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Community of Practice on Public-Private Articulation for Climate Action in Latin America

Practical guide for the alignment of private sector climate action with national goals and strategies

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Key Messages

1. An increasing number of companies is taking up the challenge of acting against climate change. However, in many cases, their initiatives are not aligned with their business strategies or with public policy. Such alignment would benefit their efforts, making them more effective, both in terms of the contribution to the Company's goals and of the country's climate commitments.
2. The alignment of business climate action accelerates the process of materializing opportunities that strengthen the competitive position of the business, while enabling a more effective risk management.
3. There are different ways to address the alignment process. This guide aims to provide a shortcut by indicating critical points and generating actionable priorities.
4. Even though this is an internal process for each company, the public sector must have clarity about its steering and support roles in order to create enabling conditions that increase corporate climate action and ambition. This requires permanent dialogue.
5. The need for articulation goes beyond the public-private sphere (government-companies): the ability and experience from different actors (academia, NGOs, etc.) are necessary to achieve a real alignment.

Presentation

The Community of Practice on public-private articulation for climate action in Latin America (ArticuLAC) was launched in 2018 for the purpose of contributing to the development and consolidation of mechanisms intended private sector engagement in the design and implementation of climate policies. Since its third year of operation, in which this guide was developed, ArticuLAC has focused on the alignment between private sector climate action and national goals and strategies.

This Guide was formulated based on the discussions held in different spaces for exchange and dialogue within the context of ArticuLAC, leveraging the learnings and experiences of its members, who represent 49 public and private organizations from 13 Latin American countries.

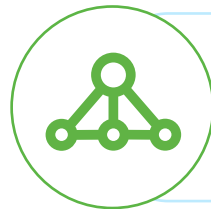
An Editorial Committee was formed for the preparation of the Guide, composed by ArticuLAC Committee members, who held working sessions aiming to identify the mains steps, roles and requirements in the process of aligning private sector climate initiatives with the objectives and priorities of the national climate policies and global goals.

Objectives

This guide seeks to:



Provide an action logic for companies to guide their actions in the climate field in order to maximize their contribution to both their business goals and national commitments.



Visualize, at different decision-making levels, the necessary elements to capitalize opportunities and manage risks within a context of technological transformation and business models.



Guide the public sector about private sector needs and demands in terms of signals, information and collaboration, to carry out individual and sectorial processes of alignment.



It should be noted that the Guide does not intend to replace existing knowledge or tools guiding corporate climate action. It has been conceived as a complementary support, focused in the alignment with public policy at different levels of decision making and execution.

Target Audience



Private sector

The guide is intended for decision makers in Latin American organizations in the private sector, as an input for the strategic alignment of their business with national and global climate goals.

It also includes courses of action to facilitate management from the areas in charge of planning and executing the company's sustainability initiatives.



Support organization

The guide develops specific elements for business trade organizations that design and implement programs to promote and support the climate action of their member companies.

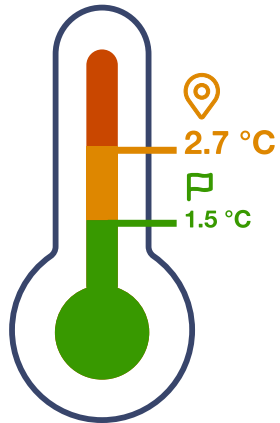
It can also be of interest to technical and financial cooperation entities seeking to support private sector initiatives and promote a greater articulation with public policy.



Public sector

This document seeks to provide the public sector with a clearer intervention logic to contribute, from its different roles and competences, to the processes of alignment and, thus, accelerate the transition towards a climate-compatible development.

This includes the institutions in charge of climate policy, sectorial entities and sub-national governments seeking to introduce climate action elements to their policies.



Background

Global society has recognized the importance of addressing climate change as a development challenge and has committed itself, through the Paris Agreement (PA), to prevent the average global temperature from rising more than 2°C above the pre-industrial baseline, as well as to continue efforts to limit the temperature increase to 1.5°C, as well as to take measures to reduce the vulnerability and increase resilience to this phenomenon.

According to the latest report on the physical basis of the Intergovernmental Panel on Climate Change (IPCC), achieving this goal is still possible, if a deep reduction of greenhouse gas (GHG) emissions is attained in the next decades. However, an analysis

published by the UN in October 2021 shows that despite the commitments expressed by the countries and organizations, the reduction of emissions is not happening at the necessary pace or scale.¹

The Nationally Determined Contributions (NDC) Synthesis Report found that the conjunction of plans adopted by the countries within the framework of the PA to curb GHG emissions points to a 15,9 % increase in global emissions by 2030² and a 2,7 °C increase in global temperature by 2100³.

