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Accessing International Climate Change Related Finance in Latin America and the Caribbean

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Abbreviations and Acronyms

ADB	Asian Development Bank
AFB	Adaptation Fund Board
AfDB	African Development Bank
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CIF	Climate Investment Funds
CTF	Clean Technology Fund
EBRD	European Bank for Reconstruction and Development
ERU	Emission Reduction Unit
ET	Emission Trading
FAO	Food and Agriculture Organization
FIP	Forest Investment Program
GBI	GEF Benefits Index
GCI	General Capital Increase
GDPI	Gross Domestic Product Index
GEF	Global Environment Facility
GHG	Greenhouse Gas
GNI	Gross National Income
GPI	GEF Performance Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
JI	Joint Implementation
LAC	Latin America and the Caribbean
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
LULUCF	Land Use, Land Use-Change and Forestry
MDB	Multilateral Development Bank
MIE	Multilateral Implementing Entity
NIE	National Implementing Entity
NGO	Non-governmental organization
ODA	Official Development Assistance
ODS	Ozone Depleting Substance
PIF	Project Identification Form
POP	Persistent Organic Pollutant
PPCR	Pilot Program for Climate Resilience
RAF	Resource Allocation Framework
RDB	Regional Development Bank
RE/EE	Renewable Energy and Energy Efficiency
REDD	Reducing Emissions and Deforestation and Forest Degradation
RMU	Removal Unit
SCCF	Special Climate Change Fund
SCF	Strategic Climate Fund
SECCI	Sustainable Energy and Climate Change Initiative

SREP	Scaling Up Renewable Energy Program in Low Income Countries
STAP	Scientific and Technical Advisory Panel
STAR	System for Transparent Allocation of Resources
UN	United Nations
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
UNWFP	United Nations World Food Program
WB	World Bank
WBG	World Bank Group

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Executive Summary

1. ***Financing projects and programs to mitigate impacts of, and adapt to, the climate change is a matter of necessity not choice.*** The world is becoming increasingly concerned with the impact of the climate change on the lives of future generations. The projected 4°C warming by the end of the century by the World Bank study¹ calls for commitment and action on the part of governments and the global community more broadly to prevent the dangerous impacts of greenhouse gas increases that seriously threaten development, and in certain cases the survival itself. In the LAC Region specifically, the expected annual mean warming is likely to be higher than the global mean with the exception of the southern part of the South America². According to recent ECLAC studies, climate change could cost Latin America about one percent of GDP annually. On the other hand, LAC governments face both internal and external pressures to efficiently manage their public finances while responding to growing climate-change challenges. Like many others in the world, LAC countries currently face serious fiscal challenges which support a case for a larger role for climate financing.

2. ***This Green Expenditure Policy Note looks at factors facilitating the access to international financial instruments for LAC countries that support mitigation of and adaptation to climate change.*** The President of the World Bank Group Dr. Jim Yong Kim boldly puts action to curb the climate change in the focus of the World Bank's development agenda for the coming years linking this action to the goal of reducing inter-generational inequality.³ In this regard, having focus on public sector management and governance that supports shared growth and prosperity and opportunities for all, the Public Sector Group of the Poverty Reduction and Economic Management Department of the Latin America and the Caribbean (LAC) explores in this Policy Note two questions: (i) *does the quality of government institutions matter for enabling action aimed at mitigation or adaptation to the climate change?* and (ii) *what financial instruments are available to governments in addition to own resources to address climate change challenges?* This Policy Note, targeted at LAC Region's Ministries of Finance, aims to present them with advice on how to achieve greater

¹ The World Bank: *Turn Down the Heat: Why a 4 °C Warmer World Must be Avoided*, November 2012. http://climatechange.worldbank.org/sites/default/files/Turn_Down_the_heat_Why_a_4_degree_centrigrade_warmer_world_must_be_avoided.pdf

² Christensen et al. Regional Climate Projections, In: *Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* [Solomon, S., D. Qin, M. Manning, Z. Chen, M. Marquis, K.B. Averyt, M. Tignor and H.L. Miller (eds.)]. Cambridge University Press, Cambridge, United Kingdom and New York, NY, USA

³ Jim Yong Kim, *Within Our Grasp: A World Free of Poverty*. April 2, 2013. Speech at Georgetown University <http://www.worldbank.org/en/news/speech/2013/04/02/world-bank-group-president-jim-yong-kims-speech-at-georgetown-university>

access to international financing or co-financing of projects supporting renewable and alternative energy generation for transport, agriculture, housing, preservation of unique ecosystems, and other projects supporting sustainable development.⁴

3. Access to international climate finance is broadly determined by a country's ability to attract, absorb and effectively direct funds to support credible policies, programs, and projects—that is, by having an effective national strategy to deal with climate change. And there is a growing focus on strengthening countries readiness to manage climate finance — that is, having the capacities to plan for, access, deliver, and monitor and report on climate finance (both international and domestic) in ways that catalyze low-carbon development and are integrated with national development priorities.⁵

4. Traditionally, the Governments' role in environmental economics is to manage risk through regulation, attract, manage and distribute resources through environmental policies. The role of the Ministries of Finance is to implement Government policy, manage budget cycle and negotiate the budget allocations. Globally, there is an increasing consensus that climate finance should be fully integrated in the national public financial management and fiscal frameworks from planning, budgeting, implementing and accounting for expenditures. While environment ministries have traditionally led the dialogue on environmental issues, the role of finance ministries is expanding. This is also partly because the introduction of new domestic measures, including carbon taxes and green subsidies, necessitates a financial oversight role for finance ministries. Consequently, this topic is of increasing importance not only for the environmental but also for the public financial management specialists.

5. In this Policy Note (along with two country case studies and four Annexes), we describe the climate challenges facing the LAC region and then discuss the various climate-financing flows. We include both public multilateral and bilateral sources of climate finance, as well as private sources. And we address the differences in financing for mitigation and for adaptation. We then discuss the factors affecting LAC countries' access to climate financing, and how countries can apply to several of the principal global and regional climate funds. Our objective is to disseminate knowledge that will help governments of all LAC countries (not just the large, middle-income countries), and particularly their finance ministries, understand and access new climate funds and financing mechanisms. With greater understanding, LAC governments should be able to maximize the potential benefits of climate change financing and improve environmental management.

⁴ The Note does not perform an in-depth analysis of environmental challenges in the LAC Region or globally, leaving this to professional scientific research. Neither does it analyze the commitments and actions of the global community to make financial resources available for addressing environmental problems.

⁵ UNDP, 2012, Readiness for Climate Finance: A framework for understanding what it means to be ready to use climate finance.

6. The Policy Note analyzes a number of parameters that are likely to have contributed to the level of access to international climate change financing. There is no simple and direct relationship between each one factor and the resulting volume of financing achieved. The report concludes that interplay of various factors shapes the final outcome. These factors are:

- The quality of public administration, including the quality of institutional arrangements for environmental governance and public financial management;
- The size of the economy that determines the level of energy consumption and CO₂ emissions;
- The eligibility criteria of various funds that have specific environmental focus that may targets some environmental conditions and not others;
- Co-financing requirements that are less burdensome for higher middle income countries than for countries with lower incomes;
- Availability of grant-based finances from the Pilot Program for Climate Resilience for low income countries and from Climate Change Adaptation Fund.

7. The Policy Note consists of three Parts and described further. Part I reviews the global landscape of the climate change financing for mitigation and adaptation and emerging trends, identifies various financial instruments, and presents an overview of the LAC's share of available finances from several public financing sources, both bilateral and multilateral. This Part also helps to match specific climate challenges with the appropriate financing instruments. It also overviews the application process and advises on strategies for more successful application based on factors listed in paragraph 6 above.

8. Part II reviews two case studies for Bolivia and El Salvador that demonstrate how each of these countries addresses environmental challenges through its policies, institutional systems and involvement of the civil society. The Case of El Salvador emphasizes the importance of the coordinated approach of key government institutions, including those in the center of government, such as the presidency and the ministry of finance, as well as the ministry responsible for environmental management and line ministries, such as the ministry of works and others. This case study identifies such financial, political and technical obstacles in El Salvador to effective access to climate change related financing. The Bolivian case refers to successful access to climate change financing for projects in areas of international waters, forestry, protected areas and sustainable energy. This case study highlights that consistent policies and the ability to demonstrate co-financing of internationally financed projects are key. Both case studies make a strong point that sustainable technical capacity and strong institutional coordination in the public administration are essential to identifying, developing and implementing projects. This conclusion dovetails with the general lesson of Part I that the quality of the public administration matter.

9. Part III includes technical annexes, which represent a compilation of technical information presenting main climate change financial instruments. A list of global and specialized climate funds of possible interest to LAC countries appears in Annex 1. This

information serves as a practical guide for Ministries of Finance when identifying suitable financial instruments. However, the financing instruments evolve, following international policies on addressing the climate change challenges, implying potential changes in the information collected for the purposes of this Note. A complementary list of climate finance instruments appears in Annex II, in which climate funds as well as financial tools are named, described, and categorized according to their primary purpose (e.g., climate change mitigation or adaptation; reduction of financial risk; and insurance against climate and other natural disasters). The financial instruments in Annex II are further categorized according to whether they represent Official Development Assistance (ODA) (i.e., falling under the agreed goal of 0.7 percent of developed countries' GDP by 2015 to help meet the UN Millennium Development Goals or whether they represent so-called "new" and "additional" climate finance, which are monies in excess of ODA devoted to meeting the climate needs of developing countries (which industrial countries pledged to provide at the UN Framework Convention on Climate Change (UNFCCC) conferences in Copenhagen and Cancun). A more detailed description of several of the largest climate funds--including when such funds were founded, their purpose, and eligibility requirements--are presented in Annex III. Annex IV provides a step-by-step description of how to apply to the largest climate funds. Annex V lists the LAC projects that have been supported by Global Environment Facility (GEF) by country.

Part I: Climate Financing Trends in the LAC Region

I. Introduction

1. Countries in Latin America and the Caribbean (LAC) face a host of climate challenges ranging from deforestation, natural disasters and land degradation to urban pollution and inadequate solid waste management. The cost of climate-related disasters is estimated at more than US\$5 billion⁶ a year, with the poor suffering the most from the adverse effects of climate change. These adverse effects are expected to intensify in the LAC region, owing to projected decreases in rainfall, heavy and growing demands for transport and energy generation, as well as geography, topography, and demographics. Efforts at mitigating and adapting to the negative effects of climate change have been supported by a wide range of public multilateral and bilateral, and private, funding sources. These efforts have met with varying degrees of success.

2. Climate financing is offered for both mitigation of climate change and adaptation to it. Mitigation refers to social, economic, and technological change that reduces greenhouse gas (GHG) emissions to slow global warming, while adaptation refers to measures that reduce the severity of the damage associated with climate change. Successful efforts at mitigation reduce the costs of adaptation and together, mitigation and adaptation constitute an overall strategy to address climate change. At the same time, the interaction of mitigation and adaptation needs poses complexities for the provision, planning, and management of climate financing.

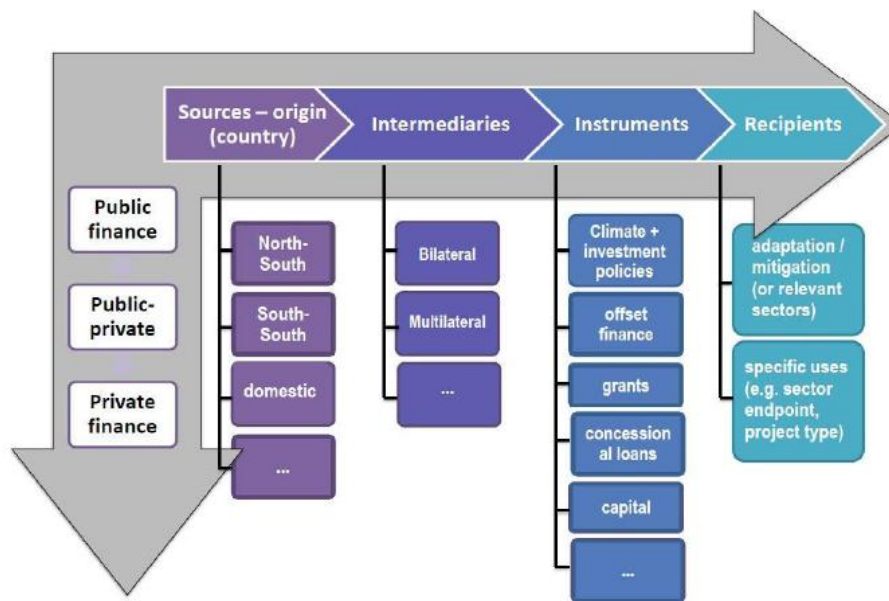
3. In many LAC countries, most public multilateral and bilateral sources of climate finance go to capital investments, especially in energy efficiency and renewable energy. The private-sector engagement is less well understood and the available information sources are fewer. Nonetheless, most global finance for climate change comes from private sources and even though public bilateral and multilateral financing flows are growing, most public actors are increasingly looking to leverage private financing, whose potential is far greater.

4. LAC countries, like many others in the world, currently face serious fiscal challenges and need to contain growing budget deficits. These fiscal constraints imply a larger role for climate financing. Fortunately, the amount of such financing, which is already significant in the LAC region, is expected to rise over the medium term. Most notably, participants in the UN Framework Convention on Climate Change (UNFCCC) conferences, held in Cancun

(2010) and Durban (2011), set a goal of jointly mobilizing climate-change financing of \$100 billion annually by 2020 from both public and private sources. An agreement is yet to be reached on how these funds will be mobilized and managed.

5. While the financing landscape is evolving rapidly, it remains complex and fragmented. Apart from the expanding sources of climate finance, a wide variety of financial instruments exist and their number is increasing. These include market-rate and concessional loans; equity investments; grants; carbon finance; risk-mitigation instruments, including guarantees; and such domestic fiscal measures as green subsidies and carbon taxes (Figure 1).

Figure 1. Dimensions of Climate-Change Finance⁷



6. The amount and timing of new and additional sources of climate finance and the forms it will take are, however, uncertain. Also unclear is whether recipient countries can put together a sufficient number of attractive projects and meet accreditation standards for certain types of climate finance. In addition, many LAC governments lack the capacity to manage the fiscal aspects of green public finances. On the one hand, this produces organizational inefficiencies and, on the other, it prevents LAC governments from tapping the available financing instruments. In some cases, vocabulary and concepts used in the relevant government agencies--typically, ministries of finance and environment--differ, which hinders coordination between these ministries.

⁷ Buchner, Barbara, J. Brown, and J. Corfee-Morlot, 2011, *Monitoring and Tracking Long-Term Finance to Support Climate Action*, OECD Publishing/IEA, Paris

II. Global Landscape of Climate Finance

7. Within the UN Framework Convention on Climate Change (UNFCCC) developed countries, at the 15th session of the Conference of the Parties in Copenhagen in December 2009, pledged to mobilize \$30 billion between 2010 and 2012 in climate financing to help developing countries. A goal of jointly mobilizing \$100 billion annually by 2020--from both public and private sources--was also agreed and later affirmed in the Cancun agreements. This financing is to be channeled through the Green Climate Fund (GCF), established in 2011 to manage a large proportion of that aid. Frustration with existing financial instruments of the UNFCCC and other multilateral and bilateral channels of climate finance prompted parties to create the new GCF, which is intended to become the main channel for public climate finance. A goal of the GCF is to maximize the impact of funding for both adaptation and mitigation by financing a paradigm shift towards low carbon and climate resilient development. The GCF is not likely to be able to provide funding before 2014. It remains unclear how much money it will have access to and how it will mobilize funds from the private sector. GCF funding is intended to support concrete mitigation actions by developing countries implemented in a transparent way.

8. Global climate finance, estimated at \$97 billion in 2009, comes mainly from private sources. Indeed, the volume of private climate finance outnumbers public finance by nearly three to one: \$55 billion versus \$21 billion.⁸ Private financing takes the form of global capital market flows (debt and equity), voluntary contributions, and philanthropy. Private investors include individuals, private equity firms, and large institutional investors, such as pension funds and sovereign wealth funds.

Financing for Mitigation

9. Significant part of the public finance flows for climate change focus on mitigation, which has the potential to reduce substantially GHG emissions. Most financing for mitigation has been channeled to such fast-growing, emerging economies as Brazil, China, India, Indonesia, South Africa, Turkey, and Mexico; to countries that account for a large share of future demand for energy; or to countries in which substantial deforestation and land conversion is occurring, and thus have large GHG mitigation potential. It is also easier to design viable investment and achieve economies of scale in these larger economies because they offer relatively greater domestic capacity to plan and implement programs. Many of these countries have also taken steps to enable private sector participation in the energy sector.

10. In contrast, the least developed countries (LDCs) generally have lower mitigation potential in the near term. In some LDCs, emissions from forests and land use are more significant than emissions from energy, and poverty and subsistence activities are a substantial

⁸ Buchner, Barbara, and others, 2011, *The Landscape of Climate Finance*, Climate Policy Initiative (CPI), Venice. This and all other figures in this paragraph are from *The Landscape of Climate Finance* and refer to the year 2009/10

pressure on existing forests. Greater access to mitigation finance could, however, help LDCs explore low-carbon development options that allow them to avoid the carbon-intensive growth trajectories followed by the more advanced economies.

Financing for Adaptation

11. Climate change adaptation attracts finance from a range of sources. The most visible investments are financed through such public finance instruments as grants and concessional loans. These are provided e.g. by bilateral and multilateral institutions, and through voluntary contributions. So far, activities for adaptation represent a small share of funding in Latin America. However, Ecuador, Nicaragua, and Honduras have been early beneficiaries of the Adaptation Fund. Lately the Pilot Program for Climate Resilience of the CIF has been increasingly active in Latin America⁹. Bolivia, for example, received recently \$86 million based on a national resilience plan as a basis for financing. Regional programs for the Caribbean countries also received \$33 million for adaptation program.

12. Private financing for adaptation is less well understood. It is often difficult to identify interventions that definitively count as adaptation activities and are closely linked to development activities.¹⁰ This makes it harder to classify private-sector climate-proofing activities as adaptation-related investment in such vulnerable sectors as infrastructure, agriculture, water, sanitation, health, disaster prevention, and preparedness. Furthermore, many countries most vulnerable to the effects of climate change are the least-developed countries, whose vulnerability arises from the weaker capacity to adapt, the sensitivity to climate factors, and the exposure to climate change.¹¹

13. The Adaptation Fund was set up under the Kyoto Protocol and officially launched in 2007. Its purpose is to finance adaptation projects and programs in developing countries vulnerable to adverse effects of climate change. A key innovation of the Fund is that it allows direct access to climate finance to developing-country-based institutions. The National Implementing Entity (NIE) accreditation process, however, can be cumbersome and time consuming and the level of financing available through the Adaptation Fund has been relatively small. Also, the experience of the Adaptation Fund shows that requiring agencies to meet high fiduciary standards does not necessarily strengthen national financial management; it may actually restrict access if support is not available to help national institutions meet such standards.

⁹ Alice Caravani et al in ODI Climate Finance Fundamentals Brief. November 2011

¹⁰ The MDBs have established a working group to develop common guidance on how to identify investments in adaptation in 2012.

¹¹ Fussel, H.M., 2007, *Vulnerability: A Generally Applicable Conceptual Framework for Climate Change Research*, *Global Environmental Change* 17 (2), pp. 155-67.

Funding for Countries with Large Forests and Pristine Ecosystems

14. The UN program for Reducing Emissions from Deforestation and Forest Degradation (REDD) in developing countries was launched in 2008 and seeks to support up to 40 countries during 2011-15. REDD creates an incentive for developing countries to protect and better manage and use their forest resources; REDD+ strategies go beyond deforestation and forest degradation, and include the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks in reducing emissions. The REDD seeks to stabilize the atmospheric concentration of greenhouse gas (GHG) emissions through market mechanisms. REDD strategies aim to make forests more valuable standing as they are than being cut down by creating a financial value for the carbon stored in trees. Once this carbon is quantified, REDD involves developed countries paying developing countries carbon offsets for their standing forests. REDD is currently funded by bilateral donors and the European Commission. And while there is significant interest in the prospect of long-term finance for REDD+ activities from the private sector, it is uncertain whether and how such financing will be delivered.

15. The World Bank also recognizes the importance of helping countries with forests and administers a Forest Carbon Partnership Facility (FCPF) to reduce emissions from forests. And some countries also contribute to help forest-rich countries. Norway, for example, uses a performance-based approach under which it makes substantial bilateral climate finance commitments through its International Forest Climate Initiative, including for results-based performance on REDD+ in a small number of key forest-rich countries such as Brazil, Indonesia, Guyana, and Tanzania.

Public Sources of Finance

16. Most public sources of climate funding come from development banks, UN agencies, and bilateral aid agencies (\$39 billion), with bilateral sources playing a much larger role (\$24 billion). Public climate finance is largely disbursed through bilateral and multilateral financial institutions and government agencies, rather than directly from governments to end-users. Important players in climate finance in the region include the Inter-American Development Bank (IDB), the World Bank, the MDG Achievement Fund (MDG-F), and increasingly bilateral contributors. The UNFCCC report suggests that by 2010 LAC countries had received \$421.92 million from Germany, France and Japan¹².

17. The Global Environment Facility (GEF) is the largest source of grant-financing resources for mitigation. In the LAC Region the biggest recipients from GEF fund are Mexico, Brazil, Argentina, Peru, Chile, Colombia and Nicaragua. Cumulatively these countries received US\$379 million for mitigation projects, which constitutes 13 percent of the total GEF financing envelope of US\$2.9 billion. The remaining LAC countries received only 2 percent of

¹² Alice Caravani et al, Climate Finance Fundamentals. November 2011

GEF resources. The co-financing of GEF financed projects in LAC has six times increased the amount of financing for mitigation bringing it to a total of US\$2.6 billion. Mexico leads in LAC as the biggest recipient of GEF financing in the Region with the total GEF financing of US\$158 million and co-financing for the same projects amassing to US\$913 million.

18. Carbon finance, or the sale by governments of carbon offset credits to polluters, plays a relatively small role globally, totaling about \$2 billion. Dedicated climate funds constitute a small but growing source of finance (\$1.1-\$3.2 billion).

19. The public sources and instruments of climate finance are numerous. They can be characterized as “climate-specific” or “climate-related.” Climate-specific sources include climate funding or carbon offset instruments provided by the GEF, while climate-related sources and instruments include multilateral banks’ Development Policy Loans (DPLs). DPLs aim to help borrowers reduce poverty through policy and institutional measures that promote growth and boost the incomes of the poor. They may only indirectly help countries lower their GHGs by supporting policies that build the capacity for environmental regulation. The World Bank, for example, has stepped up its policy lending to LAC through DPLs (e.g., Brazil, Mexico, Peru, and Colombia) to support a wide variety of energy, forestry, transport, extractive, and agriculture policy reforms. The Bank’s \$501 million DPL for Mexico was approved in 2008 in light of the Mexican government’s high capacity level and its steady efforts to expand that capacity. The DPL supports the government’s efforts to mainstream climate-change concerns into public policy by improving its analytical capacity for policy responses, forming an inter-secretarial commission on climate change to support a national climate-change strategy, and integrating climate-change consideration in sector programs.

