2.4.3, and 5.1.1 in the SINAMECC and SICVECA platforms.

No Conflict of Interest: To avoid any possible conflict of interest deriving from the Delivery Partner's role as an accredited entity, the prioritization of investments and projects in the context of this readiness grant will be made through a broad consultation process with relevant stakeholders, under the leadership of the NDA. The final validation of these priorities will be carried out by the country's mechanism of coordination and related institutional arrangements, with the participation of other government agencies, as well as representatives from civil society and private sector, to ensure that chosen priorities are fully aligned with national plans and strategies and adequately include inputs from consulted stakeholders.

Prohibited Practices: The proposed proposal will be implemented in accordance with UN regulations, rules, and policies, including the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat. The financial management and procurement for the proposal will be guided by UN Financial Regulations, Rules and Practices, as well as UNEP's programme manual.

The risk of GCF proceeds being utilised for prohibited practices, money laundering or terrorist financing will be mitigated through appropriate legal instruments which will include warranties and caveats by the Implementing

Entities to inter alia ensure compliance with the Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat, as well as the Green Climate Fund Policy on Prohibited Practices. Further information on UNEPs Misconduct and Anti-fraud Policies is available at: https://www.unenvironment.org/about-un-environment-programme/policies-and-strategies/misconduct-and-anti-fraud-policies

Money Laundering/Financing of Terrorism: Consistent with numerous United Nations Security Council resolutions, including S/RES/1269 (1999/S/RES/1368 (2001), and S/RES/1373 (2001), UNEP is firmly committed to the international fight against terrorism, and in particular, against the financing of terrorism. In accordance with UN Regulations, Rules and Policies, UNEP undertakes to use reasonable efforts to ensure that none of the GCF funds provided under the award are used to provide support to individuals or entities associated with terrorism.

Sanctions: UNEP confirms there are no United Nations Security Council (UNSC) restrictive measures in force within the the four countries involved in the proposal. In addition, no individual, entity, or other group listed on the UNSC sanctions list, including the consolidated list, will be involved in any manner with the proposal or its activities, either as a counterparty, implementer, or beneficiary

Environmental and Social Sustainability: UNEP screens all its proposals for environmental, social, and economic risks and impacts as established under the UNEP's Environmental and Social Sustainability (ESS) Framework. The Compliance Review and Grievance Redress processes provide a Stakeholder Response Mechanism that informs and guides staff, implementing and executing partners and people affected by UNEP proposals in bringing and responding safeguard-related stakeholder responses concerning compliance review and dispute resolution in the context of the. The Stakeholder Response Mechanism provides a drink link for third parties or anonymous persons who are negatively affected by the proposals to report their concerns directly to the Independent Office for Stakeholder Safeguard-related Response. Further information on UNEP ESS Framework and Stakeholder Response Mechanism is available at: https://www.unenvironment.org/resources/report/uneps-environmental-social-and-economic-sustainability-stakeholder-response

Project sustainability and exit strategy: The sustainability of the proposal after the 24-month proposal implementation phase is ensured through the inclusion of activities aimed at: i) providing county ownership, ii) developing expertise on methodologies and tools and, iii) generating knowledge and raising awareness within financial sector to engage in investing in low-emission and climate-resilient projects. Therefore, this proposal focuses on helping financial regulators, supervisors, the BCCR, and the financial actors to furnish them with high quality methodologies, tools, support, knowledge and skills for sustainable finance taxonomy and climate-related risks ensuring that Costa Rica's financial sector finance and invest the climate mitigation and adaptation goal, same as engaging in NDC and NDP financing.

Therefore, the FAG will be in charge (during the 24 months of the implementation phase) of supporting the financial regulators and supervisors to overview the methodologies/tools application, maintenance, and further scale-up. Moreover, this proposal will foster a learning exchange regarding sustainable finance taxonomy and climate-related risks. The online training programme will make sure that any stakeholders, regardless of prior knowledge and understanding of these methodologies and tools, can easily apply them for maximizing the challenges and business opportunities of climate change. Finally, UNEP FI members and supporting institutions in Costa Rica will aid to ensure the constant socializing and ownership of these methodologies and tools within Costa Rica's financial sector.

The key deliverables which will be handed to the NDA are listed below:

- 1 GCF Country Programme (Deliverable 2.1.1c)
- 1 business model, concept and budget for the online reporting system of the sustainable finance taxonomy developed as part of the SINAMECC (Deliverable 2.4.2i)
- 1 business model, concept and budget for the online reporting system of the climate-related financial risk exposure (both physical and transition) developed as part of the SINAMECC (Deliverable 2.4.3h)
- 10 news releases disseminated via the SINAMECC and SICVECA Platforms (Deliverable 5.1.1a)
- 1 Concept note for mainstreaming climate mitigation and adaptation in the financial sector, ready to be submitted to the GCF (Deliverables 4.1.1a, 4.1.2a, 4.1.2b, 4.1.2c, 4.1.d)
- 4 Information events (to communicate implementation progress (Deliverable 5.1.1a)
- 1 Report on key learnings from local authorities in regional networking and knowledge events and conferences (Deliverable 5.1.1b)

The key deliverables which will be handed to the SUGEF are listed below:

- 1 Assessment report explaining the level of incorporation and usage of SICVECA and the sustainable finance taxonomy (Deliverable 2.4.2a)
- 1 Workshop (Deliverable 2.4.1a, b)

- 1 Diagnosis report on how the banking sector incorporate loan classification into operational management (Deliverable 2.4.2h i)
- 1 Report with the results of the piloting test of the sustainable finance taxonomy and its tool to core banking products (Deliverable 2.4.2h ii)
- 1 Guidance document for banks on the practical implementation of the sustainable finance taxonomy and its tool (Deliverable 2.4.2h iii)
- 1 business model, concept and budget for the online reporting system of the sustainable finance taxonomy developed as part of the SICVECA (Deliverable 2.4.2i)
- 1 business model, concept and budget for the online reporting system of the climate-related financial risk exposure (both physical and transition) developed as part of the SICVECA (Deliverable 2.4.3h)
- 1 Online training platform (Deliverables 2.4.4a ii, 2.4.4a iii)

The key deliverables which will be handed to the BCCR are listed below:

- 1 Report with the climate data sources (climate-data gap analysis) (Deliverable 2.4.3a)
- 1 Report outlining the results of the survey on prevalent climate-related financial risks methodologies and processes (Deliverable 2.4.3b)
- 1 Technical document on climate physical risks in the banking sector (Deliverable 2.4.3d i)
- 1 Technical document on climate transition risks in the banking sector (Deliverable 2.4.3d ii)
- 1 Tool and 1 User manual for the banking sector to use the TCFD methodology (transition and physical risks) (Deliverable 2.4.3d iii)
- 1 Technical document on climate physical risks in the insurance sector (Deliverable 2.4.3e i)
- 1 Tool and 1 User manual for the insurance sector to use the TCFD methodology (physical risks) (Deliverable 2.4.3e ii)
- 1 Report on the piloting process (Deliverable 2.4.3f i)
- 1 Practical guidance document on the implementation of the TCFD for the Banking Sector (Deliverable 2.4.3f ii)
- 1 Practical guidance document on the implementation of the TCFD for the Insurance Sector (Deliverable 2.4.3f iii)
- 1 Online training platform (Deliverable 2.4.4a ii)
- 1 Report with strategic recommendations for financial regulators and supervisors, BCCR, and policy makers to define the governance mechanism for the sustainable finance taxonomy implementation and the taxonomy's reporting system framework (Deliverable 2.4.2g)
- 1 Strategic Report that includes recommendations for financial regulators and supervisors, BCCR , and policy makers to implement implementing TCFD recommendations (Deliverable 2.4.3g)
- 1 Online training platform (Deliverables 2.4.4a ii, 2.4.4a iii)

The key deliverables which will be handed to the local authorities (TBD by the PSC) for further scale-up are listed below:

- 1 Sustainable finance taxonomy developed, validated, consulted, and ready to be published (Deliverable 2.4.2f ii)

The key deliverables which will be handed to the SINAMECC and SICVECA are listed below:

- 10 news releases disseminated via the SINAMECC and SICVECA Platforms (Deliverable 5.1.1a)

Hence, this proposal is founded upon the existing engagement and commitment from Costa Rica's financial sector and supervisors/regulators, strengthening existing structures and ensuring the transfer of international methodologies and best practices, adjusted to the local context and capacities, to drive climate finance in the country and ultimately aligning financial flows consistent with NDC and NDP financing.

Intellectual Property and title: In accordance with UN regulations and practices, title to any equipment and supplies that may be purchased during the implementation of the proposal shall rest with UNEP after consultation and/or agreement of NDA. Upon completion of the proposal, the disposal of the equipment and supplies will be affected in accordance with UN Regulations and practices and in the best interest of the sustainability of the activities. UNEP shall hold the intellectual property rights to any publications and materials developed during proposal implementation, and will provide worldwide royalty free license to the NDA. Any reports and publications prepared as a deliverable from this proposal will be posted on both UNEP and NDA websites and will be freely accessible to all relevant stakeholders.

UNEP's Environmental and Social Sustainability Framework (ESSF) and Environmental and social sustainability Framework: Stakeholder Response Mechanism.Stakeholder Response Mechanism provide an avenue for stakeholders to provide feedback or report concerns, complaints or grievance issues on UNEP's proposed or on-going projects. UNEP is committed to avoiding or minimizing unintended harm to stakeholders that may directly or indirectly result from its work. Stakeholders are strongly advised to make an effort to raise any concerns, complaints or grievances to the relevant UNEP Project Manager, UNEP's local project partners, consultants, or the related UNEP Regional Office. Stakeholders may also submit their grievance through the UNEP website: https://www.unenvironment.org/about-un-environment/why-does-un-environment-matter/un-environment-project-concern or email: unenvironment-iossr@un.org .

UNEP adheres to the **UN Regulations, Rules and Policies related to whistleblower protection**, as documented in administrative issuance on Addressing discrimination, harassment, including sexual harassment and abuse of authority ST/SGB/2019/8. For more information please see:https://www.unenvironment.org/about-un-environment-programme/policies-and-strategies/misconduct-and-anti-fraud-policies