On the other hand, according to the information published in the United Nations Framework Convention on Climate Change (UNFCCC)'s website, by November 2021 only around 46 countries – 5 of them Latin American countries – had presented their long-term low GHG emissions development strategies (LTS), which are crucial to guide the efforts different actors make towards decarbonization.

Given this situation, rethinking the countries' climate ambition, both in the short-term (NDC) and long-term (LTS), is urgent in order to progress with the fulfillment of global goals in a more accelerated and ambitious manner. The private sector engagement is crucial for establishing and achieving more ambitious climate goals.

1. *Climate change 2021: The physical science basis, Intergovernmental Panel on Climate Change, August 6, 2021, ipcc.ch.*

2. *"Updated NDC synthesis report: Worrying trends confirmed," United Nations Framework Convention on Climate Change, October 25, 2021, unfccc.int.*

3. *Nationally determined contributions under the Paris Agreement: Revised synthesis report by the Secretariat, United Nations Framework Convention on Climate Change, October 25, 2021, unfccc.int.*

4. <https://unfccc.int/process/the-paris-agreement/long-term-strategies>

Many private sector companies and organizations are already taking action against climate change, motivated by the need to manage risks and leverage new business opportunities, meet regulations, adapt to market trends and be consistent with their corporate responsibility, amongst others.

In a recent survey of the CEOs of over 100 global companies, 90% of them agreed that climate change should be addressed urgently and 70% stated that their organization will reach carbon neutrality by 2050⁵.

Notwithstanding these results, achieving the goals established by the Paris Agreement requires companies of all sizes and industries to broaden and deepen their climate action, starting with a business model transformation, investment reorientation and a greater articulation with national strategies.

There are many companies undertaking actions against climate change in Latin America, either by their own initiative or in the context of programs led by business organizations that promote corporate responsibility and sustainability, governments and the international cooperation. However, not all efforts are known or recognized by the governments in their climate action planning and measurement, and many are not aligned with the strategies and goals the countries have established within the framework of the Paris Agreement and their national policies.

5. PwC. *Global CEO Survey 2021*

6. GIZ / Euroclima, 2021

A mapping of climate and green recovery initiatives in the Latin American private sector, commissioned by Euroclima in early 2021, identified 63 initiatives by 33 organizations in 15 countries in the region, from which only 49% included some kind of policy dialogue⁶; which could be a lost opportunity for companies as potential incentives derived from public policy priorities are not being taken into account, and for the governments, as ongoing private actions are not included in their planning and measurements for the fulfilling of their commitments.

This represents a major challenge and a great opportunity to promote a greater and better articulation and alignment between public and private actors.



Business strategy and climate action: decision making and action levels within the company

In order to become a relevant concept in private organizations, the alignment of the company's own climate action with public climate policies must be approached from a business strategy logic and the contribution of the company's actions in this field to its strategic goals needs to be clear.

Each company should strive to contribute to its decision-making process around climate action from the highest level: understanding how the context (which includes public climate-policy commitments and priorities) generates **opportunities to maximize return on equity over the medium and long term**; while identifying, assessing and **managing physical risks and those** imposed on their current business model by the transition towards a low-carbon resilient economy ++



++ To further explore a complete classification of climate-related business risks, see the Task Force on Climate-related Financial Disclosures' recommendations report at: <https://www.fsb-tcfd.org/recommendations/>

The alignment process involves actions and responsibilities in the different decision-making levels within private sector organizations. For the purpose of this Guide, **4 levels are considered:**

The figure below shows the actions and decisions typically taken in each one of the aforementioned levels.



Corporate Governance:

The Board of Directors and its committees. They decide the type and depth of the alignment with the policies, in accordance with the business’s long-term vision and its corporate citizenship style.



Senior Management:

Directorate/General Management. It impacts the way in which the business model and future value proposal are affected by the alignment.



Execution:

Functional management and technical specialists. They formulate and execute specific actions, once medium-term strategic priorities have been defined.



Monitoring:

In charge of the sustainability department or management or similar departments. Monitoring political and technical validity of the prioritized climate action initiatives, as well as leading monitoring and reporting activities towards different actors.