20. Funds available to address climate change are generally of two types: reimbursable and non-reimbursable. Countries grappling with serious debt problems and lacking financing for climate change generally seek non-reimbursable financing. The criteria for receiving these funds are challenging for some developing countries. They include reducing GHG emissions, strengthening adaptation, reducing the vulnerability to climate-change effects, and contributing to sustainable development. Some donors may also encourage recipients to attract private investment, develop local capacities, reduce poverty, and expand the role of women in projects. It is acknowledged that comprehensive climate change programs need to tackle links between information and decision-making, besides adaptation and mitigation.¹³

Public International Sources

21. Public international sources of climate funding include the following:

¹³ Walter Vergara, 2008, The climate change program in LAC. Use of the earth simulator. Powerpoint Presentation. World Bank. January 17.

- Bilateral aid agencies, including foreign governments and entities, such as the European Commission and funds sponsored by Australia, Germany, Japan, Norway, and the United Kingdom. The Swiss Cooperation Fund, for example, seeks to enhance the capacities of local governments in LAC to deal with climate-related disasters and enhance the roles and functions of local governments in creating climate-friendly investments. And the Nordic Development Fund has an international project to explore ways to integrate mitigation and adaptation goals in the context of urban planning, and it is attracting support from such other sources as the IDB. The government of Japan also sponsors a program to strengthen public infrastructure in recipient countries, making them more resistant to the effects of extreme weather. Germany's International Climate Initiative seeks to promote a climate-friendly economy while Australia's International Forest Carbon Initiative seeks to cut forest emissions.
- Multilateral institutions, such as the World Bank, the International Finance Corporation (IFC), the Inter-American Development Bank (IDB), the European Union, the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (AsDB), and the African Development Bank (AfDB);
- Dedicated funds, which address specific climate-change challenges. These include the Pilot Program for Climate Resilience (PPCR), the Least Developed Countries Fund (LDCF), and the Special Climate Change Fund (SCCF). Stakeholders in these funds typically include multilateral development banks, the United Nations and UN agencies, the Global Environment Facility, the UN Framework Convention on Climate Change (UNFCCC), non-governmental organizations (NGOs), indigenous peoples, private-sector entities, and scientific and technical experts.
- The Climate Change Adaptation Fund, created under the UNFCCC is designed to finance concrete climate change adaptation projects and programs based on the needs, views and priorities of developing country signatories to the Kyoto Protocol. The World Bank serves as trustee for the Adaptation Fund and the Global Environment Facility (GEF) provides secretariat services. The financing from the Adaptation Fund is on a grant basis. The Adaptation Fund (AF) can be accessed either through a National Implementing Entity accredited by the Adaptation Fund Board or multilateral implementing entities, which include multilateral organizations and regional development banks, accredited by the AF Board.
- Carbon finance refers to carbon credits for reducing GHG emissions. The buying and selling of carbon credits takes place among a wide variety of actors, including developers of emission reduction projects, banks and brokers, and market makers and exchanges. Uruguay, for example, has moved quickly to secure innovative financing through the carbon market, with World Bank support through the World Bank's Carbon Finance Assistance Program.

Public National Sources

22. Public national sources of climate finance are nationally-owned and driven funds—established in developed and developing countries—that help countries gather climate finance from several sources, blend them together, and monitor and evaluate their use. Countries can thus direct the funds to activities that achieve grass roots results. Such national sources include environmental taxation (e.g., carbon taxes), removal of subsidies (particularly for energy), carbon markets, and cap-and-trade emissions trading systems.

23. Many developed countries have established dedicated climate finance initiatives, often managed by their development assistance agencies with input from agencies overseeing climate change and environmental activities. A growing number of developing countries have also established funds within their national institutional structures that can support climate change activities. These funds take several forms and are funded through a variety of sources that may include international finance from developed countries as well as domestic budget allocations.

Private Sources of Financing

24. Many public climate funds have the express goal of mobilizing private financing, partly because public sources are constrained by budget deficits and limits on ODA. The Clean Technology Fund of the Climate Investment Funds, for example, focuses on leveraging private investment. It has supported a large number of projects to extend lines of credit to financial intermediary institutions in developing countries to invest in renewable energy and energy efficiency projects. Local financial institutions are assumed to have a better understanding of the private sector and be better placed to identify local investment opportunities, especially with small and medium-sized enterprises.

25. Private debt and equity financing tends to be heavily concentrated in a relatively small number of countries, mainly the more advanced emerging economies, while the least developed countries receive less than 3 percent of foreign direct investment.¹⁴ By some estimates, only \$24 billion of more than \$200 billion of investment in sustainable energy in developing countries in 2010 was invested outside China, India, Brazil, Mexico, and Turkey.¹⁵ In turn, private investment in some sectors that are central to climate-compatible development is difficult. Attempts to reform the water sector to allow private sector participation in many developing countries, for example, have not always proved economically or politically

¹⁴ Atteridge, Aaron, 2011, Will Private Finance Support Climate Change Adaptation in Developing Countries? Historical Investment Patterns as a Window on Future Private Climate Finance. Stockholm Environmental Institute Working Paper. Stockholm, Sweden.

¹⁵ Robins, 2012, Long Term Finance for Climate Action. HSBC Climate Change Competence Centre. http://unfccc.int/files/cooperation_support/financial_mechanism/long-term_finance/application/pdf/nr_long-term_finance_oct_2012_fin_saic.pdf.

attractive. Many developing countries and NGOs believe that climate finance should largely come from public sources and attract private finance as co-finance or leveraged finance, given the high costs of climate change.

26. A country's ability to attract private climate finance seems to be correlated with its ability to attract foreign direct investment more generally. This ability is based on the ease of doing business in the country and its overall policy, regulatory, and business environment, and competencies and capacity to deliver results (considering resources, technology, skills, operations and management). Private finance responds to existing and forecasted short-term market conditions, which are shaped by domestic policy. Private investment often results from underlying market structures that allow private companies and other actors to participate in relevant sectors as service providers or investors.

27. In this regard, the Clean Development Mechanism (CDM),¹⁶ one of the mechanisms incorporated into the Kyoto Protocol, has helped mobilize foreign direct investment in climate mitigation in developing countries by providing commercial incentives for the private sector to invest in mitigation projects. China's experience with the CDM offers lessons for other developing countries. It has adopted a number of proactive clean-energy measures that target financing from the CDM and CERs (Certified Emission Reduction credits). As a result, it has been the major beneficiary of the program. As of September 2012, 4,546 projects were registered under the CDM, of which 50 percent were located in China. The Appendix 1 describes the experience of CDM in China.

Public and Private International Instruments

28. A wide range of climate-change financing instruments have emerged and more are being developed. But they have arguably not been widely used, among other factors, because of LAC finance ministries' lack of knowledge of available opportunities, uncertainty about their functioning, and insufficient appreciation of their value added. At the same time, LAC governments are facing both internal and external pressures to efficiently manage public finances to respond to the climate-change challenges.

29. These climate finance instruments include:

- grants from donors, the GEF, and other environment facilities and funds;
- loans from international financial and multilateral development institutions (e.g., World Bank, IDB, International Monetary Fund);

¹⁶ The Clean Development Mechanism (CDM) allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one ton of CO₂. These CERs can be traded and sold, and used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol. The mechanism stimulates sustainable development and emission reductions, while giving industrialized countries some flexibility in how they meet their emission reduction limitation targets.

- carbon finance for developing countries that reduce GHG emissions;
- green bonds may be issued by, for example, the World Bank, governments, and corporations. “Green infrastructure” bonds are issued to refinance and operate low-carbon infrastructure;
- emissions trading refers to country signatories to the Kyoto Protocol¹⁷ that allow countries with emission units to spare--emissions permitted them but not "used"-- to sell this excess capacity to countries that exceed their targets;¹⁸
- private investment, including equity, and public-private partnerships;
- guarantees, including risk guarantees to support clean energy technologies; and
- related World Bank instruments and knowledge products.

30. In general, a mix of instruments is required as individual countries’ needs differ, reflecting different priorities in mitigation, adaptation, institutional capacity, and financial situations. From a fiscal perspective, climate-change financing instruments fall under three categories:

1. Public expenditure instruments provide incentives for greener actions, including, for example, subsidies, grants, and tax allowances.
2. Revenue-generating instruments seek to create a culture of payment for polluting; they include taxes, charges, and fees.
3. Budget-neutral instruments include, for example, deposit and refund systems (recycling) and distributive credits (e.g., related to waste management).¹⁹

31. In spite of a great variety of the climate change related funds, the access to international financing remains a challenge. It is important to recognize that the demand for climate financing is far larger than the supply of funds, which is quite limited. Even when countries are trying to access these funds, e.g., PPCR, Adaptation Fund, FCPF, etc., the available demand by far outstrips the current supply. Even if countries may apply for the funds, these may not be available to accommodate the demand. Therefore, the biggest dedicated funds, such as CTF and especially PPCR, actually selected the recipient countries based on an established and agreed criteria. The countries of the LAC Region that qualified for the PPCR include Bolivia, Caribbean Regional Track, Grenada, Jamaica, Saint Lucia, and Saint Vincent and the Grenadines.

¹⁷ An international agreement linked to the UN Framework Convention on Climate Change. The agreement sets binding targets for 37 industrial countries and the European Community for reducing GHG emissions.

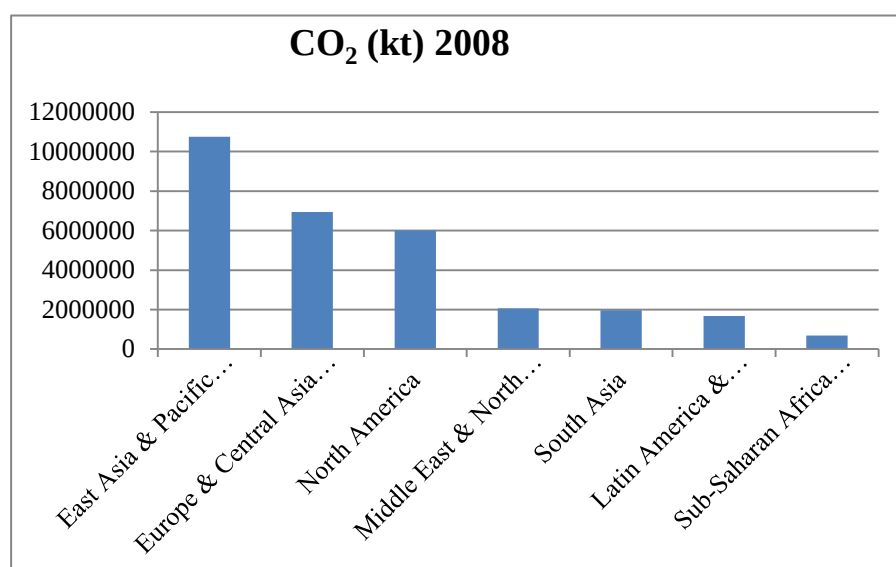
¹⁸ This is the case only for the five year period 2008-12; it is not clear how the flexible mechanisms will be structured under the Kyoto successor.

¹⁹ From International Institute for Sustainable Development, available at <http://www.iisd.org/greenbud/evolutio.htm>

III. Climate Financing in the LAC Region

32. The LAC region is home to about 8.6 percent of the world's population and accounts for some 8.8 percent of global GDP. The region generates about 5.2 percent of the world's CO₂ emissions and accounts for 11 percent of global greenhouse gas (GHG) emissions (Figure 2). One reason for this includes LAC's record of low carbon development and its relatively clean energy matrix owing partly to changes in land-use policies and deforestation efforts. Still, the region is particularly vulnerable to the effects of climate change owing to its geographic location and reliance on natural resources. Particularly critical for supporting low carbon economic growth are the energy and transport sectors, which represent the bulk of emissions in the region and promote avoidance of deforestation.²⁰ Also land use change and forestry are critical, especially in the countries in the Andean and Amazon sub-regions. In Peru, for example, land use change and forestry are the largest contributors to GHG emissions (73 percent), followed by agriculture (13 percent); the agricultural sector (including land use change and forestry) has tremendous emission reduction potential.²¹

Figure 2. Greenhouse Gas Emissions in LAC vs. Other Regions



Source: World Bank data and staff estimates

33. Costa Rica, for example, is also committed to reducing GHG emissions from its forests and has accessed funding from the World Bank's Forest Carbon Partnership Facility (FCPF). The Bank recently donated \$3.6 million to Costa Rica to help it meet its goal of being carbon neutral by 2021—and thus helping mitigate climate change. The plan is to achieve this goal by reducing carbon emissions from deforestation and forest degradation, sustainably managing

²⁰ Walter Vergara, 2008, Ibid

²¹ World Bank, 2009, Climate Change Aspects in Agriculture. Peru Country Note. World Bank. January 2009.

forests, and conserving and enhancing forest carbon stocks, while accessing international financial incentives for local forest users. Costa Rica also offers payments for ecosystem services to induce conservation while compensating those who bear its costs. These approaches offer significant potential for other LAC countries with large forested areas.

34. Estimates differ on how well LAC, as a region, does in accessing global climate finance. One source²² concludes that LAC receives the second highest level of climate funding from public bilateral and multilateral sources (Tables 2 and 3), following Asia, which is doing better, especially as a recipient of bilateral funds.

Table 2. Recipients of Multilateral Finance in LAC vs. Other Regions, 2009-10

Recipient region	Million USD	Percent
Asia	2,742	26
Latin America and Caribbean	2,402	23
Europe and CIS	1,987	19
North & Central America	1,566	15
Middle East & North Africa (MENA)	1,055	10
Africa	435	4
Oceania	55	1
Unspecified	219	2
Total	10,460	100

Source: Buchner, Barbara, and others, 2011, *The Landscape of Climate Finance*, Climate Policy Initiative (CPI), Venice

Table 3. Recipients of Bilateral Finance in LAC vs. Other Regions, 2009-10²³

Recipient region	Million USD	Percent
Asia	8,660	40
Latin America	5,355	25
North Africa and Middle East	3,028	14
Other Africa	2,558	12
Oceania	182	1
Caribbean and Central America	155	1
Europe	84	0
America	32	0
Trans-regional / Unspecified	1,620	7
Total	21,674	100

Source: Buchner, Barbara, and others, 2011, *The Landscape of Climate Finance*, Climate Policy Initiative (CPI), Venice

²² Buchner, Barbara, and others, 2011, *The Landscape of Climate Finance*, Climate Policy Initiative (CPI), Venice. This and all other figures in this paragraph are from *The Landscape of Climate Finance*. See the Appendix A and H with the details and the formula used for the calculations.

²³ Ibid.

35. Another source, however, contradicts these estimates while underscoring the difficulty of citing authoritative data on climate financing in the LAC region.²⁴ According to this source, the LAC region does poorly in accessing global climate finance. It received just \$930 million in bilateral and multilateral climate financing between 2004 and October 2011 through dedicated climate funds.²⁵ If this figure for climate-specific funding is correct, it would represent only about \$116 million annually for the entire LAC region. This would constitute less than 5 percent of the annual estimates of Barbara Buchner and her colleagues. However, other climate related financing is available to the region (Annexes I and II) from the international financial institutions and bilateral donors.

Matching Climate Challenges with Financial and Development Resources

36. Another way to visualize countries' challenges of accessing climate finance is to compare the challenges faced by countries with the appropriate financial and development resources to meet these challenges (Table 4).

Table 4. Key Climate Challenges and Available Resources to Address Them²⁶

Climate Challenge	Financial and Development Resources
Low awareness, capacity, and experience with low-carbon opportunities and with access to climate finance resources and instruments.	<i>Building an appropriate enabling environment:</i> Global Environment Facility (GEF)
Misaligned, weak, or absent regulation and incentives, such as the absence of an adequate, long-term, and predictable price for carbon; subsidies that create adverse incentives; or the lack of a regulatory framework for renewable energy expansion.	Trust Funds, such as the Energy Sector Management Assistance Program (ESMAP) Bilateral donor funds Development Policy Operations (DPOs) Strategic Environmental Assessments (WB)
Chronic lack of long-term funding, such as the high cost of capital or low liquidity in domestic financial markets.	<i>Providing investment finance and leveraging further resources:</i> Global Environment Facility (GEF) Clean Technology Fund (CTF)

²⁴ Climate Funds Update, a joint initiative of the Overseas Development Institute and the Heinrich Boll Foundation.

²⁵ Caravani, Alice, and others, 2011, *Regional Briefing: Latin America*, Climate Funds Update, Washington, p. 1. Available at www.climatefundsupdate.org

²⁶ These refer to international public climate change financing instruments that are complementary to other e.g. private and domestic sources. Out of the active World Bank lending portfolio to the LAC region in November 2012, 51 percent goes to Sustainable Development Including projects in agriculture and rural development, energy, environment, global ICT, infrastructure, oil, gas and mining, social development, transport, urban development and water.

	Carbon finance (revenue enhancement) World Bank (IBRD) or International Development Association (IDA)
High (perceived) risks, such as strategic, country, commodity price, technology, or operation risk.	<i>Providing guarantees or risk coverage:</i> Global Environment Facility (GEF); risks associated with operation and financing of new technologies. Clean Technology Fund (CTF); partial risk guarantees focus on technological uptake. Multilateral Investment Guarantee Agency (MIGA); country or political risk. World Bank Group (including IBRD, IFC) Guarantees and Structured Finance

Source: Richard Hosier and a team of authors in the World Bank Environment Department.²⁷

37. The tabular data above, however, are limited in that they list funding sources associated mainly with the World Bank (e.g., even independent multilateral funds, such as the GEF, have historically been housed in the World Bank or relied on it to serve as a trustee). The data also focus on mitigating climate change, and therefore on mitigation finance, which in turn centers on energy efficiency, renewable energy, and such other challenges as reducing deforestation. Adaptation to climate change, on the other hand, and its accompanying challenges -- be they technological, institutional, or financial -- are largely absent. (Annex II provides a more comprehensive listing of funding sources not affiliated with the World Bank, as well as those focusing on adaptation.²⁸)

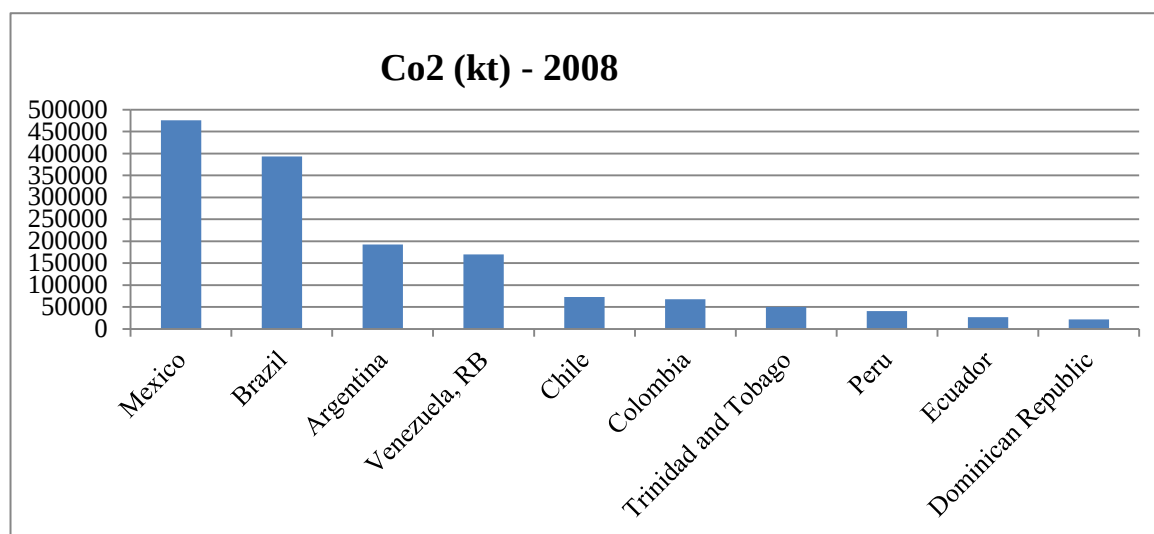
Regional Disparities

38. Any discussion of the LAC region as a whole needs to acknowledge the important disparities among countries within the region, both with respect to their economic performance and environmental problems. Disparities in emissions of GHGs, for example, are considerable and typically reflect differences in economic size and growth patterns (Figure 3).

²⁷ Richard Hosier and others, 2010, "Beyond the Sum of Its Parts: Combining Financial Instruments for Impact and Efficiency," World Bank, Issue Brief No. 3, June, Table 2, p. 4 (table modified by present author).

²⁸ Ari Huhtala and others, "Climate Finance in the Urban Context," World Bank, Issue Brief No. 4, Nov. 2010, Annex, pp. 10-11 (table modified somewhat by present author).

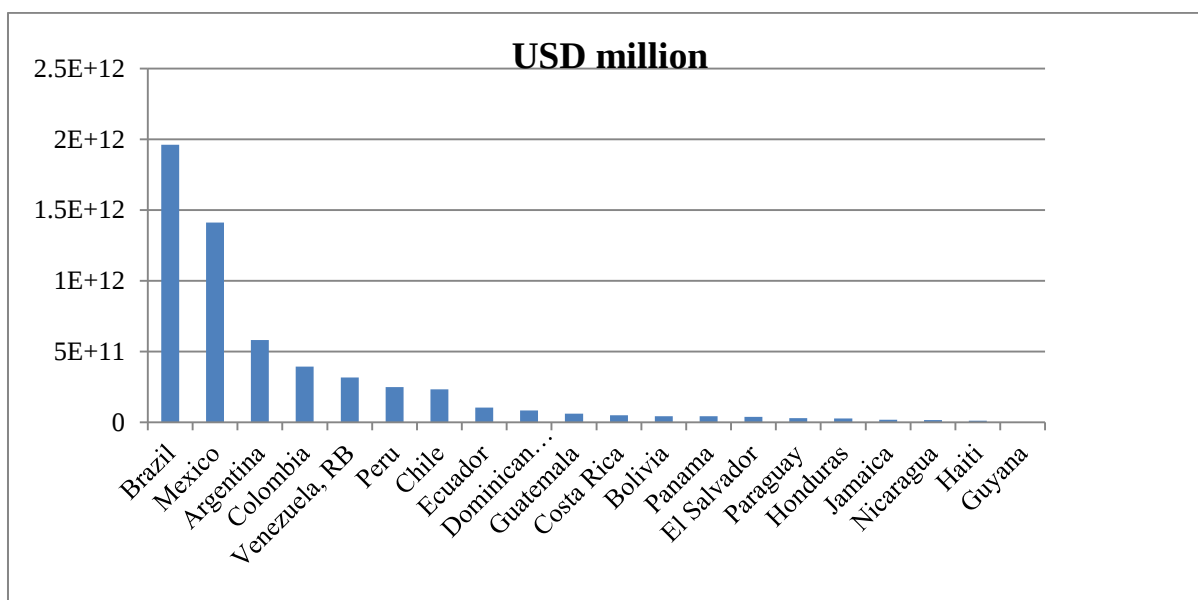
Figure 3. Greenhouse Gas Emissions in LAC: Top 10



Source: World Bank data and staff estimates

39. The concentration of GHGs in a relatively small number of LAC countries suggests differing climate challenges and priorities within the region. The high-emitting countries, for example, may need to focus on both mitigation and adaptation, while the low-emitting countries may be more concerned with adaptation. Data for the top 10 GHG emitters, when compared with the largest economies in the region (Figure 4), show a strong correlation between the size of an economy and its GHG emissions.

