

Greening financial systems

Funding window description under the Green Recovery Challenge Fund, a capacity-building fund to support low-carbon transitions and a green, resilient and inclusive economic recovery.

Around the world, **climate change poses a systemic risk** to economies and financial systems. In the wake of COVID-19, these risks and impacts have worsened, and many countries are responding to the pandemic with economic stimulus packages.

The lack of climate risk management in a country's financial system jeopardises its economic and sustainable development.

This vulnerability restricts access to finance and investment, which is needed for the long-term recovery after the pandemic.

The Paris Agreement climate targets require significant investment. The COVID-19 pandemic exacerbates the challenge but crystallises the **need for green recovery investment** to minimise climate risk.

Location

Latin America (Argentina, Brazil, Peru) and Asia (Bangladesh, India, Indonesia, Thailand, Vietnam).

Countries targeted through the UK PACT Country Programmes in these regions (Colombia, China, Malaysia, Mexico) are eligible to apply as part of a regional or multi-country project but should not be the primary beneficiary of any project proposal.*

*Countries that are part of the UK PACT Country Programmes should see <https://www.ukpact.co.uk/country-programmes> for further details.

Action

The recovery from COVID-19 needs to support the move to **net-zero economies**. Finance will be critical to enabling this transition, but current and future **climate-related financial risks and opportunities** need to be fully **integrated into mainstream financial decision-making**. Financial systems and institutions

need to develop appropriate **climate risk management** and **greater transparency**, to help enable and accelerate the low-carbon transition.

Support is essential to develop these new, sustainable financial systems, to **enable a greater long-term flow of finance**.

Scope

The UK PACT Green Recovery Challenge Fund is therefore looking to support projects in the following areas:

- Designing and delivering roadmaps for alignment with the **Task Force on Climate-related Financial Disclosures (TCFD)**.
- **Integrating climate risk** into financial systems and managing risks related to 'stranded assets.'

- Embedding sustainable finance monitoring, reporting and verification (**MRV practices**).
- Strengthening institutional capacity for financial bodies at the **national, regional, and local level, across the public and private sectors**.
- Improving transparency to promote more **inclusive, equitable and greener** finance.

Not in scope

- Supporting applications to donors (e.g. Green Climate Fund)
- Providing finance directly (e.g. through grants or loans)
- Providing finance indirectly (e.g. through green bonds)

Example projects – (N.B. These are just to illustrate and are not an exhaustive list)

Types of projects include:

- **Training local financiers** to build institutional capacity and help mainstream green financing practices.
- Developing a finance **monitoring, reporting and verification (MRV) tool** for financial markets.
- Design and development of **standards for green products** (e.g. Green Bonds) and lessons that can be mainstreamed.
- **Developing** gender equality and social inclusion (GESI) + climate specific indicators and data sharing platforms to support financial disclosure and increase transparency.
- Supporting macro prudential action by **regulators** (e.g. stress testing.)

To find out more about the UK PACT Green Recovery Challenge Fund, to get in contact or to register your interest in being involved, please visit www.ukpact.co.uk/green-recovery-challenge-fund