What does a company gain from developing a climate alignment process?

- 1** **Improving physical and transition risk management**, which will be faced by the company at some point.
- 2** **Leveraging efficiency opportunities**, new products and markets, access to financing, amongst others.
- 3** **Maximizing long-term return on equity**, by executing climate action investments with a clearer sequence, incentivizing innovation.
- 4** **Leveraging incentives derived from public policy**, as well as anticipating incremental costs and operational barriers derived from regulation.
- 5** **Managing climate action as an additional** positioning attribute that builds social licensing and strengthens the value proposition towards certain client segments.



Process for the alignment of private climate action

The discussions held by the Community of Practice identified a process of five major phases, which in turn include specific activities to align corporate goals, strategies and climate plans with public policy. The following chart shows each phase, as well as a sequential proposal for their execution: the process starts with raising awareness regarding the urgency and opportunities deriving from climate action in a competitive context, followed by the getting to know and interpreting the national climate goals and their interpretation in the language of each industry and company. Subsequently, the organization prioritizes its goals according to its strategy and later plans – operationally and financially – the necessary actions and projects. Lastly, the company strengthens its management capacities, which allows it to determine and adjust specific needs for the execution of its climate initiatives.

The activities or actions included in each phase, as well as the decision-making level that should lead them, are described below.



In addition, there are two management areas that are cross-sectional to the different phases of the alignment process and that each organization should adapt in order to support the proper execution of each of the activities included in the main process and, thus, maximize their results — and contribution— both to the company and to the national goals.

These areas are: Alliances and collaboration, Monitoring and reporting



The process: main phases



1. Identification of the connections between global and national goals and business strategies

- Led by the area in charge of following Climate Change issues.
- Getting to know the national and global goals.
- Approaching the governing body to obtain the national commitments and the technical basis for their formulation.
- Understanding the goals and indicators established.
- Analyzing sectorial interests and connecting them to the country goals.
- Identifying the goals of the sectors relevant to the company.
- Approaching global platforms, such as Carbon Disclosure Project, Race to Zero, SistemaB, Science Based Targets Initiative, to identify formulation processes and update the most global responses from sectors similar to the company, globally.
- This phase is permanent and must monitor adjustments to the alignment process in accordance to the relevant public climate policy changes or with the business strategic adjustments (at least every five years).



2. Awareness raising and strategic orientation at the senior management level

- Led by the strategic management level, with the support of the technical follow-up level.
- Raising awareness among decision makers regarding the general implications of sectorial climate goals and contributions.
- Making corporate governance aware of the legal, political and strategic framework around climate action at an international, national and sectorial/subnational level.
- Defining the company's transformational vision (10-15 years), following the shareholder and main stakeholders' expectations.



Different actors have contributed to the formulation of the Sectorial Roadmaps towards decarbonization. The case of Costa Rica is an example of good practices in the implementation of the methodology for this phase of the process. See page 19 for further details about that experience.



3. Goal definition and prioritization, according to their strategic relevance for the business (mid-term)

- Led by the company's senior management.
- Knowing the expected future for this sector, both nationally and internationally, in terms of a new technological and competitive landscape.
- Evaluating the company's high-level policies in terms of sustainability, based on the new climate action challenges and opportunities that have been prioritized at the senior-management level.
- Defining what can be expected (actions-impact) from the initiative, in different areas of the business model or future value proposition.
- Identifying the benefits and incentives derived from fulfilling the goals, both from the market logic and from the government sphere.
- Identifying the risks and opportunities derived from the transition towards a decarbonized operation (in terms of investment, brand, permits, etc.).



The SBTi's Corporate Net-Zero standard is the first framework for setting corporate net-zero emission targets in line with climate science in the world. It includes the orientation, criteria and recommendations companies need to establish science-based net-zero targets, consistent with limiting global temperature increase to 1.5°C. The Net-Zero standard provides a solid common understanding, based on net-zero science. It provides corporate leaders with clarity and certainty that their short- and long-term goals are aligned with climate science, helping to ensure a livable planet for all. See page 19 for further details.

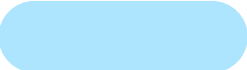


4. Operational and financial planning (short-term)

- Led by the areas in charge of implementation.
- Ensuring and defining processes for evaluation and standard technological adoption according to the industry to which the company belongs (for example, Nutrition).
- Incorporating potential investment projects or process changes in formal business planning (5-year strategic formulation, annual operational planning), prioritizing them according to their impact on the business and certainty regarding the potential climate action contribution.
- Establishing a valid and cost-effective methodology for measuring baseline and the impact on GHG reduction or adaptation indicators that enables operational decision making in these projects, based on a culture of climate action self-monitoring.