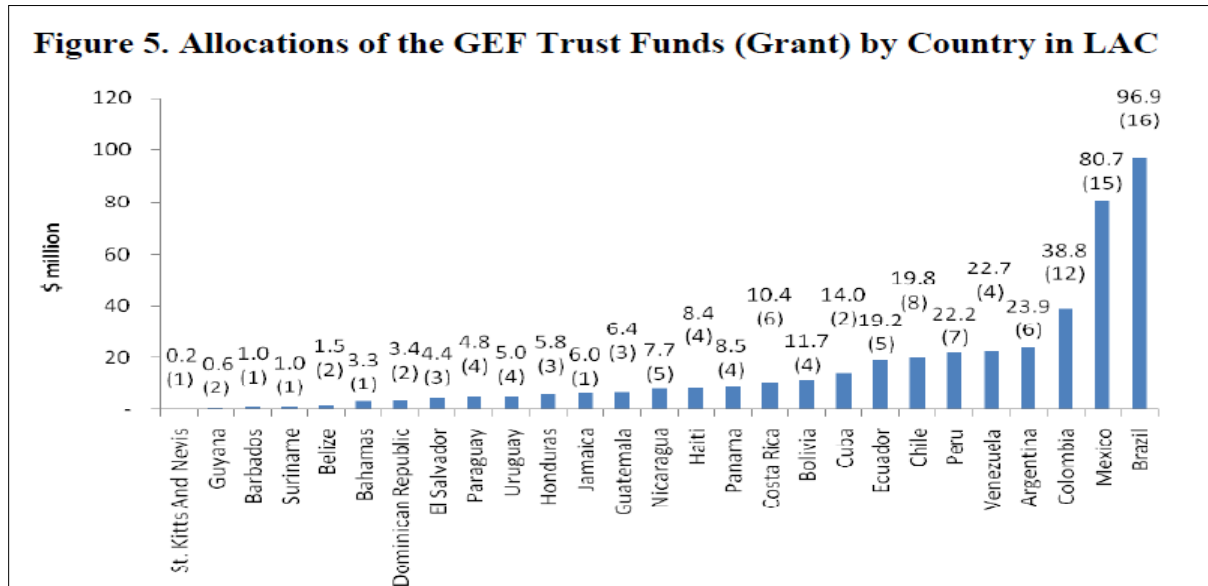
Figure 4. LAC Region: GDP Distribution ²⁹



Source: World Bank data and staff estimates

²⁹ 2011, World Development Indicators, World Bank.

40. In considering the relationship between economic output and emissions of GHGs, a related question arises: which countries are applying for, and receiving, climate financing? A look at GEF data reveals climate funding levels for LAC countries that mirror the countries' level of economic development (Figure 5). The data presented below reveal large disparities in the distribution of climate finance within the LAC region, begging the question: why do the larger countries³⁰ in LAC receive more climate financing?



Source: Yu and Miller, IDB, 2011.

41. A preliminary analysis of the data on LAC countries' access to climate change financing suggests several hypotheses:

- *Larger countries are more industrialized and offer greater potential to reduce GHGs on a large scale.* According to one study, five large countries--Brazil, Chile, Colombia, Mexico, and Peru---receive 69 percent of all bilateral and multilateral finance for LAC.³¹
- *Although the relationship between the climate financing received and the quality of their public sector management systems is more difficult to establish, analysis points out to the positive impact of good institutions.* The analysis of the indicators for public financial management and environmental governance, based on the World Bank's Country Policy and Institutional Assessment (CPIA) indicators³², does not show strong correlation

³⁰ in terms of economic size and population

³¹ Caravani, Alice, and others, 2011, *Regional Briefing: Latin America*, Climate Funds Update, Washington, pp. 2-3. Available at www.climatefundsupdate.org.

³² The Country Policy and Institutional Assessment (CPIA) assesses the quality of a country's present policy and institutional framework. The [World] Bank initiated country assessments in the late 1970s to help guide the allocation of IDA lending (concessional lending for low-income countries). The CPIA consists of a set of criteria representing the different policy and institutional dimensions of an effective poverty reduction and growth strategy, including one criterion for Policies and Institutions for Environmental Sustainability. From World Bank,

between the quality of environmental governance and the quality of public administration more generally with the cumulative resources that the countries have from various funds (see Figure 3 and 5 in Chapter III). However, a 2003 World Bank's analysis³³ of the role of institutions in environmental management seems to support the link between good institutions and environmental management. The analysis underscores political commitment to environmental issues, availability and quality of data to inform the policymaking process, rules and procedures for involving the public and civil society in the policy making process, the administrative efficiency (status and structure of environmental agency, technical capacity, mechanisms for cross-sectoral coordination), mechanisms for monitoring and enforcing compliance, accountability and public expenditure management and ability to mobilize sufficient financing from various sources.

- *Some countries with low CPIA scores appear to be better at accessing environmental funds than their better-governed peers.* This seems to hold, for example, for Bolivia and Ecuador. Their success in accessing funds may be the result of substantial donor assistance with identifying funds and helping develop and submit funding proposals. In this context, this Policy Note examines climate funds' application requirements to determine whether they constitute an obstacle, and, if so, how to overcome it (see Annex 4 on applying to climate funds).
- *Some countries with better governance and environmental governance indicators may have gained access, but the amounts they attract are lower than what regional leaders get.* The countries like Belize, Costa Rica, Dominica, Grenada, Panama, and Uruguay access the funds but receive fairly modest amounts. This may reflect either their small size or the ability of larger countries to present stronger applications with compelling justifications. More telling indicators may be derived by looking at, for example, calculating their climate funding as a percent of their GDP, as a share of their annual expenditures, or as an allocation in per capita terms.
- *Some smaller countries of the Caribbean or in Central America have historically received little or no climate finance in any given funding cycle.* This could be attributable to the absence of environmental strategies, lack of awareness of the possibilities, lack of skills to prepare proposals, lack of capacity to implement environmental projects, or other issues. Regional approaches to addressing climate change problems in the Caribbean have been more attractive due to the size of the countries and similarity of problems faced.

Country Policy and Institutional Assessments: 2010 Assessment Questionnaire, Operations Policy and Country Services, September 3, 2010, pp. 1, 3, and 30.

³³ Lovei, Assessing Environmental Policy, Regulatory and Institutional Capacity. Environment Strategy Note #7, 2003

IV. Applying to Climate Funds

42. Several variables are important in formulating effective applications for climate financing. The various steps in the application process typically involve review of the project submitted, initial approval, formal endorsement by the agency, and implementation. Implementation is then followed by supervision, monitoring, and evaluation (Annex IV). The criteria of the GEF and other sources of climate finance typically include proposals that are scientifically and economically sound, have a strong rationale and realistic objectives for the project, the project's consistency with the donor agencies' strategies and focal areas, the completeness of the application, and an adequate scale of expected co-financing.

43. The elements that contribute to LAC countries' success in applying for climate finance include:

- In-depth evaluation of, and familiarization with, funding options (e.g., types of funds, their purpose, and qualification criteria).
- Understanding the incentives for applying for the funds (given that the purpose of funding is often strictly defined and that most financing is in the form of loans).
- Understanding threshold requirements for the capacity of institutions to benefit from financing--including the capacity to prepare applications and assure proper monitoring of projects, as well as a public financial management system that can manage environmental financing and generate reliable reporting.
- Being able to formulate effective proposals for funding. Countries can draw on the UN system and multilateral banks can provide technical assistance in this regard, as can civil society groups and academics (Annex IV).
- Understanding what successful applicants have done that others have not.

V. Factors Enhancing LAC Access to Global Climate Funds

44. To qualify for the increased flows of climate funding, countries must first demonstrate their readiness to absorb it.³⁴ This requires that they (i) assess and articulate their needs and priorities, (ii) understand the costs of mitigation and adaptation, (iii) have capable and well managed institutions that can develop and manage projects; (iv) have robust public financial management systems capable of budgeting and transparent financial reporting, and (v) have effective systems of monitoring results. In addition, a combination of the following factors have been identified as influencing the LAC Region's access to climate financing: large emission-reduction projects, economic size and energy consumption, environmental policies and institutions and quality of public administration, as explained below.

³⁴ Interview with Philippe Ambrosi, Environmental Economist, World Bank April 6, 2012.

Large Emission-Reduction Projects

45. *Large countries are likely to have larger project with environment components that attract funds.* As noted earlier, the five LAC countries with relatively high GDPs have attracted by far the most funding from global climate funds. Brazil (\$94 million), Mexico (\$54 million), Peru (\$32 million), Colombia (\$25 million), and Chile (\$18 million), according to one source,³⁵ lead all other countries in their access to global climate funding from dedicated multilateral funds, garnering 69 percent of such funds.

46. Large projects in these countries offer the greatest potential for large-scale emissions reduction; these include Clean Development Mechanism projects with proven methodologies. It has been difficult to effectively target technology projects with a higher risk profile and to target the poorest, often rural, communities and the most vulnerable, but often disenfranchised population groups, such as women or indigenous peoples within countries.³⁶

Economic Size and Energy Consumption

47. *The size of the economy and the level of energy consumption is a strong predictor of the amount of allocated financing for climate mitigation and adaptation objectives.* A look at the climate funding data in this Policy Note, in conjunction with other variables – such as GHGs, policies and institutions for environmental sustainability, and overall quality of public administration³⁷ – also yields useful insights. Comparing national climate-funding levels with GHG emissions, for example, yields a correlation of 0.9. This suggests a strong relationship between energy consumption and resulting CO₂ emissions and the receipt of climate funding. From an environmental perspective this seems logical, and to some extent explains the concentration of the funds toward the region's largest emitters of GHGs. From the perspective of lower-income countries with unmet adaptation needs, however, such an allocation would seem to require the need for counterbalancing through the creation of a separate funding stream for low-emission economies.

Environmental Policies and Institutions

48. *Countries with strong environmental institutions and well-articulated environmental policies are more likely to access climate financing.* The CPIA indicator on policies and institutions for environmental sustainability also proves telling. For example, the countries attracting the most climate funding nearly all rank in the top 10 regionally, based on this indicator. Although there are some exceptions, as well as other explanatory factors (including GHG emissions), this correlation suggests that stronger environmental policies and institutions

³⁵ Caravani, Alice, and others, 2011: *Regional Briefing: Latin America*, Climate Funds Update, Washington, pp 2-3. Available at www.climatefundsupdate.org.

³⁶ Ibid, pp. 3-4.

³⁷ Drawn from the World Bank's CPIA indicators

can attract greater climate finance. This finding is supported by climate and development professionals interviewed for this Policy Note (Annex IV).

49. Nonetheless, a wide range of smaller countries (e.g., Costa Rica, Uruguay, and Panama) with strong environmental policies do not seem to benefit from greater climate funding. This would seem to suggest that, for most countries with relatively low GHG emissions, the existence of strong environmental policies and institutions alone is not sufficient to attract international public climate finance.

Quality of Public Administration

50. *Finally, the quality of public administration is just one, but not the decisive factor.* Even if the opinions of development and climate specialists interviewed for this Policy Note suggest that sound public administration and financial management are important for securing climate funding from international sources – this causality seems difficult to prove based on the correlations of the CPIA indicators, GEF funding and CO² emissions. Among the various CPIA indicators, both indicators – those representing the overall quality of public administration and the quality of budget and financial management – have the same correlation (0.4) to the receipt of climate funding. This correlation, however, exceeds that for other common CPIA variables, such as property rights and rule-based government (which, for countries in the LAC region, has a correlation to climate funding of just 0.1), and transparency, accountability, and corruption in the public sector (which has a correlation to climate funding of 0.2). The correlation analysis suggests that although public institutions are important for a successful access to environmental finances, these factors interplay with other factors discussed in the following section.

A Combination of Factors

51. *For countries with smaller economies, access depends on a combination of variables rather than any single one.* In Bolivia, for example, a combination of demographics, environmental characteristics, economics and governance challenges, high levels of poverty, unsustainable natural resource use, and high levels of vulnerability are responsible for its relative success in accessing international climate funding. The country accessed \$13 million from the GEF during 2006-10 and \$6.9 million so far during 2010-14 (the current GEF funding cycle). El Salvador, on the other hand, has accessed just \$3.5 million during 2006-10 and \$1.6 million so far in 2010-14.

Country Access to Global Climate Funds: Mexico, El Salvador, and Bolivia

52. Based on two case studies for Bolivia and El Salvador and some specific examples from Mexico, some generalizations can be made about how individual country practices can help or hinder access to global climate funds.

53. Mexico's successful access underscores the importance of strong political and institutional commitment and capability for addressing climate change. The country has also long recognized the multi-sector dimension of the climate challenge, having established an Inter-Sectoral Commission on Climate Change in 2005. The Commission's purpose is to formulate and coordinate national climate-change strategies and incorporate them into sectoral programs. In 2007, Mexico announced a National Climate Change Strategy to put climate change at the heart of the country's development strategy.

54. Bolivia has had relative success in accessing climate finance, owing to a combination of factors including demographics, environmental characteristics, economics and governance combined with large environmental challenges, a high poverty level, unsustainable natural resource use, and high vulnerability to climate change. But its public institutions lack the capacity to effectively prepare and follow up on environmental programs and it needs to better demonstrate an ability to use international climate funds more effectively and cost-efficiently. Nevertheless, Bolivia was fortunate to be selected for the PPCR, which creates the opportunity to leverage funds and to attract more attention to the adaptation aspects of Bolivia's climate change program.

55. El Salvador has received relatively little climate funding, despite its high level of deforestation and vulnerability to climate change. This may be attributable to its weak institutional capacity and coordination, insufficient budget resources to cover requisite counterpart contribution to climate-related projects, and lack of national consensus (and a master plan) for addressing climate change, as evidenced in the case study (see Part II).

VI. Conclusions and Recommendations

56. *Climate financing for LAC is concentrated in the five countries with the highest GDPs in the region: Brazil, Mexico, Peru, Colombia, and Chile. Smaller countries like Bolivia, Paraguay, and small-island economies get significantly less. This is due partly to their lower emission-reduction potential but also to institutional and policy capacity constraints. It is generally difficult to access financing owing to differences among instruments and eligibility requirements, especially in a fast-evolving environment and with problems in assembling the required data.*

57. *The recent large increase in climate financing brings with it added complexities. It would be advisable for the LAC Finance Ministries to aim at taking an active role in the debate over a new architecture for climate finance. Furthermore, ideally, countries should be able to identify the funds most suitable for them, attract financing from various sources, blend them, and coordinate the programs funded by them and effectively monitor and evaluate their results. But this demands a wide range of high-quality institutional capacities to manage resources at the national level in pursuing environmental goals.*

58. *Access to climate finance is seen by some as the result of the maturity of a country's governance systems*³⁸. Such maturity includes strategic development vision and planning capacity, understanding the impact of long-term economic and social development on the environment, awareness of environmental impacts on current and future generations, as well as technical capacity of the public administration to budget, implement, and monitor results.

59. In general, countries most successful in attracting multilateral and bilateral sources of climate financing seem to share many of the following attributes:

- *Good potential for reducing large GHG emissions and implementing projects effectively.* This would also include efforts to develop and implement strategies to expand renewable energy sources.
- *A commitment to addressing climate-change problems.* This includes political commitment, which can be evidenced, for example, by a country's participation in regional and international agreements related to environmental sustainability. Commitment is also demonstrated by national climate-change strategies that set clear priorities over the medium and long term and that are integrated into economic development concerns. Costa Rica has done well in this regard, committing itself to being carbon neutral by 2021 and passing laws (e.g., on solid waste management and banning opencast metal mining) in support of this goal.
- *The ability to co-finance projects with funding from a range of sources, including a country's own treasury.* Mexico, for example, has been successful in accessing climate finance, partly because it has arranged significant co-financing to combine with GEF and CTF grant and concessional funding. It has also demonstrated the ability to effectively blend these sources. In 2009, Mexico blended financing from its own treasury with parallel loans, grants, and other forms of aid from the GEF, the Inter-American Development Bank, the International Finance Corporation, the carbon market, and other donors. While such blending is challenging, especially for countries with limited capacity, it is important for accumulating sufficient amounts of climate finance.
- *Institutional capacities to use climate finance effectively.* These include adequate public administration capacity and effective governance aimed at creating and implementing laws that protect the country's environment, and at evaluating their effectiveness. Other capacities include: systematic reporting on environmental conditions; planning and monitoring tools, and the ability to develop baselines for the evaluation of environmental variables; qualified personnel in the relevant ministries and a stable civil service; good governance and an adequate legal and regulatory framework; and effective public financial management.

³⁸ Interviews with several Environment Specialists at the World Bank

- *Consistency in policies* (a key requirement of the GEF) as well as the ability to seek synergies by establishing cross-cutting strategies among the finance and other relevant ministries, for example, to monitor and evaluate the use of financing. A presence of a well-articulated mitigation and adaptation strategy in the country and high level leadership in implementing it increases chances of access to climate change financing.
- *A strong civil society, with a culture of participation to articulate demands, guide government action, and ensure greater transparency.* In Bolivia, for example, indigenous organizations, supported by national and international non-governmental organizations (NGOs), defined the climate change position of the Bolivian government and took part in negotiations. This included consulting with a wide range of non-government stakeholders in business, the scientific community, and environmental organizations. And Honduras has created national, regional, and municipal consultative commissions to facilitate the protection of forest resources.
- *Assembling effective and persuasive project applications* by accessing technical assistance and examining the applications of countries that have successfully accessed funding. Countries need to learn from other countries' experiences with climate-related projects what works and what does not.³⁹
- *Having a responsible central government entity that serves as a national climate-change focal point* may help LAC countries' ministries of finance to respond to the implementation requirements of environmental funding institutions. Among the responsibility of such an entity would be registering and overseeing the financial execution of public investments and ensuring better and more transparent procedures and reporting systems. It would also assess the potential of various financing mechanisms, such as environmental taxes and dedicated contributions, to finance an environmental fund to address future challenges.
- *Coordinated environmental governance.* The climate-change entity would also promote synergies between government institutions dealing with climate-related issues, strengthen opportunities for citizen participation, and improve the information flow to environmental education channels. In El Salvador, for example, a public information access law entered into force May 8, 2012, to guarantee the right of citizens' access to public information in order to enhance their knowledge and contribute to the transparency of government actions.

60. Given the LAC region's heavy demands for climate financing in coming decades, and notwithstanding expected increases in bilateral and multilateral sources of funding, private financing will no doubt continue to play the larger role. Private investors manage assets in the trillions of dollars globally and thus constitute a major source of potential climate financing. Accordingly, public actors are increasingly looking to use public funds to leverage private

³⁹ E.g., the Chinese example with the CDM Fund could provide valuable lessons learnt for the LAC countries.

capital investment and help develop the capacities of low-income countries to attract markets and private investment flows. Fostering private participation in low-carbon markets can not only address near-term development needs, but can also ensure the longer-term viability of these markets. Ideally, public and private actors need to set up innovative partnerships to increase both private and public flows to address climate change in LAC, as well as elsewhere. These efforts should also include ensuring effective access to climate finance for all developing countries and promoting synergies between development and climate finance.

Appendix 1: Clean Development Mechanism in China – Relevant Lessons for the LAC Countries⁴⁰

This Appendix summarizes China's example of using the Clean Development Mechanism. While overall, the carbon markets have been in decline in the recent past, the Chinese success story with the CDM offers important lessons learnt. These could be valuable for the LAC countries in their preparations to absorb other types of climate finance in the future.

Over the last few years, China has built the most dynamic CDM program in the world. China has built a solid system that not only reduces carbon emissions, but also meets national development targets in the 11th Five-Year Plan including energy security, employment creation, reduction of local pollution, and technology transfer demonstration effects.

The CDM, part of the Kyoto Protocol, encourages greenhouse gas (GHG) emissions reduction through the purchase of "carbon credits." As of March 1, 2010, China was the leading country in terms of the number of registered CDM projects (751 projects, 36.4 percent of the world total), the volume of annual expected certified emission reduction (CER) units (205 million tCO₂e, or 59.4 percent of the total registered), and actual certified emissions reductions (CERs) issued (186 million tCO₂e, or 48 percent). Another measure of the size of the China portfolio is that the number of cumulative ERs shown in the project design documents of these 751 registered projects through 2012 is 962 million tCO₂e (although in reality, not all of these CERs will be issued by that time).

The development of projects approved by China's Designated National Authority (DNA) and still awaiting registration by the CDM Executive Board has been even more impressive. As of March 1, 2010, there were 2,413 DNA approved projects in China, or 1,662 more than have been registered. This represents an enormous backlog. The DNA-approved projects total approximately 450 million in annual expected CERs tCO₂e. In terms of the number of registered projects as of March 2010, 49 percent are hydro projects, 22 percent are wind and 10 percent are energy efficiency projects. The distribution is quite different when measured by expected CERs to be generated by 2012 by the 751 projects currently registered: the majority are HFC-23 projects (38 percent), followed by hydro (16 percent), N₂O (10 percent), and wind (9 percent). However, if one reviews the entire pipeline of DNA approved projects, the pattern shifts, and hydro projects account for the largest single share in expected annual CERs (28 percent), overtaking the expected CERs to be generated by industrial gas projects.

China's CDM related achievements can be characterized by the following:

⁴⁰ Information from: World Bank, National Clean Development Mechanism Center, Energy Research Institute of the China National Development, 2010: Clean Development Mechanism in China. Five years of experience from 2004 to 2009. Conference Edition. May.

China's sound CDM regulatory and administrative framework has facilitated the delivery of significant environmental and local economic co-benefits. The Government of China appointed several key administrative institutions to be in charge of supervising the CDM market. The National Leading Group on Climate Change (NLGCC) is responsible for formulating CDM policies and defining standards. It also coordinates the National CDM Board—the location of the Designated National Authority. The National CDM Board reviews and approves CDM projects, and supervises CDM implementation. CDM Centers were created and located throughout the country, and a National CDM Fund further contributes to the country's effective CDM institutional framework.

CDM projects approved by the Designated National Authority have increasingly been in the three national priority areas designed to achieve a more sustainable national development path: renewable energy, energy efficiency, and methane recovery and use. Each of these areas is deemed to have important spillover (or “win-win”) benefits, including: (i) energy security, (ii) employment creation, (iii) reduction of local pollution, and (iv) technology demonstration and transfer.

Consistent with its 11th Five-Year Plan, China has steadily broadened its CDM activities away from industrial processes into multiple market areas offering carbon emissions reductions. This steady broadening has enabled China to diversify its carbon markets as well as consider using the CDM for increasingly varied transfers of technology, especially in the energy sector. However, with regard to issued CERs as to date, projects related to industrial processes (especially HFC-23) still dominate, but with a different share of the market: from 77 percent in 2010 to expected 38 percent in 2012.

China has steadily expanded the CDM portfolio into the poorer provinces of China, especially in the west. Yunnan, Sichuan and Gansu in Western China and Inner Mongolia and Hunan in Central China, all relatively poor provinces on a per capita GDP basis, are the top five provinces in terms of numbers of CDM projects.

China has successfully created the China CDM Fund, with payments from all projects receiving CDM revenues. The CDM Fund is reaching the point where it can begin selecting and financing its own projects in China, a unique accomplishment in a developing country. These contributions are beginning to accrue, and the Fund holds around US\$750 million as of April 2010.

There is growing awareness of climate change and a commensurate movement toward developing local capacity to take advantage of CDM carbon finance opportunities. Moreover, China is sharing its experience in this regard with other developing countries.

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Part II: Case Studies⁴¹

El Salvador: Coping with Institutional and Financial Challenges in Addressing Climate Change

61. This case study describes the current financial-management policy and inter-institutional synergies in the Salvadorian public sphere. Its goal is to improve the country's access to international climate-change financing--whether grants or loans--to mitigate, adapt, or reduce vulnerability to climate change. We also assess how the existing environmental policy and institutional structure enables the use of climate financing and identify the added benefits for the country of such financing.

I. Introduction

62. El Salvador is the smallest country in Latin America. It is located in southwest Central America on the Pacific Ocean coastline and is the only country in the region without an Atlantic coastline. The economy is dependent on agriculture and its geography and topography make it vulnerable to the extreme climate events. By 2011, the population of El Salvador reached an estimated 6,757,408--and with an area of just 20,742 km,² it is one of the most densely populated countries in LAC.

63. According to data from the Economic Commission for Latin America and the Caribbean (ECLAC), in 2011 El Salvador's GDP exceeded \$23 billion, in 14th place among the 33 countries of LAC.⁴² Within Central America, the country is the fourth largest economy, just behind Guatemala, Costa Rica, and Panamá. In terms of GDP per capita, however, the Salvadoran economy ranks third in Central America. GDP per capita in 2011 was \$2,989, well behind Panama (\$7,191) and Costa Rica (\$5,526).⁴³ During 2006-11, the growth rate of GDP per capita was 2.4 percent, the lowest in Central America. And during the same period, annual GDP growth averaged 1.5 percent, ranking the country 27th among the 33 countries in LAC.

64. El Salvador has mostly warm weather and a rainy season between May and October. The climate favors a diversity of eco-regions (e.g., tropical forests, wetlands, river basins, savannas, mangroves, and reefs) with different species of flora and fauna. The climate is conducive to agriculture in most of the territory during most of the year. This is why the country has traditionally based its economy on agro-industry activities--mainly coffee and sugar cane, corn, beans, and sorghum. Coffee and sugar are mainly for export and the remaining agricultural products are for-local consumption. The main problem in growing food

⁴¹ Bolivia and El Salvador were selected as case studies based on the initial analysis on LAC countries' access to climate financing relative to country size and the quality of the public management. Both countries appeared to be relatively successful in accessing climate funds relative to their size in the initial analysis.

⁴² ECLAC 2012

⁴³ ECLAC 2012

staples, particularly employing below-subsistence-level agricultural practices, is that arable land is located on steep hills or lowlands. This makes crops vulnerable to landslides and flooding. Moreover, this vulnerability to extreme weather, both in agriculture and among the general population, has been increasing in recent years (Annex 1).

II. Environmental and Institutional Challenges

Environmental Challenges

65. The country's small size and high population density, as well as the location of human settlement and housing infrastructure, subsistence-agricultural practices, and the major agro-industries are key determinants of land use. As a result, El Salvador suffers a high rate of deforestation and reduced forest coverage. One of its main challenges, therefore, is to implement the Territorial Land Use Management Law and the National Program for Restoration of Ecosystems and Scenery (*Programa Nacional de Restauración de Ecosistemas y Paisajes* (PREP)). These initiatives will promote reforestation, but not necessarily increase agriculture productivity, delimit areas for the appropriate use of land, avoid further soil erosion, improve groundwater recharge, and increase carbon sequestration.

66. Much of the population lives in low areas or areas susceptible to landslides. And with the more frequent incidence of extreme climate events, a high a percentage of the population is highly vulnerable. Key challenges are to reduce such vulnerability and promote adaptation to climate change.

67. Currently, about 50 percent of the electricity supply is generated using renewable energy, mainly hydro and geothermal. But owing to the financial and economic short-term costs and the nature of these energy sources, El Salvador has not been able, during the last decade, to sustain development of lower-emission-technologies. As a non-oil-producing country, the adoption of development strategies with lower emissions will help reduce dependence on imported fossil fuel. Therefore, finding a development path that generates fewer emissions should be a national priority.

Institutional Challenges

68. The capacity of the Ministry of Environment and Natural Resources' (MARN) is vital given that it is the country's national climate-change focal point. At present, MARN is going through a restructuring to address the issues of Nationally Appropriate Mitigation Actions (NAMAs) and National Adaptation Programs of Action (NAPAs) as a strategy for its climate-change plan. This effort will obviously need further bolstering with regard to human resources and budget allocations if it is to be implemented properly.

69. A key goal for the El Salvador authorities should be to promote synergies between governmental institutions dealing with climate change; these include the ministries of public works, agriculture, public health, social assistance, and education. Given that the effects of climate change differ for different sectors of the economy and society, a climate-change

advisory council could facilitate the exchange of experiences and resources between government institutions and civil society.

70. The government could also usefully expand opportunities for citizen participation and improve environmental information for environmental education channels. As of May 2012, a public information access law entered into force. The law guarantees the right for every person to access public information in order to enhance the transparency of government institutions. This should enable citizens to have more information on which to base better assessments of environmental issues and to promote transparency in its management.

71. Domestic sources of climate financing, such as environmental taxes and dedicated contributions, are important for funding an environmental fund that allows the government to address or solve future problems by mitigating or adapting to climate change. Given the shortage of state resources, local institutions, such as the Foundation for Economic and Social Development of El Salvador (*Fundacion Salvadorena para el Desarrollo Economico y Social*, FUSADES), have proposed introducing environmental taxes but the proposals are still being studied and discussed (FUSADES 2007).

III. Key Institutions and Policies to Addresses the Challenges

Legal Framework

72. The Constitution of El Salvador's establishes that: "The State should protect natural resources and the diversity and integrity of the environment, to ensure sustainable development. The protection, conservation, rational use, restoration, or replacement of natural resources is declared as a social interest in the terms established by law..." In addition to the Constitution and international agreements, the national legal tools available to address these challenges are the Environmental Law (*Ley de Medio Ambiente*, LMA) and the General Regulation (approved in 1998 and modified in 2009).⁴⁴ This law makes the state responsible for protecting, conserving, and restoring the environment, and defines "environmental management" as "all activities or legal mandates implemented or executed by the state or municipalities in connection with environmental consequence or impact on it." The General Regulation of the LMA designates MARN to implement the provisions of the regulation. To support MARN in implementing its various mandates, the LMA's General Regulation proposes the creation of a National System of Environment (SINAMA), made up of the environmental units in all ministries, autonomous institutions, and municipalities. MARN is responsible for the coordination of SINAMA (Figure 1).

⁴⁴ Other legal instruments related to environmental management are control of substances that deplete the ozone layer regulation, wastewaters regulation, environmental quality standards regulation, waste and hazardous substances regulation, integrated management of solid waste regulation, forestry law and its regulation, environmental compensation regulation, natural protected areas law, and prevention and mitigation of disasters and civil protection law.

73. One of the requirements for putting SINAMA into effect is establishing within the ministries, municipalities, and autonomous institutions their own environmental units. To date, several of these institutions have not done so and have prevented SINAMA from becoming operational. One of the main reasons, according to the authorities, is the lack of funds and human resources.

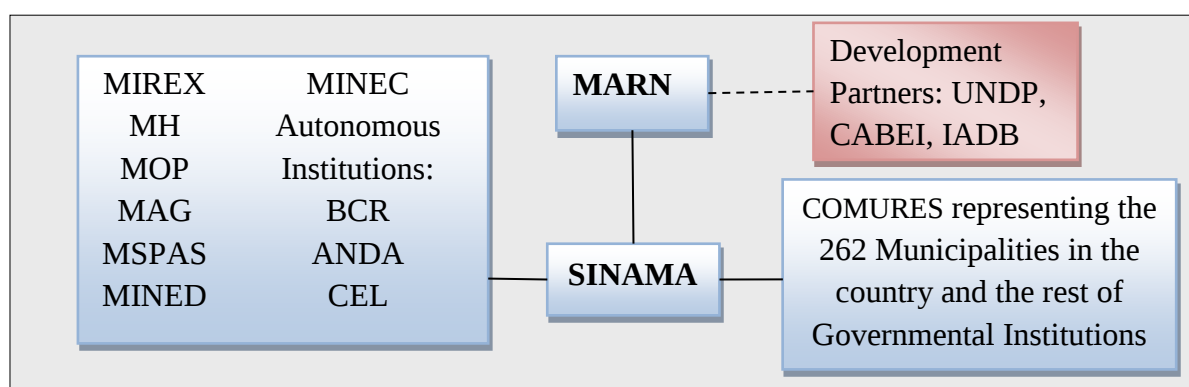
Policy Framework

74. On May 30, 2012, the government of El Salvador published the Environmental National Policy (PNMA), which stated that it was essential for SINAMA to begin operating in order to implement the national policy. Among other functions, SINAMA, in coordination with MARN, would have the responsibility to develop and coordinate the implementation of national plans for climate change. Similarly, SINAMA would be responsible for promoting the *Mitigation-Based on Adaptation* strategy, proposed by MARN, as the mechanism for implementing the National Program for Restoration of the Ecosystem and Landscapes.

75. The two main issues raised in the PNMA are reversing environmental degradation and reducing the country's vulnerability to climate change; and considering ways to move the economy onto a low-emissions development path.

76. Moving onto a low-emissions path does not mean implementing high-cost retrofits of production processes, or using more expensive technologies, but rather ending practices that contribute to GHGs, reducing the abuse of agrochemicals, promoting energy efficiency, and diversifying the energy mix. These actions, considered in the PNMA, should be incorporated both into the NAPA and NAMA. The Technology Needs Assessment (TNA) report has been submitted for approval and is one of the main inputs for elaborating the NAPA and NAMA.

Figure 1. Institutions Involved in Developing and Implementing Environmental Policies



Source: Ismail Sanchez, analysis of institutions with environmental functions in El Salvador, prepared based on information from the Ministry of Environment and Natural Resources.

IV. Access to International Climate-Change Funds

Use of GEF Funds

77. El Salvador has accessed relatively little GEF climate funding, drawing just \$3.5 million during 2006-10 and \$1.6 million so far in the latest GEF funding cycle (2010-14). In

contrast, Bolivia received \$13 million from the GEF during 2006-10 and \$6.9 million so far during 2010-14.

78. El Salvador's low level of GEF funding can be explained by its ranking on either the GEF Benefits Index (GBI) or the GEF Performance Index (GPI). The GBI measures the country's potential to reduce GHG emissions (or possible "global environment benefit") and the GPI measures the country's capacity to implement projects.

Some possible explanations for El Salvador's low GEF Index ranking are the following:

Low GHG emission levels

79. Relatively low GHG emissions are produced by energy sub-sectors suitable for CDM projects, according to the 1994 and 2000 El Salvador GHG National Inventories. For instance, in 2000, GHG Inventory, Energy Industries (Electricity Generation and Petroleum Processing) produced 1.1 million metric tons of CO_{2eq} emissions. The single project in this sector with CO₂ emissions accredited at 176,543 metric tons (16 percent of total emissions) has been validated, according to the UNFCCC and CDM.

Difficulties in meeting CDM requirements

80. El Salvador has registered several CDM projects, but owing to the difficulties posed by CDM requirements most of these were withdrawn, as indicated in the Climate Change Economy Report, presented by CEPAL.⁴⁵

Lack of own budgetary resources

81. The government lacks budgetary resources to meet the government counterpart contribution requirements, as necessitated by the GEF for project implementation.

Differences in defining environmental measures between the country and funding organizations

82. The country's new vision for dealing with global-warming effects, defined as "mitigation through adaptation," does not appear compatible with CDM and REDD requirements.

83. Under the mitigation climate-change category, however, one project has been implemented – the Energy Efficiency in Public Buildings – financed through the GEF's project grant of \$975,000. The main objective of this project was "to introduce energy efficiency measures in existing and new public buildings by creating a conducive policy environment, raising user awareness, developing performance criteria and standards, and implementing a broad energy efficiency pilot within selected public entities."

⁴⁵ ECLAC 2011

World Bank Climate Investment Funds (CIFs)

84. El Salvador has not received any funding from the World Bank's Climate Investment Funds (CIFs), while \$86 million was recently approved for Bolivia from the CIF's Pilot Program on Climate Resilience (PPCR). CIF's Clean Technology Fund (CTF) has approved a \$500 million loan for Mexico and CIF's Forest Investment Program (FIP) also allocated \$60 million to Mexico, as well.

85. The reasons for El Salvador's failure to receive funding from CIFs are explained by the failure to meet a very elaborate and consultative, data-driven selection criteria. The selection was conducted by an independent Expert Group from around the world. Presently, the following countries of Latin America and the Caribbean have been selected for CIF financing: Bolivia, Brazil, Chile, Colombia, Dominica, Grenada, Haiti, Honduras, Jamaica, Mexico, Peru, Saint Lucia, Saint Vincent and the Grenadines and the Caribbean Region generally.

86. One potential source of financing to address climate change is the Green Climate Fund, which is still under evaluation. El Salvador has been participating in preparatory workshops to implement this fund, for which the World Bank plays a trustee role.

Inter-American Development Bank

87. In March 2012, the IDB approved a \$200 million loan to El Salvador to improve the country's macroeconomic and fiscal stability and to help it increase its resilience and readiness to adapt to climate change.⁴⁶ This loan followed a \$750,000 grant in 2008 for technical cooperation. The grant was made by the Sustainable Energy and Climate Change Initiative (SECCI) to support the bio-fuels strategy in El Salvador. So far, this contribution has supported the Fuels Division of the National Energy Board (Consejo Nacional de Energía) and the National Center for Agricultural and Forestry Technology (CENTA) in preparing a sectoral analysis and regulatory framework as part of the strategy for bio-fuels development.

88. El Salvador has also received:

- \$1.7 million from the IDB's Multilateral Investment Fund (MIF), a multipurpose (i.e., not climate-specific) fund specializing in supporting small and micro enterprises;
- \$176,000 for the period 2008-12 from the Global Facility for Disaster Reduction and Recovery (GFDRR); and
- \$7.4 million from the European Commission's European Investment Bank (EIB) Latin America Investment Facility (LAIF).

⁴⁶ A summary of the project is: Project ES-L1071: "Comprehensive Fiscal Sustainability & Climate Change Adaptation Program for El Salvador. Project Description: The program has been created to support the consolidation of the regulatory and policy progress the country has reached, as well as to strengthen the government's execution capacity in four specific fields: (i) macroeconomic stability; (ii) fiscal sustainability; (iii) institutions; and (iv) resilience and adaptation to climate change." Available at <http://www.iadb.org/en/projects/project,1303.html?id=ES-L1071>

Adaptation Fund

89. The Adaptation Fund (AF) is a new source of financing coming from donations by governments, the private sector, individuals, and 2 percent of the share of proceeds on the certified emission reduction units (CERs), issued for projects of the Clean Development Mechanism (CDM). The AF was established to finance concrete adaptation projects and programs in developing countries that are signatories to the Kyoto Protocol and are particularly vulnerable to the adverse effects of climate change.

90. In its first stage, the AF has reserved an amount of \$10 million for implementation of environmental projects in El Salvador. In 2010, the country's public works ministry submitted a Promoting Climate Change Resilient Infrastructure Development in San Salvador Metropolitan Area project. If the project is approved, it will be developed and administered by the public works ministry, and MARN will be a member of the supervisory board that will monitor the fulfillment of project objectives. The cost for this project is estimated at more than \$5.4 million.

91. Another project to be funded by the AF, currently in the pipeline, is a National Program for Restoration of Ecosystems and Landscapes (PREP). This project with the indicative cost of \$4 million is currently being prepared by MARN. The two projects would exhaust the quota allocated to the country by the AF.

Bilateral Cooperation Funds

92. Another source of climate financing is bilateral funding from several countries. For example, in 2011, the public works ministry signed a bilateral cooperation agreement with the government of Japan to develop the project Capacity Building of the Directorate of Climate Change Adaptation and Strategic Risk Management (DACGER). This project seeks to strengthen public infrastructure in El Salvador, making it more resistant to the effects of extreme weather.

93. This cooperation agreement is expected to: improve participants' skills in protecting hillsides, bridges, waterways, and urban drainage, and update public officials' knowledge of risk assessment of public infrastructure, setting priorities and developing medium- and long-term plans to improve the country's capacity to prevent climate-related disasters.

Global Energy Efficiency and Renewable Energy Fund (GEEREF)

94. In 2004, the Directorate General for Environment and Directorate General for Europe Aid Cooperation Office (AIDCO) of the European Commission established the Global Energy Efficiency and Renewable Energy Fund (GEEREF). The GEEREF is a sustainable development tool and a strong support for global efforts to combat climate change. To help the LAC region, the GEEREF created a special fund named Clean Tech Latin America Fund (CTLAF II). Neither the GEEREF nor the Salvadorian authorities have provided any information about the receipt of funds from this source.

Energy Environment Partnership with Central America (EEP)

95. The Energy and Environment Partnership with Central America (EEP, <http://www.sica.int/energia/>) was launched during the UN World Summit on Sustainable Development, in Johannesburg in 2002. The objective of the initiative was to contribute to sustainable development of the Central American countries and mitigate global climate-change effects. This effort is supported by Finland's Ministry for Foreign Affairs, the Austrian Development Cooperation (ADC), and the European Union (EU) in coordination with the Central American Integration System (SICA) and the Central American Commission on Environment and Development (CCAD). To date, €19.5 million has been allocated.

Table 1. Sources of Financing for El Salvador

Source of financing	Fund	USD Mln.	Impl. period
World Bank	Disaster Risk Management Development Policy Loan with a CAT DDO (P122640)	50	2011 - 2014
	Disaster Risk Management Development Policy Loan with a CAT DDO (P122640)	5	2005 - 2012
	GEF - El Salvador Environmental Services Project (P070352) – Specific	0	2005 - 2012
IADB	Project ES-X1004: Geothermal Regional Training Support Program	1.4	2012 - Unknown
	Project ES-T1147: Geothermal Regional Training Support Program	0.824	2012 - Unknown
	Project ES-L1071: Comprehensive Fiscal Sustainability & Climate Change Adaptation Program for El Salvador	200	2012 - 2014
Other Sources	Bilateral Cooperation	16	2009 – Unknown
	Multilateral Cooperation	0.59	2009 - Unknown

Source: Author's research, based on publications of the World Bank, Inter-American Development Bank, and Ministry for Foreign Affairs of El Salvador, IADB 2012, MIREX 2010

V. Role of Public Management Systems in Accessing and Absorbing Climate Finance

96. There is no one centralized government entity in El Salvador responsible for managing and administering funds received through bilateral or multilateral cooperation agreements. Except for the contracting of loans, which is regulated in the Constitution, any ministry, autonomous entity, and municipality is free to manage the funds as it sees fit for the fulfillment of its initiatives and objectives. Because of this, each institution has its own agreements with international cooperation agencies, national institutions, and international financial institutions.

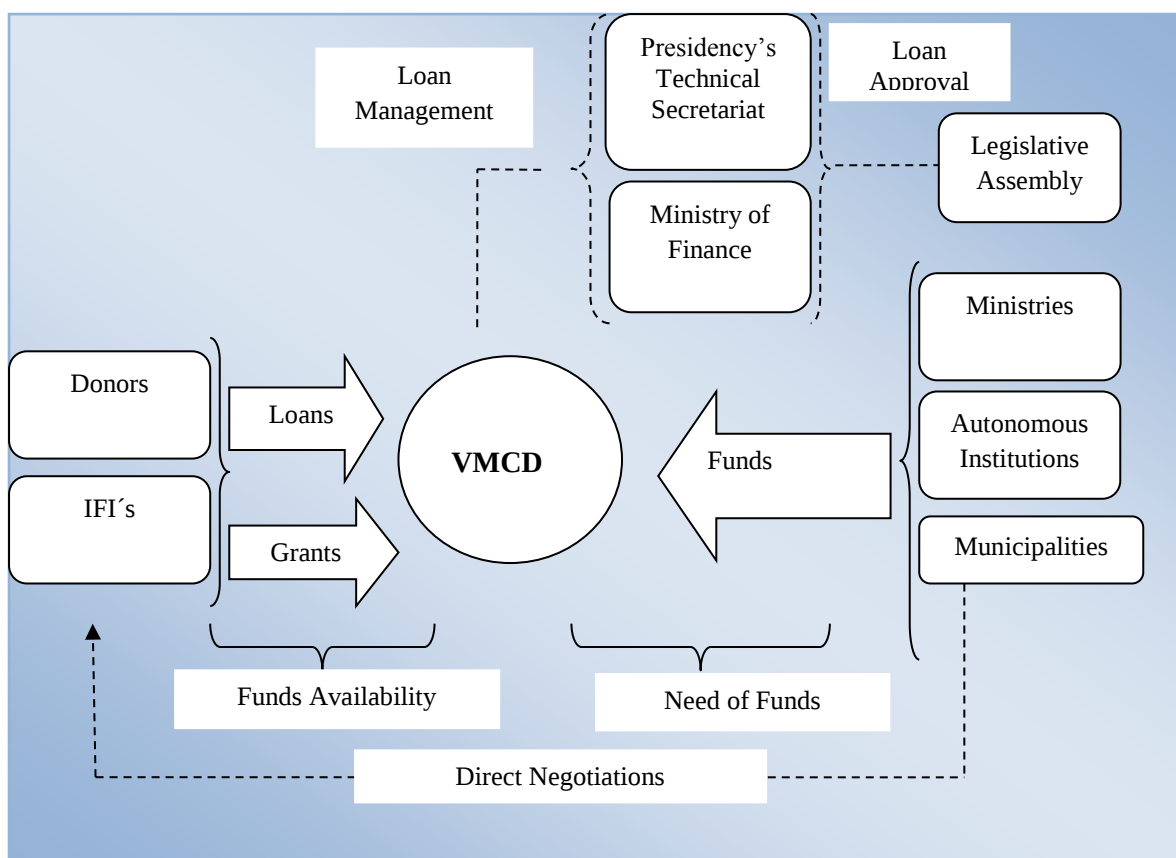
97. In June 2009, El Salvador's foreign affairs ministry sought to change the strategy by organizing and coordinating the management, implementation, and monitoring of the international cooperation aid for the different institutions. The ministry reformed its structure

and created a Vice-Ministry of Cooperation for Development (VMCD), whose main mandate is to coordinate, manage, and supervise the implementation of international cooperation projects.

98. During the strategy's first year of operation (2009-10), the VMCD managed to raise \$214.1 million from bilateral sources and \$86.5 million from multilateral sources; \$16 million from bilateral cooperation and \$0.6 from multi-sectoral cooperation was directed to investments related to environmental and climate-change issues.