In Chile, a Clean Production Agreement (APL)(coordinated by the Agency of Sustainability and Climate Change) is a convention between a business sector, companies and public bodies with competence in the matters covered by the agreement, whose objective is applying a clean production through specific goals and actions. The overall objective of the APLs is to serve as a management instrument to improve conditions related to production, environment, sanitation and work safety, energy and water efficiency -and other topics addressed by the agreement- in the companies of a given productive sector that subscribe to it, aiming to create a synergy and scale economies in the achievement of the agreed objectives. See page 19 for further details.



5. Strengthening management capacities

- Led by the departments in charge of implementation with close support from the sustainability/climate change department.
- Mapping all gaps in the process or in management capacities related to the implementation of decarbonization projects.
- Designing, prioritizing and executing pilot projects to identify the need for adaptations at an operational level and to promote a proper change management at the company's cultural level.
- Making these efforts visible as part of continuous improvement logic with tangible benefits in multiple dimensions of business competitiveness.
- Once the five phases have been completed, the company needs to focus on the strategic execution of projects of a greater scope, according to the priority of its business model components.



The process: cross-sectional areas



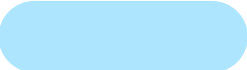
Alliances and collaboration

- Mapping actors to understand the nature of their climate action engagement, identify opportunities for collaboration and learning best practices.
- Identifying synergies with peers, even from other business sectors, or by value chain.
- Working with other companies to create and manage a permanent forum or space so that all sectors are aware of the contribution the industry can provide to the different decision-making levels.
- Characterizing levels of impact (scope) and contribution from the sector the company belongs to.



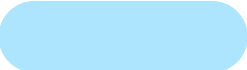
Monitoring and reporting

- Establishing a monitoring and reporting process that considers the best international practices, as well as the format and technology elements necessary to contribute to the national climate action metric systems.
- Identifying and adapting useful performance indicators for each decision-making level in the organization, as well as their communication to the company's stakeholders, including potential requirements for entities to facilitate climate funding.
- Considering the elaboration and monitoring of practical indicators for both decarbonization and adaptation (to measure the impact on business continuity).



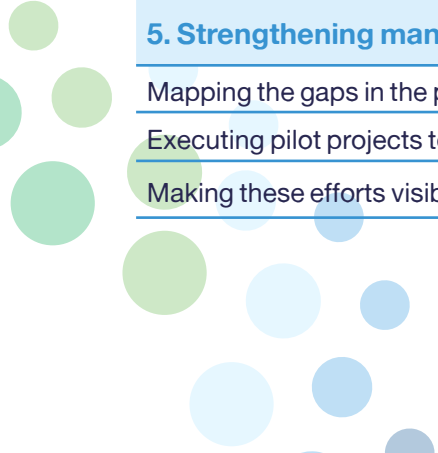
Relationship between decision-making levels and corporate climate action levels and the activities of the alignment process

Phases of alignment/ levels of action	Corporate governance	Strategic direction	Execution	Monitoring
1. Identification of the connections between global and national goals and business strategy				
Knowing the national and global goals	✓	✓		✓
Approaching the governing body to obtain the national commitments and the technical basis for their				✓
Formulation Understanding the goals and indicators established		✓	✓	✓
Analyzing sectorial interests and connecting them to the country goals	✓	✓		✓
Identifying the goals of the sectors involved				✓
Approaching global platforms to identify formulation processes and update similar sector goals and responses		✓		✓
2. Awareness raising and strategic orientation at the senior management level				
Raising awareness among decision makers regarding the general implications of sectorial climate goals and contributions		✓		✓
Making governance aware of the legal, political and strategic framework around climate action at an international, national and sectorial/subnational level		✓		✓
Defining the company's transformational vision (10-15 years), following shareholder and main stakeholders' expectations	✓	✓		






Relationship between decision-making levels and corporate climate action levels and the activities of the alignment process