99. All of these investments were supervised by the VMCD and implemented by different ministries and institutions. The modality of implementation of projects supported by international development partners is still evolving. The efficient use of available funds would depend on clear and efficient procedures for applying, implementing, and reporting on projects' performance. There is always the alternative of direct negotiation between the government institutions and donors. Finally, in the case of loans, they must go through the Technical Secretariat of the Presidency and the finance ministry to determine whether the loan must be submitted to the legislative assembly for approval (Figure 2).

Figure 2. El Salvador's International Cooperation Funds Management Model



Source: Based on information from the Ministry of Environment and Natural Resources

Institutional Framework Related to Accessing and Absorbing Climate Finance

100. As noted earlier, El Salvador has well-defined legal institutional structures related to the environment, in both the LMA and its General Regulation. The MARN is the focal institution for addressing environmental issues. Prior to 2011, MARN focused on two areas: sustainable management of natural resources and support for El Salvador's environmental management. Lately, a new area, called Strengthening Program for Reducing Risk and Vulnerability Related to the Society and the Environment, was created. These three operational areas clearly set out the priorities for the ministry.

101. To develop activities within these operational areas and to maintain its administrative structure, MARN receives a budget of less than 1 percent of the central government budget. For the sake of comparison, Guatemala assigns more than 10 percent of its central budget to the environment ministry (Table 2).

102. Apart from its budget, MARN also receives donations that are not necessarily included in the budget, since these funds can be administered directly by the donors or by accredited institutions, such as the United Nations Development Program (UNDP).

Table 2. Share of MARN Budget in Central Government Budget Compared with Guatemala

	2006	2007	2008	2009	2010	2011
Central government budget (USD million)	3,634	3,258	3,624	4,827	3,995	4,863
MARN budget (USD million)	24.9	19.4	8.8	9.1	18.0	15.9
MARN share in central government budget (%)	0.7	0.6	0.2	0.2	0.5	0.3
Guatemala's Environmental Ministry's share in central government budget (%)	11	11	10	20	-	-

Source: Ministry of Finance of El Salvador (<http://www.mh.gob.sv>) and Ministry of Environment and Natural Resources of Guatemala (<http://www.marn.gob.gt>)

103. MARN recently formed a Unit for International Cooperation and Projects (UCIP). The unit, directly attached to the minister, is responsible for assessing the availability of funds, trying to gain access to them, and supervising the implementation of projects financed with these funds. The UCIP works closely with the VMCD to channel international cooperation accessed by other institutions--such as ministries, autonomous institutions, and municipalities--to the priority areas proposed by the MARN.

104. Although, MARN is not El Salvador's only institution able to attract or absorb funds for environmental and climate-change projects, it is the designated authority for negotiating and administering most of the funds earmarked for these areas. For example, MARN manages and receives funds from GEF through the World Bank (as one of the GEF implementing agencies); it is also the authority that endorses projects under the CDM and the REDD program.

Limits to Borrowing Capacity

105. The kind of funds available to address climate change generally fall under two categories: reimbursable and non-reimbursable. Public or private institutions interested in applying to these funds may have three alternatives: direct negotiation with donors, applying to international financial institutions, and requesting MARN's endorsement as the designated national authority for the UNFCCC.

106. Projects funded by non-reimbursable funds should comply with some of the following conditions: reducing GHG emissions; strengthening adaptation to, and reduction of, a country's vulnerability to climate-change effects; and contributing to El Salvador's sustainable development. Some donors may also add other conditions, such as encouraging partners to attract private investment, developing local capacities, reducing poverty, and expanding the role of women in various activities (especially in energy and technology projects). Fulfilling these conditions requires strengthening the institutional capacity of project developers.

107. With regard to reimbursable loans, a public institution that applies for such loans requires a sovereign guarantee, which in turn requires the approval of the legislative assembly.

Considering the current level of El Salvador's debt, this requirement would effectively deny, or greatly delay, the loan's granting.

108. According to preliminary data from El Salvador's Central Reserve Bank, central government debt rose to \$9.7 billion in 2011, representing 42.4 percent of GDP for that year (Table 3). According to important financial institutions, such as the IMF, the country is reaching its debts limit. Some economic analysts believe that the debt limit has already been reached, since total public debt exceeded 43 percent of GDP in 2007. This partly explains the difficulty of accessing some funds that would require decreasing the debt.

Table 3. Salvadoran Central Government Debt, Total Public Debt, and GDP

(In billion USD)

	2006	2007	2008	2009	2010	2011
Gross Domestic Product (GDP)	18.6	20.1	21.4	20.7	21.4	23.1
Central Government Debt (CGD)	7.0	7.1	7.5	8.9	9.2	9.8
Total Public Debt (TPD)	8.4	8.7	9.7	11.2	11.8	12.9
TPD/GDP (percent)	45	43	45	54	55	56
CGD/GDP (percent)	38	35	35	43	43	42

Source: El Salvador's M and Central Reserve Bank: <http://www.mh.gob.sv> and <http://www.bcr.gob.sv>

National Fiscal Context

109. As noted earlier, El Salvador is a country with limited resources. Its main foreign currency earners are exports of textile products, followed by exports of agro-industrial and agricultural products. Remittances from Salvadorans living abroad are the second main source of income. Trends in both exports and remittances are reflected in the behavior of GDP, which has grown significantly in 2011 despite the global economic recession. Except for 2009, GDP, exports, and remittances all rose (Table 4).

Table 4. Comparative GDP, Exports, and Remittances

(In billion US dollars)

	2006	2007	2008	2009	2010	2011
GDP	18.6	20.1	21.4	20.7	21.4	23.1
Exports	3.7	4.0	4.6	3.9	4.5	5.3
Remittances	3.5	3.7	3.7	3.4	3.4	3.6

Source: Central Reserve Bank of El Salvador: <http://www.bcr.gob.sv>

110. El Salvador's growth of production and consumption has increased tax revenue. The increase in tax collection is due not only to the increase in economic activity, but also to implementation of tax reforms and improvements in the capacity to collect taxes (Table 5). However, government spending and investment have historically exceeded total income (tax

revenue+ non-tax revenue + donations). Part of the increase in government spending is to cover subsidies for liquefied petroleum gas (LPG) consumption, water consumption, public transportation, and electricity. The government has thus had to resort to borrowing money and debt issuance to finance its operations.

Table 5. Comparative GDP and Tax Revenue

(In billion USD)

	2006	2007	2008	2009	2010	2011
GDP	18.6	20.1	21.4	20.7	21.4	23.1
Tax Revenue (TR)	2.5	2.7	2.9	2.6	2.9	3.2
Tax Burden (TR/GDP) in percent	13.4	13.6	13.5	12.6	13.5	13.9

Source: Ministry of Finance of El Salvador and Central Reserve Bank of El Salvador:

<http://www.mh.gob.sv> and <http://www.bcr.gob.sv>

111. Considering this difficult economic situation, domestic think tanks have proposed expanding the existing fiscal base, which is supported mainly by two taxes; the value added tax⁴⁷ (VAT) and the income tax (both for individuals and businesses). Given the lack of resources to tackle environmental issues, some of the suggested taxes include taxes on activities that contribute to environmental degradation -- such as the transport sector, industrial production, and waste generation --and creating special contributions to be used to reverse environmental damage.⁴⁸ One of the main arguments cited by the government for not implementing these fiscal measures is that the introduction of new taxes tends to slow economic activity and discourage domestic and international investment.

112. One of the subsidies that seem to have diminished the deforestation rate in the country was the subsidy for LPG. This subsidy has facilitated access to cleaner fuels for low-income families, thus helping reduce firewood consumption. The deforestation rate is also accompanied by the expansion of city and agricultural areas. It bears evaluating whether the LPG subsidy--which cost the government \$94.6 million in 2006 and is estimated to have cost \$146.6 million in 2011--responds to the country's environmental and financial needs.

Public Administration Capacity

113. Governance indicators defined by the World Bank measure a country's public administration capacity. According to these indicators, El Salvador has made significant progress in the areas of voice and accountability, government effectiveness, political stability, and regulatory quality. As to the control of corruption indicator, however, El Salvador has made little progress and has failed in relation to the rule-of-law indicator.

⁴⁷ Property Transfer and Servicing Tax (Impuesto a la transferencia de Bienes Muebles y a la Prestación de Servicios) Added Value Tax (Impuesto al Valor Agregado) for short.

⁴⁸ FUSADES, 2007

114. An important component of the indicator voice and accountability is citizen participation. In this regard, and in relation to environmental issues, the government has made good progress. For example, the LMA devotes a chapter to the right of people to access appropriate information on the environment.

115. MARN has a directorate for citizen participation that promotes educational activities and environmental awareness, among other things. Beginning in 2009, with the arrival of the new administration, a new process of consultations was launched with different sectors for input to the National Environment Policy (PNMA). When it enters into effect, this policy is expected to have the support of different sectors but, despite important progress, citizen participation and consultation processes still face a number of hurdles. Increasing citizen demands for a better and more sustainable environment would help elevate the role of MARN as the national leader in setting and achieving realistic environmental development goals. Proactive and decisive cooperation of MARN with other ministries -- such as those of infrastructure, transport, and agriculture -- is also very important for addressing citizen needs for clean water, adequate sanitation, treatment of waste water, and fuel-efficient transport.

116. The country's governance indicator reveals important improvements in government effectiveness. But some reviews cite the need for reliable and accurate indicators to quantify the actual status of the environment and to measure MARN's effectiveness.⁴⁹ Overall, institutions remain weak. The government's capacity to enforce the strategy and legal provisions in the environment area remains weak. And the environmental management system continues to be fragmented, owing to the failure of establish environmental units in all ministries, agencies, and municipalities. The lack of financing or staffing for this purpose may reflect unrealistic planning, which is only weakly linked to budgeting; and insufficient institutions, budgets, and personnel, despite environmental policy being a declared priority. One could reasonably assume that improved links between legislation and planning on the one hand, and budget allocation aligned with robust accountability on the other hand, would result in better environmental management that would enable the country to address more effectively its environmental challenges.

117. Regarding the political stability indicator, El Salvador, after 20 years of right-wing governments, has elected a president considered center-left. But the election revealed uncertainties about the new government's ability to introduce or change certain environmental policies and observe the obligations implied by the international agreements that El Salvador has signed. After three years under the new regime, the country has sustained its political commitment and support for environmental policies.

⁴⁹ Some of these reviews are included in the following documents: "*Gobernabilidad Ambiental para el Desarrollo Sostenible en El Salvador*" (FUSADES, 2007. Pages: 66, 191), and "WB Country Policy and Institutional Assessment - Environmental Governance 2010" (Internal Paper released for the purposes of this study)

118. But while the government's general regulatory capacity has improved, it still needs a stronger capacity to create and implement laws and policies favoring the environment. An example of this is the time taken to launch PNMA, which was under study since 2009. Other examples are the delays in passing water, land use, and territorial development laws.

119. Two areas that deserve more hard work: the rule of law and corruption control. Despite the president's public statements about its commitment to "zero tolerance on corruption"⁵⁰ in governmental spheres, the civil society is constantly demanding the enforcement of the environmental laws and the prosecution of offenders and corrupt officials.

120. Apart from governance indicators, other variables can help assess El Salvador's public administration capacity as follows:

Change in Priorities at the Local Level

121. Based on the adverse climate-change effects that El Salvador has suffered in recent years (Annex 1), it becomes apparent that mitigation actions at the global level are not really working for El Salvador. The country should thus prioritize its efforts and resources to achieve environmental improvements locally, and minimize its contribution to global warming and pollution. Landslides, flooding, and damage to agriculture and to the infrastructure clearly signal to the relevant authorities where to concentrate efforts and resources. As a result, MARN, the Ministry of Planning, Ministry of Agriculture, MSPS, Ministry of Public Health and Social Assistance (MSPAS) and other entities have decided to focus on reducing climate-change vulnerability and have taken steps to create adaptation capacities in local communities. These priority changes have not been easy, yet they show determination on the part of the authorities.

Leadership Capacity at the Regional Level

122. During the second half of 2011, El Salvador assumed the rotating presidency of the Central American Integration System (SICA). During this period, the Salvadoran authorities played an important role in achieving a consensus to address climate change through adaptation and reduction of the region's vulnerability to adverse environmental phenomena. The result of this consensus was presented during the last UNFCCC Conference of Parties (COP-17).

Obstacles to Accessing Climate Funds

123. Some obstacles to El Salvador's access of climate-change funds are as follows:

- Availability of non-reimbursable funds: The country's capacity to continue acquiring debt is reaching the debt-sustainability limit recommended by the IMF. Therefore, to address the adverse effects of climate change in the short-term, the country must find non-reimbursable sources of financing. For example, the economic cost of Tropical

⁵⁰ Press note: "Executive discusses new evidence of corruption", published February 11, 2011, by La Prensa Gráfica. Available on: <http://www.laprensagrafica.com/el-salvador/politica/171048--ejecutivo-analiza-nuevos-indicios-de-corrupcion.html>.

Storm Agatha in 2010 was estimated at \$112 million (Adaptation Fund, 2012). To address the emergency needs, the government reallocated funds obtained for other purposes, thus limiting the possibility of continuing previously planned investments.

- *Political:* There are some internal political barriers to accessing climate-change funds when a sovereign guarantee is required. The obstacles or delays arise in the legislative assembly, where no political party has a majority to approve reimbursable loans.
- *Technical:* CDM and REDD requirements, and the size of most of the projects submitted, have prevented projects from being funded. For example, the minimum forest extension required for some REDD projects is 5,000 hectares, a difficult condition for a country the size of El Salvador.

VI. Conclusions and Recommendations

124. El Salvador's top priority is to reverse environmental degradation attributable to climate change. This challenge requires that government institutions (e.g., MARN, the ministry of planning, and the ministry of agriculture) receive greater financial support.

- Government representatives, such as the ministers of environment and public works, are raising awareness of the current situation at such international forums as Río+20 and COPs, asking for international support to reduce climate-change impacts.
- The current central government debt/GDP ratio indicates that El Salvador is reaching its indebtedness limits.
- Non-reimbursable funds (e.g., CDM, REDD, REDD+) require certain conditions, such as additionality and size. These conditions are hard for project developers to meet and, as a result, minimal funds have been accessed.
- In some cases, the low level of access to climate funds does not necessarily mean weak management capacity, but rather that the conditions for access do not respond to the country conditions and priorities.

125. In light of these conclusions, we offer the following recommendations to the El Salvador authorities:

- In the short term, if non-reimbursable funds are not available, agree with the different stakeholders on questions related to debt sustainability and financial needs to address climate-change effects.
- Increase national funding for environmental and climate-change priorities.
- Achieve a national agreement and define priorities for the medium and long term.
- Be sure that the funds allocated conform to the country's environmental priorities, which are to reduce vulnerability and adopt appropriate adaptation actions.
- Continue strengthening institutional structures and further improving strategic planning, managerial, coordination, financial management, project development, and negotiating capacities, especially in the finance and foreign affairs ministries.
- Improve the capacities of public officers in the following areas: systematizing environmental information, applying participative methodologies, designing

instruments and guidance materials, using appropriate tools to plan and monitor projects, and acquiring negotiation skills. Improving these skills will allow a better identification and evaluation of the NAMAs and NAPAs.

- Be sure that all governmental institutions work together and in line with the national strategy to identify suitable sources of funding and to advance the development of projects needed to adapt and reduce vulnerability to the adverse effects of climate change.
- Have a master plan for renewable energy and a national environmental policy and implement it to reduce GHG emissions.
- Ensure that public institutions dealing with climate-change impacts receive adequate resources to help them implement the Public Information Access Law, thus improving citizens' participation and motivating people to increase their awareness of the issue.

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Acronyms: Case Study on El Salvador

AF	Adaptation Fund
ANDA	Administración Nacional de Acueductos y Alcantarillados (National Administration of Aqueducts and Sewerage System)
BCR	Banco Central de Reserva de El Salvador (El Salvador Central Reserve Bank)
CABEI	Central American Bank for Economic Integration
CCF	Climate Change Financing
CDM	Clean Development Mechanism
CEL	Comisión Ejecutiva Hidroeléctrica del Río Lempa (Lempa River's Hydroelectric Executive Commission)
CENTA	Centro Nacional de Tecnología Agrícola y Forestal (National Center for Agricultural and Forestry Technology)
CIF	Climate Investment Funds
COMURES	Corporación de Municipalidades de la República de El Salvador (El Salvador's Municipalities Corporation)
CTLAF	Clean Teach Latin America Fund
CTF	Clean Technology Funds
DACGER	Dirección de Adaptación al Cambio Climático y Gestión Estratégica de Riesgos (Directorate of Climate Change Adaptation and Strategic Risk Management)
ECLAC	Economic Commission for Latin America and the Caribbean
EIB	European Investment Bank
FIP	Forest Investment Program
GBI	GEF's Benefits Index
GDP	Gross Domestic Product
GEEREF	Global Energy Efficiency and Renewable Energy Fund
GEF	Global Environmental Facility
GFDRR	Global Facility for Disaster Reduction and Recovery
GHG	Green House Gases
GPI	GEF's Performance Index
IADB	Inter-American Development Bank
IFI	International Financing Institutions
IVA	Impuesto al Valor Agregado (Value Added Tax)
LAC	Latin America and the Caribbean
LAIF	Latin America Investment Facility
LMA	Ley del Medio Ambiente (Environmental Law)
MARN	Ministerio de Medio Ambiente y Recursos Naturales (Ministry of Environment and Natural Resources)
MH	Ministerio de Hacienda (Ministry of Finance)
MIF	Multilateral Investment Fund
MINEC	Ministerio de Economía (Ministry of Economy)
MIREX	Ministerio de Relaciones Exteriores (Foreign Affairs Ministry)
MOP	Ministerio de Obras Públicas (Ministry of Public Works)
MSPAS	Ministerio de Salud Pública y Asistencia Social (Ministry of Public Health and Social Assistance)
NAMA	Nationally Appropriate Mitigation Actions
NAPA	National Adaptation Program of Action

PNMA	Política Nacional de Medio Ambiente (National Environmental Policy)
POP	Persistent Organic Polluters
PPCR	Pilot Program of Climate Resilience
PREP	Programa Nacional de Restauración de Ecosistemas y Paisajes (National Program for Restoration of Ecosystem and Landscapes)
REDD	Reducing Emissions from Deforestation and Forest Degradation
SECCI	Sustainable Energy and Climate Change Initiative
SICA	Sistema de la Integración Centroamericana (Central American Integration System)
SINAMA	Sistema Nacional de Medio Ambiente (National System of Environment)
TPD	Total Public Debt
UCIP	Unidad de Cooperación Internacional y Proyectos (Unit of International Cooperation and Projects)
UNDP	United Nations Development Program
UNFCCC	United Nations Frame Convention of Climate Change
VMCD	Viceministerio de Cooperación para el Desarrollo (Vice Ministry of Cooperation for Development)

Bolivia: Facing Challenges in Making Efficient Use of Climate Financing

126. Bolivia has experienced public-management-related constraints that have affected its access to climate financing. The country has been relatively successful in accessing climate finance, relative to other LAC countries with similar institutional indicators. The Bolivian experience can thus provide guidance to other LAC countries on how to maximize the benefits of available financing for adaptation to, and mitigation of, climate change.

127. This case study is also aimed at contributing to:

- understanding the incentives, restrictions, fiscal implications, and other factors that countries face when applying for environmental financing;
- learning the key requirements for successful applications (e.g., institutional capacity and political commitment);
- developing advice on how to benefit from available resources and increase the chances for obtaining green development financing; and
- analyzing the effectiveness and efficiency of the use of funds to fulfill a country's environmental priorities.

I. Institutional Challenges

128. Bolivia has a small economy, with GDP in 2011 estimated as \$58 billion⁵¹ in purchasing power parity and \$24.4 billion, according to the official exchange rate. Its economy is comparable with that of Paraguay or Trinidad and Tobago. In 2010, Bolivia was included in the list of middle-income countries with a per capita GDP of \$1,900. The country's population is 10 million, which is smaller than that of Ecuador.

129. Bolivia faces huge problems in reducing poverty; 59 percent of its people are below the poverty line and it is among the LAC countries suffering high levels of inequality.⁵² The year 2006 was a political milestone for Bolivia. Strong social demands for full nationalization of hydrocarbon resources and for greater participation of the country's indigenous majority in the country's political life supported the election of president Evo Morales and the issuance of a new constitutional text. Rising social pressures favored strengthening the decentralization process (law of autonomies) and the mandate for applying a new economic model emphasizing the state's central role in economic affairs.

⁵¹ http://www.indexmundi.com/bolivia/economy_profile.html

⁵² Data from the World Bank and the UN Human Development Report indicate that income inequality in Bolivia has been increasing significantly since 1997. As of 2009, Bolivia had the highest income inequality, as measured through the Gini coefficient Index, among the LAC countries. With a Gini Index of 59.2, Bolivia is ranked 7th out of 134 countries with available data.

130. The National Development Plan (2006-11) proposed using the revenue from such strategic sectors as oil and mining to promote investment in such job-creating sectors as industry, agriculture, and tourism – which would also diversify the productive matrix. The Plan also suggested mechanisms for reducing extreme poverty, promoting further involvement of deprived indigenous populations, and enhancing the transparency of the public service.

131. Nonetheless, Bolivia remains heavily dependent on natural resources. The mining industry, especially the extraction of natural gas and zinc, currently dominates the export economy. Higher prices for mining and hydrocarbon exports produced a fiscal surplus in 2008. And in 2010, higher world commodity prices generated the largest trade surplus in Bolivia's history. But a lack of foreign investment in the key sectors of mining and hydrocarbons together with higher food prices, have put pressure on the economy.

II. Environmental and Climate-Related Challenges

132. Bolivia is located in central South America, with one third of its territory along the Andes mountain chain and the rest in arid and humid lowlands covered by rainforest and savannas. Because of its physiographic characteristics and climate, Bolivia is one of 15 countries in the world with the richest biodiversity. However, the country faces acute problems with its environment and the condition of its ecosystem, and thus major challenges in pursuing a sustainable development path. Climate change is expected to worsen all of these challenges.

133. Subsistence agriculture and the forestry sectors account for more than 40 percent of employment in Bolivia and are the cause of two thirds of its GHG emissions. Extensive and precarious land-use practices have kept demands for land habitation high, resulting in deforestation and land degradation (about 200,000 hectares a year). The loss of key ecosystem functions and more frequent and intense climate-related events are leading to more frequent and severe climate-related disasters,⁵³ such as floods in the eastern plains.

134. Climate change is expected to further strain the already poor distribution of water resources in the country. Temperature increases along the Altiplano have been reducing rapidly the size and volume of tropical glaciers, and glacier withdrawal is expected to affect important water reservoirs for urban uses and irrigation. Rain pattern changes will further affect the sustainability of already fragile arid and semiarid mountain ecosystems. This will limit drinking water supplies and irrigation systems and make rural livelihoods more vulnerable to drastic environmental change.

⁵³ In the last two decades, climate-related disasters have affected Bolivia's GDP by 1-3 percent a year, one of the largest impacts in terms of GDP on the continent.

135. As a result of these changes in the hydrologic cycle, agriculture and food output are facing increasing difficulties, rural livelihoods are becoming less attractive for rural inhabitants, and increased outmigration is jeopardizing food production systems and raising the risk of food insecurity.

136. Cities have also been experiencing increasing climate-related effects. Water shortages, landslides, and vector-borne disease outbreaks are occurring more frequently. And their added severity has highlighted the extreme vulnerability of principal cities to climate change.

III. Access to International Climate-Change Financing

137. Bolivia has been relatively successful in accessing international climate funding, especially GEF resources. Apart from enabling activities that have helped formulate National Communications and National Plans, GEF resources have facilitated co-financing projects in such areas as international waters, forestry, protected areas, and sustainable energy.

138. In the last five to six years, the country has expanded its climate-change agenda and bilateral funds have become increasingly available for integrating climate-change considerations into sector policies. Another visible trend is the growing focus on local governments, especially large cities.

Multilateral Funds

139. In addition to GEF funding, Bolivia was also selected for the Pilot Program for Climate Resilience (PPCR) and the UN Program on Reducing Emissions from Deforestation and Forest Degradation (UNREDD). Multilateral funding tends to complement and supplement bilateral funding in responding to the challenges of climate change.

140. GEF projects have served to create pilots. The Small Grants Program has been testing innovative solutions (mitigation and adaptation) at the local level. Other GEF programs have increased the environmental value of certain sectors, such as biodiversity in the forestry sector.

141. The PPCR in Bolivia (\$86 million) complements already-existing bilateral funding in the water and river basin sectors, increasing the climate resilience of those investments.

142. Bolivia also participates in the Forest Carbon Partnership Facility (FCPF), which seeks to reduce emissions from deforestation and forest degradation. It is supported by the German *Kreditanstalt für Wiederaufbau* (KfW) and the German Agency for Technical Cooperation (GTZ), as well as the UN-REDD. However, since April 2010, the FCPF issue has been on hold because of the Bolivian authorities' position on carbon markets. The Bolivian authorities maintain that the REDD mechanism will not create the value needed for adaptation and mitigation in the forestry sector and the country is exploring alternatives to the REDD, as the authorities indicated at the Conference in Durban.

Bilateral Funds

143. Bilateral funds have increasingly been directed to addressing climate change in Bolivia. This is notable in the water sector and the river basin program funded by a basket fund (Annex I), where climate-change considerations have been mainstreamed into the program goals. The same is true for the peri-urban water program (a \$100 million program funded by IDB).

144. Through all of these programs, the water sector is expected to rapidly generate lessons on how to mainstream climate change into current investments. These lessons can then be extrapolated to other programs within the sector, and also to other sectors. The goal of the PPCR in Bolivia is to help generate these lessons.

145. Another program with the potential to spin off valuable lessons is funded by the Swiss Cooperation (\$10 million). This program is aimed at enhancing the capacities of local governments to deal with climate-related disasters and at strengthening the roles and functions of local governments in creating climate-friendly investments.

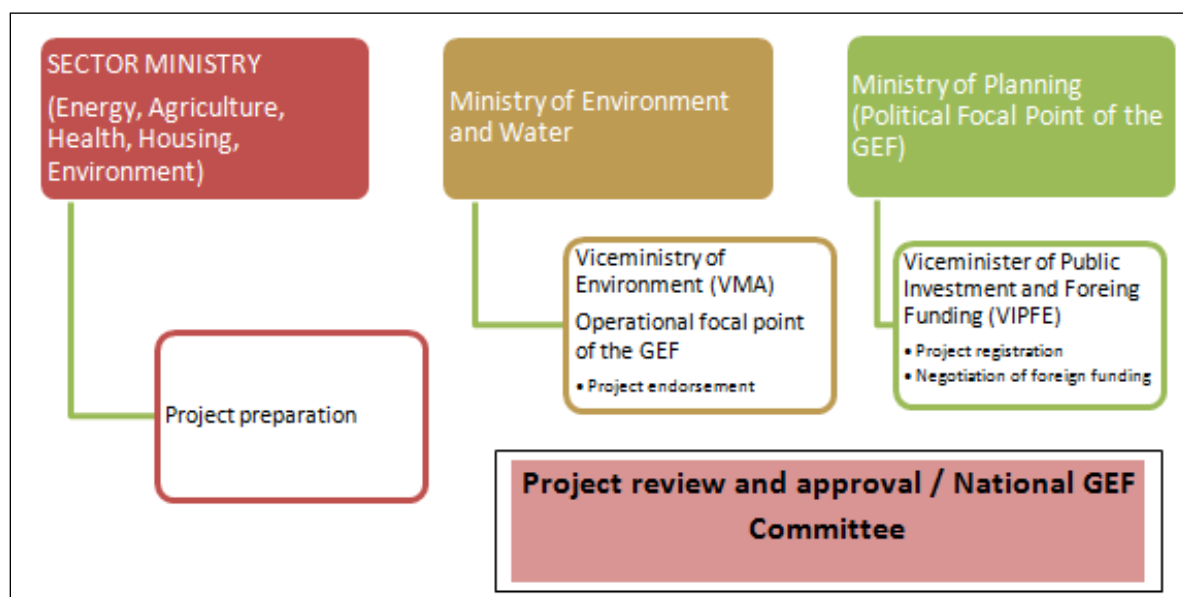
146. Cities are increasingly becoming the focus of bilateral funding. The Nordic Development Fund has created an international project (for which Bolivia is eligible) to explore ways to integrate mitigation and adaptation goals in the context of urban planning, and it is rapidly gaining support from such other sources as the IDB.

IV. Institutional Framework for Absorbing Climate Financing

147. Bolivia signed the Rio 92 Conventions and the same year created its Ministry of Sustainable Development, which was formerly the Ministry of Planning but included a strong Department of Environment. Law 1333 (1992) marked the initiation of environmental regulation in Bolivia; since then, the country has signed and ratified the UNFCCC, the Convention on Biological Diversity (CBD), and the UN Convention to Combat Desertification and Drought (UNCCD), among others. It has also signed and ratified the Kyoto Protocol, Montreal protocol, and International Agreements on Persistent Contaminants (COPs). And in 1998, Bolivia initiated its first National Climate Change Strategy and, almost in parallel, a Strategy for Conservation of Biological Diversity.

148. Institutions that play a key role in climate finance in Bolivia (see figure 1) are the Ministry of Environment and Water (MMAyA), in particular the Vice-Ministry of Environment, the Ministry of Development Planning (MPD)--especially the Vice-Ministry of Public Investments and Foreign Funding (VIPFE), and the Ministry of Economy and Public Finances (MEyFP). Also, the Ministry of Hydrocarbons and Energy and other sector ministries have participated in adaptation and mitigation projects. And the ministry of foreign affairs has played a role in defining international positions and, in some cases, in the area of climate funding.

Figure 1: Project Preparation and Endorsement for GEF Projects in Bolivia



Source: Author's research by Javier Gonzalez Iwanciw

149. The Vice-Ministry of Environment is the technical focal point of the UNFCCC and it has played a central role in defining access to climate finance (i.e., all GEF projects need its formal endorsement, Figure 1). This model changed with the application of other financial mechanisms not so clearly attached to UNFCCC rules (e.g., in the case of the presentation of Bolivia to the PPCR VIPFE, the Minister of Planning took the lead in presenting the project to the CIF Committee). With regard to Bolivia's participation in the REDD mechanism, the foreign affairs ministry played a central role in identifying the inconsistency of the REDD mechanisms with the Bolivian international position with respect to the UNFCCC.

National Policies and Climate Funding

150. One of the most difficult requirements of the GEF, and thus an important challenge, is that Bolivia be able to show consistent policies and demonstrate the ability to co-finance project activities. In general, international funding tends to support the implementation of national priorities.

151. The more visible elements of Bolivia's environmental policy are linked with other relevant social issues and demands, such as access to land, water, and natural resources. In particular, low-land indigenous populations have played a major role in shaping Bolivia's environmental agenda and consolidating the National System of Protected Areas and Indigenous territories, which is also central for territorial and the legal clearance of land.

152. Other civil society networks have also played an important role since the signing and ratification of international multilateral agreements. Despite these efforts, and the clear and concrete concerns of civil society groups and segments of the society, environmental issues have never been a key priority of the government. While environmental policy has been

factored into the policy discourse in recent years,⁵⁴ changing Bolivia's current pattern of development based on the exploitation of natural resources remains a huge challenge. Moreover, the Bolivian government's policy discourse concerning climate change may be perceived as unhelpful for accessing climate finance.⁵⁵

153. On the other hand, climate change has become a key aspect of the government's environmental discourse and also central in the context of international and bilateral relations. Bolivia is one of seven countries selected for the Pilot Program for Climate Resilience (PPCR). The Bolivian proposal for the first phase was submitted and approved by the PPCR sub-committee in June 2010; the second phase was submitted to the CIF committee in November 2011.

154. The recognition of access to water as a basic human right has oriented the efforts of the government in the last years. Bolivia's PPCR investments focus entirely on the water sector, which reflects the priority the government places on water issues and the water sector.⁵⁶ The sector has become one of the country's major priorities. Indeed, general investments of the Ministry of Environment and Water in water, sanitation, and irrigation for the period 2010-14 will surpass the \$100 million a year (3 percent of Bolivia's annual public investment).

Institutional Capacities

155. According to the IMF, Bolivia's overall fiscal position has improved since 2007,⁵⁷ thanks to substantial oil revenues. The overall fiscal surplus is estimated to have reached 3.5 percent of GDP in 2011. Still, current central government spending is high and only 48 percent is covered by general taxes; the larger share is covered by oil revenues, donations, and debt. This means Bolivia has little scope for addressing needed investments in productive sectors and in the environment. The central government allocates only 25 percent of the general budget to investments but 75 percent for current spending. In addition, the general administrative cost of the government (7 percent of GDP) exceeds that for all investments in productive sectors and is much larger than investments in the environment.⁵⁸ Since 1992, Bolivia has also devolved important functions to decentralized government units. The country

⁵⁴ The respect and protection of natural resources has been advocated in the UN for the recognition of the "Rights of Mother Earth." The notion of the Rights of the Mother Earth has been a guideline for national policies relating to the management and conservation of natural resources. It emphasizes the need to achieve higher levels of harmony with nature and to lead to the promulgation of a new Framework Law for the Mother Earth to replace current environmental regulations, which are seen as inadequate for dealing with the environment.

⁵⁵ The climate-change agenda in Bolivia has received considerable political attention in the last five years. This became evident during COP15 and COP16, when Bolivia was one of the countries blocking the Copenhagen Accord on global warming. This was later emphasized in the World Peoples Conference on Climate Change and Rights of Mother Earth, held in Cochabamba in April 2010.

⁵⁶ In 2006, Bolivia created a Ministry of Water, which in 2009 became the Ministry of Environment and Water.

⁵⁷ The IMF, World Bank, and IDB have written off his debt to Bolivia in 2007. This means that in the Latin American context, Bolivia is the country with the lowest debt.

⁵⁸ These investments include investments in water and sanitation and irrigation.

has legislation in place to ensure the proper functioning of decentralized and autonomous units. Municipal and provincial governments are responsible for the 59 percent of public investments in the country.

156. Lack of stability in the civil service undermines environmental management. Despite some exceptions, Bolivian public institutions face several constraints. The government still does not have the necessary capacity in personnel, economic resources, and other means to prepare and follow up on environmental programs. The rotation of technical staff is a mayor constraint; public institutions are widely perceived as poorly organized and unreliable and thus unable to meet international criteria and procedures. The lack of clearly defined procedures generates implementation gaps and, in some cases, low project execution.

157. Since the ratification of the UNFCCC, Bolivia has been able to develop acceptable technical and research capacities within its National Climate Change Program and linked Research Institutes. It has prepared a greenhouse gas inventory and implemented a National Adaptation Plan. The National Climate Change Program and the resulting plans, however, are seen as weak, as they depend almost entirely on international funding (donations) to do their work and to implement projects.

158. Multilateral agencies together with sector ministries still play a central role in preparing projects and proposals to be funded by international mechanisms. The UN system and multilateral banks (defined as, for example, operational entities by the GEF) function as intermediaries providing technical assistance and hiring consultants to prepare projects and programs. Civil society and the academic community play a major role in providing expertise for these purposes.

159. A national consultation about changes in cooperation policies,⁵⁹ relative to the implementation of the Paris Declaration on Aid Effectiveness suggests that:

- Bolivia still needs to organize its planning system; it works at the macro level (e.g., National Development Plan) but still needs to be structured at the operational level.
- Donors seek to align with national priorities and established guidelines, but changes in national priorities make coordination within sectors difficult.
- The level of coordination of international cooperation has improved, as reflected in the implementation of basket funds⁶⁰ and the Group of Partners for Bolivia's Development (GruS).
- Bolivian institutions do not have an administrative model of management for results.

⁵⁹ CONSULTA NACIONAL Cambios en las políticas de cooperación y desarrollo en Bolivia, UNITAS, IBON, AECID, TROCAIRE, The Reality of Aid, Nov 2011.

⁶⁰ Bolivia has been organizing sector cooperation based on basket funds. For these funds to operate, sector plans are required. This financing mode also requires trustee capabilities within the receptor sector. Currently, Bolivia is managing seven basket funds, one in the environment and water sector.

160. The study also concludes that a major challenge with respect to technical assistance provision is to articulate the planning and management stages in order to keep priorities at the executing level, introduce staff permanence, organize demand for technical assistance, and establish a results-based management.

161. Although it is legally required, Bolivia does not systematically publish environmental information, owing to its erratic monitoring and absence of “baselines” for evaluation of environmental variables. As a result, environmental assessments are scarce, impeding systematic implementation of prevention and mitigation policies. In addition, there are many gaps in fulfilling the recommendations of the environmental impact assessments in sector activities. The PPCR will contribute to strengthening the water sector so that all national investments in the sector use best practices, be subject to environmental evaluation, and be oriented through a monitoring and evaluation system.

V. Reliable Financial Management and Financial Reporting Structure

162. Apart from sector ministries and the National Focal Point (Vice-Minister of Environment), the Vice-ministry of Public Investments and Foreign Funding (VIPFE) is the central entity within the government for defining success in applying for international funding. The VIPFE is in charge of registering public investments and following up the financial execution of those investments.

163. Bolivia has a National System for Public Investments (SNIP) that incorporates phases of registering, follow up, and reporting. The country has increased public investments from about \$590 million in the early 2000s to \$3.25 billion in 2012. This has put the VIPFE in a position to encourage further development of information systems and procedures. Major challenges of the system include its expansion (only 43 percent of total international cooperation has been registered in the accounting system) and better and more transparent procedures and reporting systems. Co-financing of national investments is possible and a desirable way of using international cooperation. Depending on a project’s location, it can have different levels of co-financing at the national, provincial, and district levels.

VI. Demand for Good Governance and Transparency from Civil Society and Donors

164. Civil society is perceived as strong and well organized in Bolivia. The process of popular participation was initiated in 1992 and has built up a culture of participation, consultation, and social control in the various levels of governance. Owing to other cultural factors, social networks, and the strong identity of indigenous people, civil society is able to organize and articulate demands rapidly in many cases e.g. in 2006. This has challenged the whole governmental administration, as in its calls for the resignation of the central authorities.

165. In the context of the environment and climate change, civil society has played a central role in articulating key demands and providing guidance to the government. Indigenous organizations, the main constituencies of the current administration (with the support of national and international NGOs) defined the climate-change position of the Bolivian government⁶¹ in international negotiations. In many cases, civil society groups also took part in the negotiations as part of the official delegation. The Cochabamba Peoples Conference on Climate Change is part of this process of structuring climate-change policy and international positions in the country.

166. Because of sharp positions taken by Bolivian negotiators in international negotiations, donors have adopted a cautious stance with regard to their climate-change collaboration plans with Bolivia. But, in terms of the application of the Paris principles on aid effectiveness, Accra Agenda for Action, and Busan Action Plans, Bolivia is generally perceived to be responding to the principles and challenges in a proactive way.

VII. Conclusions and Recommendations

167. Bolivia's relative success in accessing international climate funding is the result of not just one factor but of a combination of demographics, environmental characteristics, economic attributes, and governance. This success has been achieved despite major challenges, such as, high poverty levels, unsustainable natural resource use, and high vulnerability levels.

168. In general, it appears that international funding will follow national policies and complement and/or supplement sector investment. This is reinforced by the fact that more and more climate financial instruments are moving toward programmatic approaches. International donors present in Bolivia acknowledge that the country has been proactive in adopting the principles of the Paris Declaration on Aid Effectiveness, which emphasizes a country's drive in implementing policy and aligning international cooperation but also calls for enhancing transparency and accountability.

169. Given these objectives, however, not only do clear sector policies become more urgent but so do enhanced levels of intergovernmental coordination and capacity to deal with expanded financial flows. These both pose large challenges for Bolivia's government administration.

⁶¹ In the context of climate negotiations, Bolivia advocates for a legally binding agreement that ensures a drastic reduction in the levels of GHGs to avoid major climate change; the level has to consider the best scientific evidence and the precautionary principle. In Copenhagen, Bolivia advocated for a 1°C maximum warming target. Bolivia also advocates for the recognition of the "climate debt" that industrial countries have with developing countries, resulting from the excessive use of the atmospheric budget since the industrial revolution. In terms of financing mechanisms, more public resources should be channeled to support adaptation efforts in developing countries.

170. One of the central elements related to international funding will be ensuring efficient results in terms of adaptation and mitigation. Success will depend on whether Bolivia is able to demonstrate that international climate funds can be used in cost-efficient and effective ways. To develop an administrative model of “management for results” implies enhanced capacities at the level of sector ministries (e.g., for sector baseline monitoring). It also requires cross-cutting capacities, such as monitoring and evaluation of financial execution and environmental impact assessments that require additional responsibilities for environmental authorities.

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Summary of Climate-Related Funding in Bolivia

(Programs must explicitly include the climate-change variable)

FINANCIAL INSTRUMENT	Government executing agency	Projects Description	Period	Budget (Million USD)
GEF 3		ID 2095 - Regional Project: Sustainable Management of the Water Resources of the la Plata Basin with Respect to the Effects of Climate Variability and Change.	(2002 – 2006)	2.291
GEF 3	MMAyA	ID 2363 - National Capacity Self-Assessment for Global Environmental Management.		2.00
GEF 3		ID 2364 - Regional Project: Integrated and Sustainable Management of Trans-boundary Water Resources in the Amazon River Basin Considering Climate Variability and Climate Change (\$.9625 million).		7.00
GEF 3		ID 2505 - Regional Project: SFM Sustainable Forest Management in the Trans-boundary Gran Chaco American Ecosystem.		2.45
GEF 3	UNDP	ID 2774 - Global Project: Community-based Adaptation (CBA) Program		5.00
GEF 3	WB / PNCC	ID 2902 - SCCF- Regional Project: Design and Implementation of Pilot Climate Change Adaptation Measures in the Andean Region.		2.497
GEF 4		ID 3514 - Global Project: 4th Operational Phase of the GEF Small Grants Program (RAF1).		0.359
GEF 4		ID 3871 - Global Project: 4th Operational Phase of the GEF Small Grants Program (RAF2).		7
GEF 4		ID 3971 - SFM Biodiversity Conservation through Sustainable Forest Management by Local Communities.		5.6
GEF 5		ID 4481 - Fifth Operational Phase of the GEF Small Grants Program in Bolivia.		4.167

FINANCIAL INSTRUMENT	Government executing agency	Projects Description	Period	Budget (Million USD)
GEF 5	FAO / MDRyT	ID 4577 - Conservation and Sustainable Use of Agro-biodiversity to Improve Human Nutrition in Five Macro Eco-regions.	2010 - 2014	2.7
CIF	MMAyA / VRHR	Strategic Climate Fund (SCF) / Pilot Program for Climate Resilience (PPCR) Bolivia Strategic Program for Climate Resilience (SPCR).		(Phase I) 1.5 (Phase II) 86.00
UN REDD	MMAyA	UN- REDD in Bolivia Program for emissions from deforestation and forest degradation under the REDD mechanism.		4.70 3.60
BID	MMAyA / VASB	Potable Water and Basic Sanitation – Peri-urban Program		100.00
BILATERAL FUNDS				
The Netherlands, COSUDE, KfW, AECID	MMAyA / VRHR	National River Basins Program (Basket Fund)		47.75
EU	MMAyA	Sector Support to the National River Basins Program		19.00
The Netherlands	MMAyA / PNCC	PNCC Five Year Plan, commencing 2004		5.00
The Netherlands	PNCC / 6 Municip.	The Netherlands Climate Assistance Program		0.48
DANIDA	PNCC	Implementation of National Adaptation Mechanisms		1.00
	MDRyT, MPD	Support for the extension of the environmental program		25.00
The Nordic Development Fund	Bolivian cities / LA PAZ	NDF C40 Latin America: Climate Change and Sustainable Cities.		2.73
KfW	MMAyA	Support Project for the Initiative of Deforestation Reduction and Forest Comprehensive Management.		11.00
KfW	MMAyA	Guadalquivir Potable Water and Sewerage Program		17.00

FINANCIAL INSTRUMENT	Government executing agency	Projects Description	Period	Budget (Million USD)
KfW	MMAyA	Sucre Potable Water Project III (Sasanta - Yurubamba)		14.00
GIZ	MMAyA / MDRyT	PROAGRO (Water for agricultural production and integrated river basin management).		23.40
COSUDE	MPD – VIPFE / MDRyT – VDRA Departments	PRRD/Developing risk governance in the decentralized public planning processes, agricultural risk management, integration with other programs of the COSUDE in Bolivia, technical assistance.		10.00

Acronyms: Case Study of Bolivia

CBD	Convention on Biological Diversity
COP	Conference of the Parties
FCPF	Forest Carbon Partnership Facility
GEF	Global Environment Facility
GTZ	German Technical Cooperation
IADB	Inter-American Development Bank
KFW	German Development Bank
LAC	Latin America and the Caribbean
MMAyA	Spanish acronym of Ministry of Environment and Water
MDRyT	Spanish acronym of Ministry of Rural Development and Land
MEyFP	Spanish acronym of Ministry of Economy and Public Finances
MPD	Spanish acronym of Ministry of Development Planning
PNCC	Spanish acronym of National Climate Change Program
PPCR	Pilot Program for Climate Resilience
UNCCD	United Nations Convention to Combat Desertification
UNFCCC	United Nations Framework Convention on Climate Change
UNREDD	Reduction Emissions for Deforestation and Degradation
VIPFE	Spanish acronym of Vice-Ministry of Public Funding and Foreign Funding
VMA	Spanish acronym of Vice-Ministry of Environment, Biodiversity, Climate Change and Forestry Development

PART III: Annexes

Annex I: Global Climate Funds of Possible Interest to LAC, 2011

Fund	Portfolio/ Commitments (\$ billion)	LAC Share of Current Portfolio (percent)	LAC Countries
Global Environment Facility (GEF), TOTAL	3.4	22	All LAC countries eligible
Climate Investment Funds (CIF), TOTAL	6.396	15	See individual CIF Funds below for eligibility and participating countries.
CIF-Clean Technology Fund (CTF)	4.5	24	Recipients must be eligible for ODA and have an active MDB country program. Mexico, Colombia, Chile
CIF – Strategic Climate Fund (SCF) - Pilot Program for Climate Resilience	1	Included in CIF total above	Recipients must be eligible for ODA and have an active MDB country program. IDA: Bolivia, Caribbean Region (Dominica, Grenada, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines).
CIF – Strategic Climate Fund (SCF) - Forest Investment Program	0.578	Included in CIF total above	Recipients must be eligible for ODA and have an active MDB country program. Mexico, Peru, Brazil
CIF – Strategic Climate Fund (SCF) - Scaling Up Renewable Energy Program for Low-Income Countries	0.318	Included in CIF total above	A low-income country must be eligible for assistance from the World Bank's International Development Association (IDA) or a Regional Development Bank equivalent and have an active MDB country program. Honduras

World Bank Carbon Funds	2.5	6	Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Peru, Uruguay.
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Additional Global Climate Funds of Possible Interest to LAC, 2011

Fund	Portfolio/Commitments (USD billion)	LAC Share of Current Portfolio (percent)	LAC Countries Accessing funds
International Climate Initiative	1.73	17	Bolivia, Brazil, Chile, Costa Rica, Dominican Rep, Ecuador, Mexico, Peru, St. Vincent.
UN- REDD	0.97	19	Bolivia, Panama, Paraguay (consultations with Ecuador, Mexico).
IDB'S Multilateral Investment Fund	0.6	100	All LAC countries eligible
UNFCCC Adaptation Fund	0.3-0.5	27	Ecuador, Nicaragua, Honduras (Kyoto Protocol developing country parties eligible).
Global Facility for Disaster Reduction and Recovery (GFDRR)	0.244	n/a	Priority: Haiti, Panama, nearly all LAC
IFC's Global Climate Partnership Fund	0.2	n/a	Eligible (investment): Brazil, Chile Mexico, TA: Ecuador
Guyana REDD+ Fund http://www.guyanareddfund.org/	0.2	100	Guyana
European Investment Bank (EIB) Global Energy Efficiency and	0.060	28	Mexico, Brazil, Chile, Peru and Colombia

Renewable Energy Fund (GEEREF) http://www.geeref.com/posts/display/25			
European Commission Blending Mechanisms - Latin America Investment Facility (LAIF) http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/projects_en.htm	0.046	100	Nicaragua, El Salvador, Mexico and others.