Phases of alignment / Levels of action	Corporate governance	Strategic direction	Execution	Monitoring
3. Goal definition and prioritization, according to their relevance for the business (mid-term)				
Knowing the expected future for the sector both nationally and internationally, in terms of technology and competitiveness	✓	✓	✓	✓
Evaluating the company's high-level policies in terms of sustainability, based on climate action challenges and opportunities	✓	✓		
Defining climate initiative expectations in the business model and the future value proposal	✓	✓	✓	
Identifying the benefits and incentives derived from fulfilling the goals		✓		✓
Identifying risks and opportunities from transitioning towards a decarbonized operation	✓	✓	✓	
4. Operations and financial planning (short term)				
Defining the standard evaluation and technological adoption processes in the sector			✓	✓
Incorporating potential investment projects or process changes in formal business planning		✓	✓	
Establishing a methodology for the measuring of GHG and adaptation			✓	✓
5. Strengthening management capacities				
Mapping the gaps in the processes or capacities related to implementation of decarbonized projects			✓	✓
Executing pilot projects to identify the need for operational adaptations and change management			✓	✓
Making these efforts visible as part of a continuous-improvement logic		✓		✓



Tools box for the aforementioned phases of the process

Tool	 Leading institution	 Access to reference material 
Sectorial roadmaps	Climate Change Directorate, Costa Rica; Euroclima Program; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ); The Business Alliance for Development (AED).	https://euroclimaplus.org/actualidad-ec/noticias-es/1468-evento-paralelo-en-cop26-discutio-en-torno-a-las-hojas-de-ruta-sectoriales-para-descarbonizacion-del-sector-privado
Corporate Net-Zero standard	Science Based Targets initiative (SBTi).	https://sciencebasedtargets.org/net-zero
Clean Production Agreements (APL)	Agency of Sustainability and Climate Change - Chile.	https://www.ascc.cl/pagina/apl

Collaboration for alignment: What is required from the public sector?

In order for the alignment phases to be coherent throughout the whole process, the public sector must build a logic of guidance and support — beyond creating a regulatory framework and incentives — to guide the decarbonization of the different productive sectors.

For such alignment to have solid political and technical basis, different public entities need to influence each of the phases; even if the private sector is able to make faster and more ambitious decisions. Within the context of ArticULAC's work, six major areas of requirements to the private sector have been identified to orchestrate their participation in the process of aligning the private sector:



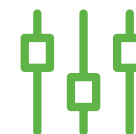
Clear and coherent policy framework

- **Country vision.**
- **Signals** from the highest political level.
- **Coherence** between different sectors and government levels.
- **Clear** planning.



Capacity building in the public sector

- **Strengthening** capacities (human and technological) in the institutions supporting climate action.



Regulations and incentives

- **Developing** or adopting financial and technical instruments and tools to reduce uncertainty and technological transition risks and maximize the impact of incentives.
- **Establishing** eligibility definitions and standards of what climate action is for each sector.

Collaboration for alignment:

What is required from the public sector?



Monitoring and reporting methodologies

- **Creating** systems to control and monitor corporate and sectorial commitments and the efforts of individual companies.
- **Incorporating** digital tools (software) that provides agile inputs to document the contributions of each industry/company's.
- **Formulating** and adopting indicators, in a result/impact oriented fashion.
- **Working** jointly to establish support methods for the implementation of these systems.



Spaces for engagement and collaboration

- **Generating** spaces for collaborative work, with an agenda consistent with the priorities and the ambition level.
- **Promoting** the decentralization of responsibilities around the alignment process.
- **Identifying** and creating enabling conditions for a public-private interaction that leads to results.



Mechanisms to make private sector contributions to national goals visible

- **Communicating** the results and contributions of all the actors involved in a standardized, official and frequent fashion.
- **Promoting** certification and awarding systems for entrepreneurial efforts