Annex II: Main Instruments for Financing Climate Action⁶²

More details available from www.climatefinanceoptions.org

1. Climate-Specific Additional Resources Available Under the UN Framework Convention on Climate Change (UNFCCC)

Climate Fund	Purpose	Description
Adaptation Fund \$300-\$600 million by 2012 www.adaptation-fund.org	Adaptation	The overall goal of all adaptation projects and programs financed under the Adaptation Fund is to support concrete adaptation activities that reduce the adverse effects of climate change facing communities, countries, and sectors. Can be implemented at the city level. Applications through national designated authorities and implementation through accredited Multilateral or National Implementing Entities.
Global Environment Facility (GEF) \$1.35 billion during 2011–14 www.gefweb.org	Mitigation and some Adaptation	Largest source of grant-financed mitigation resources. Strategic Priority on Adaptation (SPA) is a funding allocation within the GEF Trust Fund to support pilot and demonstration projects that address local adaptation needs and generate global environmental benefits in all GEF focal areas. Cities can initiate new projects or be implementation partners with national agencies.
UNFCCC GEF-Administered Special Funds Least Developed Countries Fund (LDCF): \$223 million Special Climate Change Fund (SCCF): \$148 million	Adaptation	Least Developed Countries Fund (LDCF): Helps in preparing and financing the implementation of National Adaptation Programs of Action (NAPAs) to address the most urgent adaptation needs in the least developed countries. Special Climate Change Fund (SCCF): Supports adaptation and mitigation projects in all developing countries,

⁶² Ari Huhtala and others, “Climate Finance in the Urban Context,” World Bank, Issues Brief No. 4, Nov. 2010, Annex, pp. 10-11 (table modified somewhat by present author).

www.gefweb.org		with emphasis on adaptation.
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2. Carbon Market Resources

Carbon Fund, Size	Purpose	Description
World Bank Carbon Funds and Facilities Size: 12 funds and facilities entrusted with \$2.5 billion www.carbonfinance.org Carbon Partnership Facility (CPF): \$176 million Forest Carbon Partnership Facility (FCPF): \$100 million	Mitigation	Cities can access Clean Development Mechanism (CDM) funds through the sale of certified emission reductions (CERs) to carbon funds. CPF can support cities in preparing CDM activities on a programmatic scale. World Bank Carbon Finance Unit can support monetizing CERs.

3. Dedicated Concessional Funding (ODA) from the DAC Community

Climate Fund, Size	Purpose	Description
Climate Investment Funds \$6.4 billion www.climateinvestmentfunds.org	Mitigation	The Clean Technology Fund (CTF): \$4.5 billion programmed for 13 investment plans to finance scaled-up demonstration, deployment, and transfer of low-carbon technologies. Major urban mitigation (transport and energy) investments in Bangkok and Mexico City; others are possible if more funds are pledged for programming.
World Bank-administered, implemented by multilateral	Adaptation and Mitigation	The Strategic Climate Fund (SCF): Pilot Program for Climate Resilience (PPCR): \$1 billion programmed for nine pilot countries and two regions to help build climate

development banks		resilience in core development. Forest Investment Program (FIP): \$587 million for eight pilot countries. Program to Scale Up Renewable Energy for Low- Income Countries (SREP): \$318 million for six pilot countries. Urban upstream planning support and city-based investments possible to integrate into national plans now being formulated in agreed pilot countries.
Reducing Emissions from Deforestation and Forest Degradation programs (REDD+) \$4 billion in pledges as Fast Start Finance following the Copenhagen Accord	Mitigation	Two major REDD funds fully or partially run by the World Bank, the Forest Carbon Partnership Facility, and the Forest Investment Program (under the Climate Investment Funds) have already received over \$700 million in pledged funding for pilot programs in forested developing countries and are currently commencing implementation. Cook-stove programs can still be integrated into reduced-deforestation country strategies and implementation plans. Their impact at the urban level is the reduction of GHG and black- carbon emissions in low-income areas with corresponding health co-benefits.

4. Other Climate Funds

Size	Purpose	Description
\$10 billion	Mitigation and Adaptation	Hatoyama Initiative (Japan)
\$180 million a year	Mitigation and Adaptation	International Climate Initiative (ICI) Germany
\$160 million	Adaptation	Global Climate Change Alliance (European Commission)
\$135 million	Mitigation and Adaptation	International Climate Change Adaptation Initiative (Australia)

5. Examples of Non-Climate-Specific Support from Donors and Multilateral Development Banks

Source or Instrument	Purpose	Description
Global Facility for Disaster Reduction and Recovery (GFDRR)	Adaptation	Partnership within the UN International Strategy for Disaster Reduction initiative, focusing on building capacities to enhance disaster resilience and adaptive capacities in a changing climate. About two-thirds of Global Facility for Disaster Reduction and Recovery (GFDRR) assistance has had a primary focus on climate change adaptation—that is, more than \$27 million in nearly 90 countries across the world. GFDRR support has leveraged an additional \$17 million of co-financing from development partners and larger amounts from World Bank investments. The GFDRR Technical Assistance Fund is a global fund established through contributions of GFDRR partners into a multi-donor trust fund. The Callable Fund is a fund-in-readiness to be activated when disaster strikes. This multi-donor trust fund is innovative in that donors enter into an agreement with the World Bank before a natural disaster to support the Callable Fund; actual funds, however, are mobilized after a natural disaster through a Call for Funds.
International Development Association (IDA) World Bank arm for concessional lending to low-income countries	Adaptation and Some Mitigation	To be developed as part of national initiatives and with national authorities: - Development Policy Operations to build resilience into city budgets - Adaptation action at city level - Mitigation action at city level
IBRD, MDB, and bilateral core funds	Adaptation and Mitigation	Stand-alone or in combination with climate-specific funds city-based adaptation and mitigation interventions as part of national programs and with national authorities.
Trust Funds and Partnerships; Guarantees	Mitigation and Adaptation	Grant financing for knowledge products, capacity building, upstream project work/pilots; partial risk guarantees to support development/adoption/ application of clean energy technologies, including those not fully commercialized, in client countries.

Climate Insurance Products World Bank Treasury and others, fee-based or donor-supported	Adaptation	Risk financing strategy development. MultiCat products with cities with parameter-based triggers. CAT swaps (e.g., for extreme flood risk). Multi-city insurance products for risk sharing and lower cost.
Climate Bonds World Bank Treasury, etc. fee-based or donor-supported	Mitigation and Adaptation	Bonds against city Certified Emission Reductions (CERs) or Nationally Appropriate Mitigation Actions (NAMAs) Advice on monetizing carbon bonds
Public-Private Partnerships	Mitigation and Adaptation	World Bank Public-Private Infrastructure Advisory Facility, or other similar schemes, can provide technical assistance and matchmaking in the planning and operationalizing of urban NAMAs by improving an enabling environment and strategic public intervention conducive to long-term private-sector commitment
Private sector	Mitigation and Adaptation	International Finance Corporation and other MDB private-sector arms can provide technical assistance and financial support to investors on climate-resilient infrastructure or low-carbon technologies through a combination of risk management and other concessional instruments, bringing the cost to a level attractive for long-term private investment.

Annex III: Characteristics of Major Climate-Change Funds ⁶³

1. Global Environment Facility (GEF) Trust Fund

Category	Characteristics
Establishment	Established in 1991, restructured in 1994
Main Purpose	To protect global environment and environmentally sustainable development.
Eligible Countries	Countries eligible to borrow from the World Bank (IBRD and/or IDA) or eligible for United Nations Development Program (UNDP) technical assistance
Focal Areas	6 focal areas for GEF-4: biodiversity, climate change, international waters, land degradation, ODS and POPs.
Agencies	10 GEF Agencies • Implementing Agencies (3): UNDP, UNEP, WB • Executing agencies (7): FAO, IFAD, UNIDO, ADB, AfDB, EBRD, IDB.
Access to Funding	Eligible countries can access the fund through a GEF Agency.
Forms of Funding	Grants
Trustee	World Bank
Governance and Management Structure	• The Assembly, consisting of representatives of all member countries, reviews and evaluates GEF's general policies, the operation of the GEF and its membership, and considering and approving proposed amendments, documents, and rules. • The GEF Council, the main governing body, is responsible for developing, adopting, and evaluating GEF programs. Council members comprise 32 constituencies (16 from developing countries, 14 from developed countries and 2 from countries with transitional economies).

⁶³ Yu and Miller, IDB, 2011, p. 37 (modified somewhat by present author).

	• The GEF Secretariat reports directly to the GEF Council and Assembly, coordinates the formulation of projects, and oversees their implementation.
Sources of Funding	Replenishment from donor countries' commitments every four years • Replenishment for GEF-4: \$3.135 billion • Replenishment for GEF-5: \$4.25 billion
Disbursements	\$ 9.2 billion (as of December 31, 2010)

Sources: Instrument for the Establishment of the Restructured Global Environment Facility, GEF (2008); www.thegef.org

2. Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF)

Category	Characteristics
Establishment	Established in 2001 under the UNFCCC
Governance and Management Structure	• The COP is the highest decision-making authority and provides guidance on policies, program priorities and eligibility criteria. • Contributions from countries are voluntary. • The GEF serves as the operating entity of the LDCF/SCCF requiring the GEF council to report annually to the COP on all GEF-financed activities in conducting the Convention. But the LDCF/SCCF are separate from the GEF Trust Fund and have their own Councils. • The LDCF/SCCF follow GEF policies, procedures, and rules in their operations such as fiduciary standards, project cycle, allocation (result-based frameworks), and monitoring and evaluation. • The LDCF/SCCF Councils meet biannually in separate back-to-back sessions within the overall GEF Council.
Forms of Funding	Grants
Trustee	World Bank
Agencies	10 Agencies (same as GEF Trust Fund)

	• Implementing Agencies (3): UNDP, UNEP, WB • Executing agencies (7): FAO, IFAD, UNIDO, ADB, AfDB, EBRD, IDB	
	LDCF	SCCF
Main Purpose	To identify and support, through the preparation of National Adaptation Programs of Action (NAPAs) the urgent and immediate concerns and activities of LDCs as they adapt to climate change.	To finance climate- change activities Complementary both to the focal areas of the GEF Trust Fund and to the activities carried out by bilateral and multilateral agencies in developing countries.
Mandates and Areas	• Preparation and implementation of National Adaptation Programs of Actions (NAPAs) • Supports work programs to address the special needs of LDCs.	• Adaptation to climate change (top priority) • Technology transfer • Selected sectors including energy, transport, industry, agriculture, forestry and waste management • Economic diversification
Eligible Countries	48 LDCs as defined by UN (33 in Africa, 9 in Asia, 1 (Haiti) in LAC, and 5 in Oceania)	All developing countries that are parties to the UN Framework Convention on Climate Change (UNFCCC)
Contributions	\$210 million (as of December 31, 2010)	\$136 million (as of December 31, 2010)
Donor Countries	19 countries (Australia, Austria, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom).	13 countries (Canada, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom).

Sources: GEF/C.24/12 (2004); GEF/C.28/18 (2006); GEF/LDCF.SCCF.9/INF.7 (2010); “Strategy on Adaptation to Climate Change for the LDCF and the SCCF,” GEF, 2011

3. Adaptation Fund

Category	Characteristics
Establishment	Established in December 2007
Mandate	To finance concrete adaptation projects and programs based on the needs, views, and priorities of eligible countries.
Eligible Countries	Developing country parties to the Kyoto Protocol particularly vulnerable to the adverse effects of climate change.
Sources of Revenues	• 2 percent of CERs under the CDM (main source) • Donations from voluntary countries (Finland, France, Germany, Japan, Monaco, Norway, Spain, Sweden, Switzerland and others).
Criteria for Resource Allocation	• Level of vulnerability • Level of urgency and risks arising from delay • Ensuring access to the fund in a balanced and equitable manner • Lessons learned in project and program design and implementation • Securing regional co-benefits to the extent possible • Maximizing multi-sector or cross-sector benefits • Adaptation capacity to the adverse effects of climate change.
Access to Funding	Eligible developing countries have two different options: i) direct access through a National Implementing Entity (NIE), or ii) access through a Multilateral Implementing Entity (MIE).
Forms of Funding	Grants
Governance and Management Structure	• The Adaptation Fund Board is the operating entity under the authority and guidance of the COPs serving as the meeting of the Parties of the Parties to the Kyoto Protocol. • The AFB consists of 16 members representing Parties to the Kyoto Protocol, reflecting fair and balanced representation among these groups: two from each of the five UN regional groups, one from the small island developing countries, one from the LDC parties, two from the Annex I Parties, and two from the non-Annex I Parties.

	• The GEF provides secretariat services to AFB, and the WB serves as trustee of Adaptation Fund, on an interim basis, respectively.
Cumulative Receipts	\$225 million (as of January 31, 2011) • cash receipts from CER sales: \$138 million • cash receipts from donors and other sources: \$87 million
Disbursements	\$12.6 million (as of January 31, 2011)

Sources: AFB/EFC.4/10/Rev.2 (2011), The Handbook: Accessing Resources from the Adaptation Fund, Adaptation Fund, 2011

4. GEF Earth Fund/Public-Private Partnership

Category	Characteristics
Establishment	Endorsed by GEF CEO as pilot project in May 2008
Mandate	To mobilize capital for innovative projects, technologies and business models in order to promote private sector engagement in the activities of the GEF.
Basic Structure	• The fund is an umbrella program consisting of platforms that have a portfolio of projects. • The projects within each platform must be consistent with the GEF focal areas.
Access to Funding	GEF agencies, NGOs and foundations meeting the GEF fiduciary standards can propose platforms, and are qualified as platform Managing Agencies.
Governance Structure	• The GEF Council is the governing body of the fund, approving the establishment, financial allocations, governance structure, and operating procedures. • The GEF Earth Fund Board provides strategic guidance and support to the GEF Earth Fund. • The GEF Secretariat acts as Secretariat of the GEF Earth Fund.
Trustee	International Finance Corporation (IFC)
Sources of Funding	• Funding at the GEF Earth Fund level: GEF allocation and GEF Earth Fund sponsors' Contributions. • Funding at the platform level: contributions from platform managing agencies, others within the

	Platform, and co-financing.
Forms of Funding	Non-grant instruments such as loans, guarantees, equity and other types of investments, as well as grant funding for technical assistance, capacity building, implementation costs and knowledge management.
GEF Allocations to the Fund	• \$50 million for GEF-4 (excluding agency fees) • \$80 million for GEF-5 (excluding agency fees)

Sources: The GEF Earth Fund Board Procedures (Pilot Project), GEF (2009); IFC Earth Fund: A Platform of the GEF Earth Fund, GEF (2008); GEF/R.5/31/CRP.1 (2010)

5. Clean Technology Fund (CTF)

Category	Characteristics
Establishment	Approved by World Bank Executive Directors in July 2008.
Main Purpose	To provide developing countries with scaled-up financing to promote demonstration, deployment, and transfer of low-carbon technologies for long-term GHG emissions savings.
Areas of Investment	• Power sector (renewable energy, as well as increased efficiency in generation, transmission and distribution). • Transportation (modal shifts to public transport, improved fuel economy and fuel switching). • Energy Efficiency in buildings, industry and agriculture.
Country Eligibility	Countries eligible for ODA and where a MDB has a lending program and/or an ongoing policy dialogue with the country.
Agency	AfDB, ADB, EBRD, IDB, WB, and IFC
Governance Structure	• The CTF Trust Fund Committee oversees the operations and activities of the CTF, and consists of eight representatives from contributor countries and eight representatives from eligible recipient countries. • The MDB Committee comprises representatives of the MDBs to facilitate collaboration and information exchange among MDBs.

	• The Administrative Unit is housed in the WB and staff members are employed by the WB.
Trustee	World Bank
Contributions (Pledges)	\$4.4 billion (as of September 30, 2010) from 8 countries: Australia, France, Germany, Japan, Spain, Sweden, United Kingdom, and United States.
Forms of Financing	Grants, concessional loans, guarantees and equity
Approval of Investment Plans	Thirteen Investment Plans were approved for Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Morocco, Philippines, South Africa, Thailand, Turkey, Ukraine, Vietnam, and the Middle East and North Africa Region (as of September 30, 2010). • CTF funding: \$4.4 billion • Expected co-financing: \$34.6 billion

Sources: 2010 Annual Report, CIF, 2011, "Governance Framework for the Clean Technology Fund," CIF, 2008.

6. Strategic Climate Fund (SCF)

Category	Characteristics
Establishment	Approved by World Bank Executive Directors in July 2008.
Main Purpose	To pilot new development approaches and scaled-up activities aimed at specific climate change challenges or sectoral response.
Targeted Programs	The SCF operates through three targeted programs: i) FIP (forest investment program, approved in May 2009); ii) PPCR (pilot program for climate resilience, approved in November 2008); and iii) SREP (program for scaling-up renewable energy in low income countries, approved in May 2009).
Aims of Specific Programs	(i) FIP: to support developing countries' efforts to reduce emissions from deforestation and forest degradation, and promote sustainable forest management by providing scaled-up bridge financing. (ii) PPCR: to demonstrate ways that developing countries can make climate risk and resilience part of their core development planning by providing incentives for scaled-up action and initiating transformational change. (iii) SREP: to demonstrate the economic, social, and environmental viability of low carbon development pathways by financing renewable energy sectors such as solar, wind, bioenergy, geothermal, and small

	hydro technologies.
Country Eligibility	Countries eligible for ODA and where an MDB has a lending program and/or an on-going policy dialogue with the country.
Agency	AfDB, ADB, EBRD, IDB, WB, and IFC
Governance Structure	• The SCF Trust Fund Committee oversees the operations and activities of the SCF, and consists of eight representatives from contributor countries and eight representatives from eligible recipient countries. • A SCF Sub-Committee for each program includes approval of programming priorities, operational criteria, financing modalities, financing for programs and projects, and periodic reports to the SCF Trust Fund Committee on the operations of the program. • The MDB Committee comprises representatives of the MDBs so as to facilitate collaboration and information exchange among the MDBs. • The Administrative Unit is housed in the WB, whose staff members are employed by the WB.
Trustee	World Bank
Contributions (Pledges)	\$ 1.8 billion (as of September 30, 2010) (i) FIP: \$558 million from six countries: Australia, Denmark, Japan, Norway, United Kingdom, United States. (ii) PPCR: \$972 million from eight countries: Australia, Canada, Denmark, Germany, Japan, Norway, United Kingdom, United States (iii) SREP: \$307 million from seven countries: Denmark, Japan, Netherlands, Norway, Switzerland, United Kingdom, and the United States.
Forms of Financing	Grants, concessional loans, guarantees and equity
Approval of pilot projects	24 projects (as of September 30, 2010) (i) FIP: 8 projects in Brazil, Burkina Faso, Democratic Republic of Congo, Ghana, Indonesia, Lao People's Democratic Republic (PDR), Mexico, and Peru. (ii) PPCR: 10 projects in Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen, Zambia, the Caribbean and Pacific regions. (iii) SREP: 6 projects in Ethiopia, Honduras, Kenya, Maldives, Mali, Nepal.

Sources: 2010 Annual Report, CIF, 2011, "Governance Framework for the Strategic Climate Fund," 2008

7. Sustainable Energy and Climate Change Initiative (SECCI) Funds

Category	Characteristics
Establishment	Approved by the IDB Board of Directors in March 2007.
Main Purpose	To promote investments in renewable energy and energy efficiency and biofuels in LACs, LACs' access to international carbon markets and climate-change adaptation strategies in the region.
Strategic Pillars and Priority Lines of Action	There are four strategic pillars and the corresponding priority lines of action: (i) Renewable energy and energy efficiency: assessment of the potential for RE/EE, minimization of regulatory, institutional and financial barriers, and development of new RE/EE projects and technologies. (ii) Sustainable bio-fuel development: assessment of the economic viability and potentials of bio-fuels, country-level policy assistance for bio-fuel development, funding for new bio-fuel programs and technologies. (iii) Access to carbon markets: technical assistance for climate change mitigation projects under the CDM, capacity building for effective engagement in carbon markets, and development of innovative financial schemes and instruments. (iv) Adaptation to climate change: incorporation of adaptation strategies to national and regional planning, establishment and reinforcement of local institutional capacity, financial and technical assistance for strategic and replicable pilot projects of adaptation, and development and assessment of key policies and regulatory instruments.
Eligible Projects	Technical cooperation projects and investment grant projects: consulting services and goods necessary for studies, complementary training activities such as workshops, technical sessions and seminars, and any other activity compatible with the goals of SECCI.
Eligible Entities	National and sub-national government organizations, public and private corporations, private project developers, NGOs, and academic and research institutions in the region.
Funding Resources	Two different resources from (i) the IDB (SECCI IDB Fund) and (ii) international donor countries, such as Finland, Germany, Italy, Japan, Spain, and United Kingdom (SECCI Multi-Donor Fund).