Collaboration for alignment

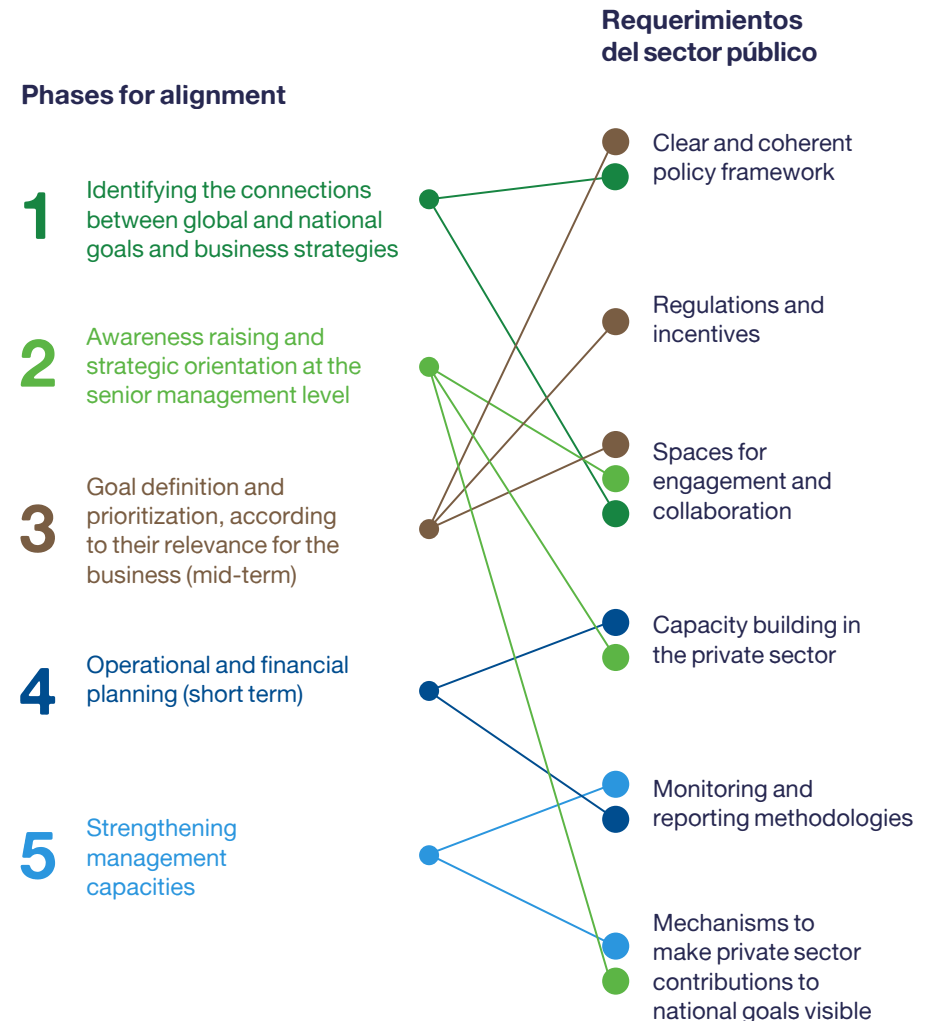
Links, requirements and collaboration

An effective alignment for the implementation of private-sector climate policies is based on collaboration. In order to have a clear process, the companies and associations must know what kind of contributions to expect from the different public entities —in first instance— and from other support organizations, for each phase of the process.

The chart on the right shows a series of basic interactions between the private and public sectors, according to the phase of the alignment process a productive sector or company is implementing.

For the private sector, considering this interaction map is important, since it allows it to consider technical and political inputs, as well as the transfer of capacities and tools that will enable alignment to manifest not only in the planning, but also in the execution of projects and investments.

For the public sector, the visibility of these private sector interactions and needs allows it to inform the planning of climate action support through the clear definition of roles across a wide range of institutions and, subsequently, a consistent allocation of resources (financial, technical, etc.), according to the needs in each phase of alignment.



Climate action ecosystem in the private sector

Managing alignment requires multiple partners so that climate action makes sense throughout the whole business model