Contributions	\$87 million (as of December 31, 2010) (i) \$60 million from the IDB Ordinary Capital and (ii) \$27 million from international donors.
Forms of Financing	Grants
Governance Structure	• The governance structure of SECCI Funds is similar to that of other IDB-managed facilities. • The SECCI Eligibility Committee was created at the end of 2008 to review and approve proposals for the SECCI Funds, consisting of the particular country representative and country coordinator at headquarters, the Chief of INE/ECC, a delegate from the Grants and Co-Financing Management Department (VPC/GCM) and the Unit or Division Chiefs who will be involved in the projects.
Approval of Projects	110 projects and \$58.7 million (as of December 31, 2010). (i) SECCI IDB Fund: 62 projects (\$34.1 million) (ii) SECCI Multi-Donor Fund: 48 projects (\$24.6 million).

Sources: “Sustainable Energy and Climate Change Initiative (GN-2435-1),” IDB (2007); “Sustainable Energy and Climate Change IDB Special Program (GN-2435-6),” “SECCI Annual Report (2007-2008),” IDB (2009); IDB (2007); IDB database

Annex IV: ⁶⁴ Applying to Climate Funds

Obligations under UNFCCC and Key Evaluation Methodologies

171. This Section provides a concise listing of much of what is already required of countries in their obligations under the UN Framework Convention on Climate Change (UNFCCC). Each party to the UNFCCC, for example, is currently obligated to transmit a “National Communication” to the Convention on a recurring basis, in which a country states its needs and priorities, its baseline GHG emissions, and any possible future commitments of emissions reductions.⁶⁵

172. Countries are also asked to classify their climate actions as either mitigation or adaptation, in which case different paths are followed. For example, to prepare for technical and financial assistance with mitigation, non-Annex 1 countries under the Convention (i.e., developing countries) are encouraged to prepare a report on Nationally Appropriate Mitigation Actions (NAMAs), a tool introduced in December 2007, in Bali, at the 13th Conference of the Parties (COP13) of the UNFCCC. To prepare for technical and financial assistance with adaptation, on the other hand, Least Developed Countries (LDCs)⁶⁶ are asked to prepare a National Adaptation Program of Action (NAPA) for their urgent and immediate needs, as well as a National Adaptation Plan (NAP) for their medium- and long-term needs.⁶⁷

173. LDCs are entitled to financial assistance from the UNFCCC’s Least Developed Countries Fund (LDCF) to prepare their NAPAs; in the LAC region, only Haiti qualifies as an LDC. All other developing countries are still encouraged to follow the guidelines and modalities of NAPs in their adaptation planning efforts--which the Adaptation Committee of the UNFCCC encourages both the GEF and bilateral and multilateral institutions to help fund.⁶⁸

174. In keeping with the views of development experts, as well as with the requirements of the Climate Convention, a study by the World Bank’s Sustainable Development Network several years ago⁶⁹ concluded that, in conducting a Climate Institutional Assessment (CIA) of a country, five key questions must first be asked:

⁶⁴ Ibid.

⁶⁵ See http://unfccc.int/national_reports/items/1408.php.

⁶⁶ See <http://www.un.org/special-rep/ohrrls/ldc/ldc%20criteria.htm>. LDCs are defined as (i) being low-income (less than \$750 annual per capita), (ii) having a human resource weakness (based on nutrition, health, education, and adult literacy), and (iii) possessing economic vulnerability, based on instability in their agricultural output, their exports of goods and services, and other factors.

⁶⁷ See http://unfccc.int/national_reports/napa/items/2719.php and http://unfccc.int/adaptation/cancun_adaptation_framework/national_adaptation_plans/items/6057.php

⁶⁸ See http://unfccc.int/adaptation/cancun_adaptation_framework/national_adaptation_plans/items/6057.php

⁶⁹ Mani, Muthukumara, Anil Markandya, and Viju Ipe, *Policy and Institutional Reforms to Support Climate Change Adaptation and Mitigation in Development Programs: A Practical Guide*, World Bank, 2008, p. 17, available at <http://siteresources.worldbank.org/EXTEEI/Resources/DCCToolkitCRAlores.pdf>.

- How strong is the country's environmental capacity, as measured by its Environmental Performance Index (EPI), CPIA, and Resource Allocation Framework (RAF) score?
- How well does the national focal point for climate function? Are all communications with the UNFCCC and other bodies timely and are other reporting obligations fulfilled?
- Has the country prepared a NAPA? If so, is it complete and analytically rigorous? How complete are the assumptions and methodology used in the GHG inventories reported in the NAPA?
- Are the inventories of GHGs reported in the NAPA internally consistent in all their elements, and with inventories of other years?
- Has the country prepared a climate-mitigation strategy (e.g., NAMAs or other strategy) and how well is it rated in terms of completeness and analytical rigor?⁷⁰

175. Additional issues that merit addressing in a country's CPIA include:

- Does the central agency (e.g., the environment or planning ministry) command sufficient political power to develop and implement sound policies and programs?
- Are the institutions supported by sufficient public resources?
- Does the climate-change policy team have sufficient human resources to implement the action agenda?
- In which ministries other than environment is there a person with some responsibility for integrating climate policy?
- How well are the activities coordinated at the national and regional levels?
- Are the public and industry sufficiently aware of climate change issues? Are there enough mechanisms to better inform the public and industry about climate-change challenges and opportunities?
- Does the country have the infrastructure and institutional systems for meteorological, oceanographic, and atmospheric/space-based systems for proper reporting of climate variables?
- Do the institutions have sufficient technical resources, such as data access and management systems, information networks, and means of communication?
- Have disaster plans and emergency preparedness been modified to incorporate climate-change-related events?
- Does the country have options for insurance against risk from climate change and natural disasters?⁷¹
- Other climate and development experts interviewed for this Policy Note agree that countries must initially perform analytical work to demonstrate their vulnerabilities to

⁷⁰ Ibid.

⁷¹ These "additional issues to be addressed" in a Climate Institutional Assessment have been reordered from how they appeared in the original.

climate change.⁷² Understanding not only the costs but also the benefits of climate change policies and actions, specialists emphasize, prepares countries to apply for funding but also helps them recognize that responding to climate change is a genuine development opportunity, rather than a pretext to qualify for international aid.

- Specialists also underline getting institutional arrangements right. For instance, by including more than one sector, establishing cross-cutting strategies among the planning and other ministries, a positive signal is sent, according to one specialist interviewed.⁷³
- The same specialist also explained that a country must prepare for funding domestically by singling out budget items corresponding to different climate activities. This can be done in a bottom-up fashion, as Zambia has done by using a decentralized process in which the authorities took “additional” climate actions over and above business-as-usual,⁷⁴ or using a top-down approach, as for instance Vietnam did.
- Setting priorities domestically, or integrating climate concerns into traditional development, is another important step. For example, if additional environmental criteria are added to development projects, will it undermine traditional development? Or will any added environmental measures have a positive influence on development? Some climate funding, according to one specialist, is not additional to business-as-usual but still requires a different design process from the start. At other times, climate actions truly are additional to traditional development.

⁷² Interview with Kanta Kumari Rigaud, May 4, 2012.

⁷³ Ibid.

⁷⁴ Climate actions are considered “additional” if they are above and beyond core development activities, which are otherwise eligible for ODA. If so characterized, climate actions in developing countries would qualify for assistance from the UNFCCC.

Fund-Specific Procedures

1. Global Environment Facility (GEF) Trust Fund

Project cycle	Procedure
Step 1: CEO Reviews of the Project Identification Form (PIF)	• A GEF agency submits a PIF to the GEF Secretariat, and then the PIF is circulated among all GEF agencies, STAP, and relevant Convention Secretariats for review. • These reviews focus on the following criteria: country eligibility, consistency with GEF strategies and focal areas, comparative advantages of the GEF agency and scale of expected co-financing. • Once the Secretariat has finished its review, the CEO will consider the PIF for inclusion in a work program.
Step 2: Council Approval of Work Program	• The CEO constitutes the work program from the PIF. • The PIF, including estimated GEF grant amounts, is posted on the GEF website with the work program document. • This work program document focuses on collective contribution to GEF strategies, focal areas and geographic balance, innovative elements, key assumptions and possible risks, and resource programming implications.
Step 3: CEO Endorsement	• The GEF agency sends the project documents to GEF Secretariat for CEO endorsement. The same documents are also transmitted to relevant GEF authorities for internal approval. • The GEF Secretariat reviews these documents; the CEO decides whether the project meets the conditions for endorsement. The documents are then circulated to Council Members. • After addressing concerns from any Council Member with related parties the CEO endorses the project, and the project documents are posted on the GEF website. • The amount of GEF grant for the project is finalized at this stage, and the GEF agency fee is also approved at the moment of the CEO's endorsement of the project. (Allocation of Funds) • The Trustee (WB) sets aside funds, including related agency fees to the project, and only commits these funds to the concerned GEF agency after the CEO's endorsement. • Actual transfer to the agency is made after the Trustee's

	commitment and the agency's approval.
Step 4: Implementation, Supervision, Monitoring, and Final Evaluation	• The Secretariat conducts an Annual Monitoring Review based on the Project Implementation Reports submitted by the Agency. • The GEF agency submits the final evaluation reports to the GEF Evaluation Office. • The GEF Evaluation Office assesses the adequacy of the project.

Source: "Policies and Procedures for the GEF Project Cycle," GEF (2007)

2. Adaptation Fund

Project Cycle	Procedure
Step 1: Proposal Submission to the Secretariat	• An eligible country can submit a proposal either directly through its accredited National Implementing Entity (NIE) or through an accredited Multilateral Implementing Entity (MIE). • The proposal is encouraged to be submitted in a fully-developed project document for a one-step approval.
Step 2: Screening by the Secretariat	• The Secretariat screens the proposal for consistency and provides a technical review based on criteria approved by the Board within 15 working days.
Step 3: Review by the Project and Program Review Committee	• The Secretariat sends the project proposal with its technical reviews to Project and Program Review Committee four weeks before the AFB meeting. • The Committee reviews the proposal and gives its recommendation to the Board for a decision at the meeting.
Step 4: Decision-Making by Adaptation Fund Board (AFB)	• The Board approves or rejects a proposal with a clear explanation to the Implementing entities, and the rejected proposal can be resubmitted after consideration of the reasons for rejection. • The proposal approved by the Board is posted on the Adaptation Fund website.
Step 5: Contracting by AFB and disbursement of funds by the Trustee	• The Secretariat drafts contracts and other necessary agreements with Implementing entities, and provides these documents for designation by the chair or any other Board member. • The Trustee disburse funds the project on the written instruction of the Board, signed by the chair or any other Board member.
Step 6: Project implementation and monitoring by Implementing Entity (IE)	• The Implementing Entity measures and monitors the results of the executing entities at the country-level. • All projects and programs being implemented must submit annual status reports to the Ethics and Finance Committee. • The terminal evaluation reports are submitted to the Board within a reasonable time after project termination.

Note: For regular adaptation projects with funding request exceeding \$1 million

Source: "The Handbook: Accessing Resources from the Adaptation Fund," Adaptation Fund (2011).

3. Global Environment Facility (GEF) Earth Fund/Public-Private Partnership

Project Cycle	Procedure
Step 1: Proposal submission to the Secretariat	• A platform managing agency submits an Earth Fund Platform Identification Form (EF PIF) including the following important information: rationale and objectives of the platform, expected activities and results, amount of funding from the Earth Fund and co-financing, indicative eligibility criteria for projects, and operational procedures and implementation plan.
Step 2: Review from the Secretariat and Board	• The Secretariat initially screens the proposal based on completeness of the application, consistency with GEF strategic objectives and programs, comparative advantage of the agency, estimated costs of projects, and milestones and objectives of the platform. • The Board reviews after being screened by the Secretariat and prior to submission to the Council.
Step 3: Approval from the Council and CEO	• The Council approves the platform by electronic posting on a no-objection basis, and then the GEF CEO endorses the platform.
Step 4: Disbursement of funds by the Trustee	• The IFC as the trustee of the Earth Fund allocates the resources from the account to the endorsed platform, according to instructions from the Council and GEF CEO.
Step 5: Implementation of individual projects within the platform	• The platform managing agency uses the resources for implementing individual projects aligned with the platform's thematic or operational focus and requirements. • Individual projects within the platform should have at least three times co-financing as the original amount of GEF funding.
Step 6: Monitoring and Evaluation	• The platform managing agency monitors and evaluates activities for its platform and the related individual projects within the platform; also, the results are reported to the Earth Fund. • The GEF Evaluation Office with the GEF Secretariat may establish evaluation requirements for platforms.

Source: "The GEF Earth Fund Board Procedures (Pilot Project)." GEF (2009)

4. Clean Technology Fund (CTF)

Project Cycle	Procedure
Step 1: Preparation of an Investment Plan	• The WB and relevant MDB conduct joint programming mission to prepare an Investment Plan upon the request from an eligible developing country. • The recipient country's government approves the Investment Plan.
Step 2: Review and approval of the Investment Plan from the CTF Trust Fund Committee	• The CTF Trust Fund Committee reviews the Investment Plan, and approves MDB designation for operations, eligibility criteria, and priorities for individual projects. • The WB as the Trustee and the designated MDB agrees to cover all projects financed by the fund.
Step 3: Submission and approval of individual projects	• The designated MDB assists preparation of individual projects based on its own operational policies and procedures, consistent with endorsed country program. • Upon CTF Trust Fund Committee's endorsement, Trustee commits funding to the MDB.
Step 4: Disbursement of funds by the Trustee	• The MDB signs legal agreements with borrowers after approval by its Board. • The WB as the Trustee transfers cash to the MDB on request.
Step 5: Implementation of individual projects within the Investment Plan	• The borrower or executing agency implements individual projects under the Investment Plans upon the legal agreement and project operational manual. • The MDB disburses the funds to individual projects according to its operational policies and procedures.
Step 6: Monitoring and Evaluation	• The MDB supervises and amends project activities, including reallocating loan proceeds, and reports annually to the CTF Trust Fund Committee. • The CTF Trust Fund Committee reviews and adopts an annual report on the fund operations.

Note: The table was adapted from Annex A in pp. 36-38 of the source.

Source: "The Clean Technology Fund," CIF, 2008

5. Sustainable Energy and Climate-Change Initiative (SECCI) Funds

Project Cycle	Procedure
Step 1: Preparation and Submission of Proposals	• The SECCI proposals are generated by IDB staff (internal channel) or by external applications submitted from public or private entities. • Application forms are submitted through the SECCI website.
Step 2: Review and approval of the proposal	• Once submitted, a relevant unit expert reviews the proposal on the basis of specific technical requirements. • The corresponding country office(s) is notified of interest in undertaking the project. • The SECCI Eligibility Committee approves the proposal to be financed by the SECCI Funds.
Step 3: Implementation	• The project leader at the IDB prepares the Letter of Agreement with the client (executing agency). • The executing agency prepares the disbursement requests and submits the documents to the IDB through the corresponding Department. • Disbursement procedures are the same as those of other technical cooperation at the IDB.
Step 4: Monitoring and Reporting	• The client and/or the project leader is charged with monitoring projects and reporting the results to the Committee.

Source: "SECCI Annual Report (2007-2008)," IDB (2009)

Annex V: Access to the Global Environmental Facility by the LAC Countries⁷⁵

Country	Project Title	GEF financing (US\$)	Co-financing (US\$)
Argentina	Renewable Energy in Rural Markets	13,500,000	212,000,000
	Enabling Activities Leading to the 2nd national Communication of the Argentine Government to the Conference of Parties to the UNFCCC	1,140,000	710,000
	Energy Efficiency Project	15,155,000	82,613,000
	Introduction of Energy Efficiency and Renewable Energy Measures in Design, Construction and Operation of Social Housing & Community Equipment	16,281,800	44,538,500
	Third National Communication to the UNDCCC	2,439,210	615,764
	Sustainable Use of Biogas from Agro Industrial and Solid Waste Applications	2,909,000	21,200,000
Argentina	Subtotal	51,425,010	361,677,264
Brazil	Hydrogen Fuel Cell Buses for Urban Transport	12,274,000	9,169,000
	Energy Efficiency Project	20,000,000	180,000,000
	Climate Change Enabling Activity	1,500,000	0
	Biomass Power Generation: Sugar Cane Bagasse and Trash	3,750,000	2,770,000
	Second National Communication of Brazil to the UNFCCC	3,400,000	4,175,600

⁷⁵ The Projects listed in the table include all the approved projects for a particular country at various stages of implementation: some are completed, some are being implemented and some approved for implementation

	Sugarcane Renewable Electricity	7,800,000	62,800,000
	Third National Communication to the UNFCCC	5,720,000	6,500,000
	Production of Sustainable Renewable Biomass-Based Charcoal for the Iron and Steel Industry	7,150,000	32,700,000
	Mitigation Options of Greenhouse Gas Emissions in Key Sectors in Brazil	4,180,000	11,890,000
	Biomass Integrated Gasification/Gas Turbine Project	8,115,000	0
Brazil	Subtotal	73,889,000	310,004,600
Bolivia	A Program for Rural Electrification with Renewable Energy Using the Popular Participation Law	4,211,720	4,056,250
Bolivia	Subtotal	4,211,720	4,056,250
Chile	Reduction of Greenhouse Gases	1,700,000	0
	Sustainable Transport and Air Quality for Santiago	6,980,000	7,442,000
	Removal of Barriers to Rural electricity with Renewable Energy	5,985,000	26,330,000
	TT-Pilot (GEF-4) Promotion and Development of Local Solar Technology in Chile	2,727,270	32,400,000
	Encouraging the Establishment and Consolidation of an Energy Service Market	2,364,000	12,886,000
	Promoting Strengthening and Energy Efficiency Market in the Industry Sector	2,637,000	15,810,000
Chile	Subtotal	22,393,270	94,868,000
Colombia	Integrated National Adaptation Plan: High Mountain Ecosystems Colombia's Caribbean	5,300,000	11,900,000

	Insular Areas and Human Health		
	Low carbon and efficient National Freight Logistics Initiative	3,000,000	16,200,000
	Mechanisms for Voluntary Mitigation of Greenhouse Gas Emissions	2,700,000	7,616,000
	Catalytic Investment for Geothermal Power	2,727,000	192,900,000
	Energy Efficiency Standards and Labels in Colombia	2,500,000	7,500,000
	Third national Communication to the UNFCCC	2,000,000	1,682,000
	Adaptation to Climate Impacts in Water Regulation and Supply for the Area of Chingaza – Sumapar- Guerrero	4,215,750	23,300,000
Colombia	Subtotal	22,442,750	261,098,000
Costa Rica	Tejona Wind Power	3,300,000	28,000,000
Costa Rica	Subtotal	3,300,000	28,000,000
Cuba	Generation and Delivery of Renewable Energy Based Modern Energy Services	5,337,000	10,504,000
Cuba	Subtotal	5,337,000	10,504,000
Dominican Republic	Stimulating Industrial Competitiveness Through Biomass-based Grid Connected electricity Generation	1,300,000	7,483,000
Dominican Republic	Subtotal	1,300,000	7,483,000
Ecuador	Power and Communications Sectors Modernization Rural Services Project	2,150,000	24,710,000
	Adaptation to Climate Change Through Effective Water Governance	3,000,000	6,000,000
	Renewable Energy for Electricity Generation and Renewable Electrification of Galapagos	3,800,000	21,310,000

	Islands		
Ecuador	Subtotal	8,950,000	52,020,000
Guatemala	Productive Uses of Renewable Energy in Guatemala	2,550,000	11,675,000
Guatemala	Subtotal	2,550,000	11,675,000
Guyana	Sustainable Energy Program	5,000,000	23,370,000
Guyana	Subtotal	5,000,000	23,370,000
Haiti	Strengthening Adaptive Capacities to Address Climate Change Threats on Sustainable Development	3,500,000	7,000,000
	Strengthening Climate Resilience and Reducing Disaster Risk in Agriculture to Improve Food Security	2,727,000	5,300,000
Haiti	Subtotal	6,227,000	12,300,000
Honduras	Rural Infrastructure (Electrification)	2,350,000	18,740,000
	Competitiveness and Sustainable Rural Development Project in the Northern Zone	3,000,000	21,000,000
Honduras	Subtotal	5,350,000	39,740,000
Jamaica	LGGE Promoting Energy Efficiency and Renewable Energy in Buildings in Jamaica	2,361,000	4,700,000
	Demand Side Management Demonstration	3,800,000	8,700,000
Jamaica	Subtotal	6,161,000	13,400,000
Mexico	Hybrid Solar Thermal Power Plan	49,350,000	128,300,000
	Methane Capture and Use (Landfill Demonstration Project)	6,230,000	16,620,000
	High Efficiency Lighting Project	10,000,000	13,000,000
	Renewable energy for Agriculture	8,700,000	17,500,000

	Introduction to Climate Friendly Measures in Transport	5,800,000	6,400,000
	Action Plan for Removing Barriers to Full Scale Implementation of Wind Power	4,736,000	7,076,000
	Large Scale Renewable Energy Development Project	25,000,000	247,500,000
	Integrated Energy Services for Small Localities of Rural Mexico	15,000,000	81,500,000
	Mexico Rural Development	10,500,000	127,300,000
	SFM Mitigating Climate Change Through Sustainable Forest Management and Capacity Building in the Southern States	5,000,000	13,525,000
	Fifth National Communication to the UNDCCC	2,707,540	4,440,000
	Adaptation to Climate Change Impacts on the Coastal Wetlands	4,500,000	21,000,000
	Lighting and Appliances Efficiency	7,118,600	225,000,000
	Sixth National Communication to the UNFCCC	3,636,360	4,000,000
Mexico	Subtotal	158,278,500	913,161,000
Nicaragua	Adaptation of Nicaragua's Water Supplies to Climate Change	6,000,000	31,500,000
	Promotion of Environmentally Sustainable Transportation in Metropolitan Managua	3,875,000	60,590,000
	Off-Grid Rural Electrification for Development	7,890,000	27,200,000
Nicaragua	Subtotal	17,765,000	119,290,000
Peru	Photovoltaic-Based Rural electrification in	3,930,090	6,872,700

	Peru		
	Lima Urban Transportation	7,930,000	126,000,000
	Rural Electrification	10,000,000	134,950,000
	Second National Communication of Peru to the UNFCCC	1,800,000	1,012,500
	Nationally Appropriate Mitigation Actions in the Energy Generation and End-Use Sectors	4,500,000	29,450,000
	Lighting Market Transformation	1,636,800	8,864,000
	Energy Efficiency Standards and Labels	2,000,000	5,150,000
Peru	Subtotal	31,796,890	312,299,200
Panama	Sustainable and Climate Friendly development in Veraguas Province	1,500,000	12,450,000
Panama	Subtotal	1,500,000	12,450,000
Suriname	Development of Renewable Energy, Energy Efficiency and electrification of Suriname	4,400,000	21,500,000
Suriname	Subtotal	4,400,000	21,500,000
Venezuela	Social Integral Development and its Integration with Climate Change in Watersheds in Lara and Falcon States	3,635,000	21,244,000
Venezuela	Subtotal	3,635,000	21,244,000
LAC Region	Total	435,912,140	2,630,140,314