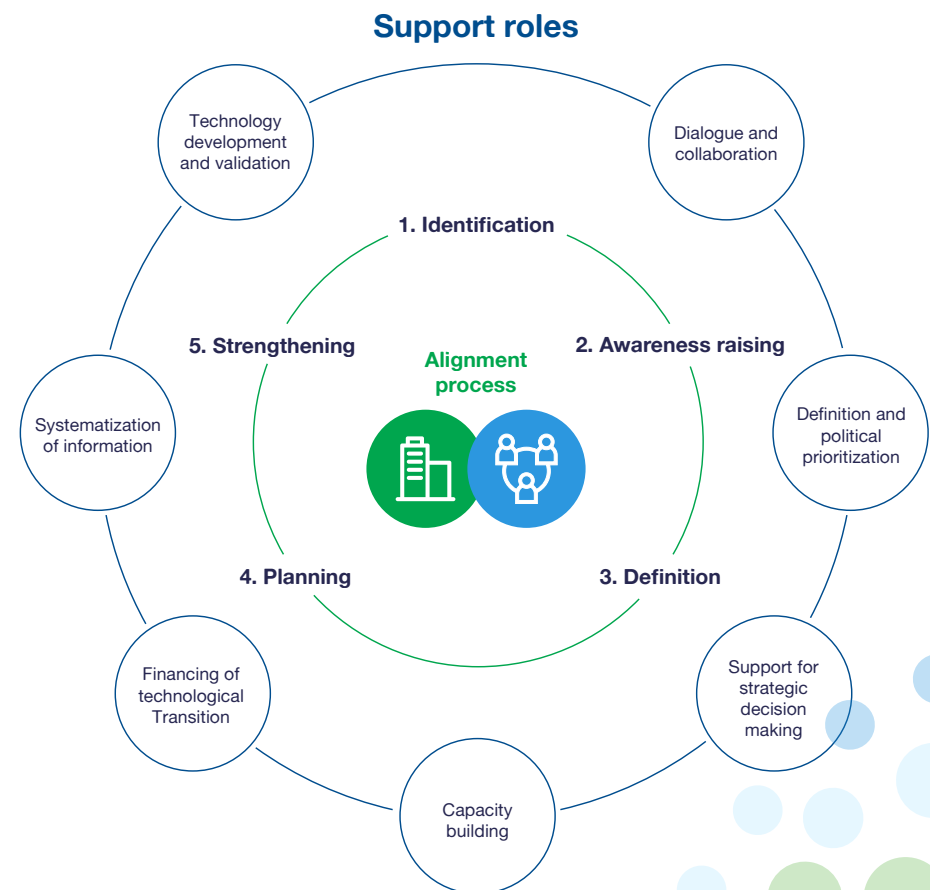
Private sector organizations need to establish and manage multiple relationships and lines of work with a whole ecosystem of actors, in order to capitalize the benefits from climate action, both in the short and long term, while they mitigate the main risks posed by the transformation.

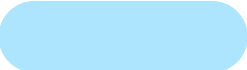
Considering these needs — which exceed the scope of the mandate of the public sector in the strictest sense of the word —, a number of support roles have been identified, where different capacities, resources or authorities of various actors come together. Companies should map, prioritize and activate those relationships throughout the different phases of the process, so that the road towards a decarbonized and resilient business model is: 1. aligned, 2. solid, 3. dynamic and 4. cost-effective.

Seven general roles were identified in this guide’s formulation process, where the action of different actors come together:

- Policy definition and prioritization
- Support for strategic decision making
- Capacity building
- Technology development and validation
- Financing the technological transition
- Systematization of information (for internal and external purposes).
- Dialogue and collaboration

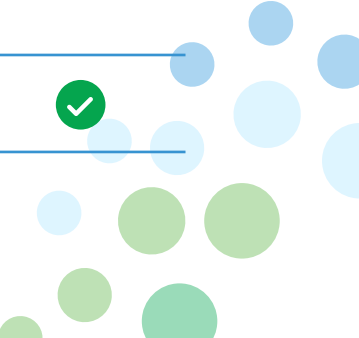
The following chart shows how different actors can participate by contributing to or undertaking actions within one or more roles in support of the alignment process.





Climate action ecosystem in the private sector: different actors strengthening and accelerating action through alignment

Actor / alignment support roles	Policy formulation and prioritization	Support for strategic decision making	Capacity building	Technological development and validation	Financing of technological transition	Systematization of information	Dialogue and collaboration
Ministries of Planning and Finance	✓				✓	✓	
Ministries of Environment	✓					✓	✓
Sectorial Ministries	✓	✓	✓	✓			
Consulting firms and subject matter experts		✓	✓			✓	
Associations and business chambers	✓	✓	✓				✓
Academia			✓	✓			
Bilateral and multilateral cooperation			✓	✓	✓		✓
Development finance institutions					✓	✓	
National technical standardization bodies		✓				✓	
Networks and communities of practice		✓				✓	✓





ArticuLAC

Comunidad de Práctica sobre articulación público-privada
para la acción climática en Latinoamérica

About ArticuLAC

This document has been prepared for the purpose of disseminating learnings of the Community of Practice on Public-Private Articulation for Climate Action in Latin America (ArticuLAC).

Additional information about ArticuLAC:

<https://www.ledslac.org/comunidades-de-practica/sector-privado/>

<https://euroclimaplus.org/recursos/comunidad-de-practicas-sector-privado-y-politicas-climaticas>

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