Towards Effective Climate Finance - Country experiences and innovations in Latin America and the Caribbean

Preliminary summary 30 April 2012

Feeding into the preparations of the First Regional Dialogue on Climate Finance and Development Effectiveness in Latin America and the Caribbean, to be held on 2-4 May 2012 in Tela, Honduras, a number of countries have started to systematize their climate finance experiences. In a first round, Colombia, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua have completed country templates on climate change policies, in-country coordination and financial management (see annex 1).[1] From this rich sample, the following pages intend to outline common lessons and specific innovations from a cross-country perspective. As the process of analyzing and learning country-level climate finance is still ongoing, the final version of this draft might be enriched with additional country templates and the results of the Tela dialogue, in particular its peer learning component.

1. How to design climate strategies and actions plans

In virtually all countries covered in this first round, climate-specific strategies and action plans have been designed under the umbrella of national development plans (NDP). Over the past years, many NDPs have included a clear vision on how climate change and poverty reduction are interlinked. Given the high impact of recent natural phenomena, there is a consistent focus on resilience and adaptation (for example, in agriculture, infrastructure and water management), while ambitious mitigation objectives are considered in areas such as energy, transport, forestry and housing. Parliaments in El Salvador and Guatemala are currently discussing new Acts on Environment and Climate Change, respectively. Both will have direct implications for climate finance mandates and procedures.

Insightful pilot experiences at the sector and cross-sector levels are already available. Apart from conventional adaptation and mitigation sectors, many countries are investing specific efforts in education and knowledge management, as well as low-carbon tourism as a cross-sector challenge. In this line, the Dominican Republic is gathering relevant national and sub-national actors around a Work Plan on Investment and Financial Flows in Tourism, Water and Energy.

In most countries, the implementation of climate change policies is embedded in the existing frameworks for development policies, which facilitates managing for results and accountability, avoiding the creation of parallel systems. Operational and budgetary planning and implementation is detailed and advanced in Honduras and Nicaragua, and countries such as Guatemala and Dominican Republic are included climate variables in their Public Investment Plans. One emerging lesson is that a cohesive and

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coordinated result-based implementation will require more specific capacities in all involved institutions (including specialized teams) and at all levels (in particular, national and sub-national governments).

Given the decentralized character of development planning and implementation in countries such as Colombia, El Salvador, Honduras and Nicaragua, local governments and regional/departamental coordination are key for successful implementation, learning and accountability. Moreover, local communities with limited capacities tend to be most affected by changes in climate patterns and natural disasters. Lessons on how to ensure coordinated sub-national action can be found in Nicaragua, where 10 municipal governments are already implementing local adaptation plans, and the Autonomous Region of the Northern Atlantic is implementing its Regional Strategy on Climate Change.

2. How to enable institutional coordination around climate change finance

Since 2009, in-country coordination mechanisms have emerged in all countries, often directly related to new policy and operational frameworks. Committees in Dominican Republic, Guatemala and Honduras all gather between 10 and 17 ministries for political consultation and joint technical actions, which in turn are operationalized in thematic sub-committees. Both Colombia and El Salvador will create a new coordination formula over the next months, building upon previous experiences in related areas such as civil protection and disaster prevention. There are interesting examples of collaboration among ministry-level focal points in Colombia, the Dominican Republic and Guatemala. While some countries gather government institutions only, Honduras and Nicaragua are involving civil society, private sector and academia (and development partners, in the Honduran case) in their coordination efforts.

The specific challenges of managing climate finance are already being discussed in coordination mechanisms in Dominican Republic and Guatemala, and will be a top priority of the emerging National System for Climate Change in Colombia. In the lead-up to its new Climate Change Strategy, the government of El Salvador has launched an Inter-Institutional Committee on Climate Finance led by the Presidency, the Ministry of Foreign Affairs (MFA) and the Ministry of Environment (MOE), while a specialized Climate Finance team is being created at the Ministry of Finance (MOF). Cross-ministry action is also evolving around opportunities. Here, the Presidency, the MOF and the MOE of Honduras jointly prepared the Investment Plan for Renewable Energy approved by the Climate Investment Fund in November 2011. Indeed, ministerial coordination around climate finance has become a priority issue in most countries, where external finance tends to be split between MFAs (for negotiations and agreements), MOFs (for loans and credits) and Ministries of Development Planning, MODP (for grants), while MOEs manage relations with development partners active in the environment agenda.

Coordination of development partners is advancing and constitutes a primary avenue for effective management of external support. Climate change consultative groups ('mesas') are currently active in the Dominican Republic (since 2010) and El Salvador (since 2011), while Honduras and Nicaragua join development partners around environment groups (where climate change is one key element). The Honduran experience, where development partners are part of the coordination committee, might provide interesting lessons of 'binding' external partners into the national processes on a day-to-day basis. Emerging success factors of development partner coordination seem to relate to the availability of

clear policy and operational frameworks (such as climate change strategies and result-based action plans), while the specific role and coordination of different ministries needs to be further defined.

3. How to integrate climate finance into national budgets

All governments involved in this round of country templates have identified climate finance as a critical part of national public finance and budgets. In the face of high human, material and financial costs of natural disasters, governments are currently engaged in formulas for generating additional domestic resources, and models of ensuring both access and effective use of external contributions.

To date, specific climate change budget codes are only available in Honduras and partly in Colombia, while being prepared in Guatemala. In most cases, climate finance is included in the environment envelope, even if other areas (in particular disaster risk management) and sectors play a critical role. Due to the lack of tools capable of capturing data highly fragmented across budget categories in different ministries, the information on climate finance is still limited and difficult to access in most cases, especially when it comes to domestic financing.

External funding plays an essential role for all governments, with global funds (in particular AF, CDM, GEF, and REDD) and multilateral institutions (primarily, specialized UN agencies, the IDB and the World Bank) being very active across countries. Among bilateral development partners, key contributors include the European Commission, Germany, Japan and the United States. Overall, financial flows seem to be sufficiently aligned with national priorities in Colombia, the Dominican Republic, Honduras and Nicaragua, while further efforts are needed in El Salvador and Guatemala.

Innovative funding modalities are becoming more vital throughout the region. Colombia is leading the way with two thematic channels: The National Calamity Fund and the National Adaptation Fund, both of which are mostly funded by domestic sources, but also channel external finance. With support of UNDP, the Dominican Republic will launch a National Carbon and Climate Change Fund (FONCAC), while El Salvador plans to convert its existing Environment Fund in the primary climate finance mechanism. Guatemala is considering the options of launching a specific fund to provide climate finance access to municipal governments, many of which are highly vulnerable. Experiences to generate resources include taxation initiatives (such as a raise on estate tax in Colombia to address the consequences of the rains in the last two winters) and a debt for adaptation swap agreed upon between Guatemala and Germany.

In the future, national capacities will be a critical to ensure effective climate finance management. While all relevant government institutions might require adapted expertise, the role of specialized (and inter-connected) teams at MOFs is being stressed as a key priority, for example in countries such as Colombia, El Salvador and Guatemala. With support from the IDB, the government of Colombia is also looking into taking advantage of the unique characteristics of national development banks. Overall, effective climate finance might foremost depend on a good mix of capacity development at key entities, including solid joint procedures, on the one hand, and a sound coordination of relevant climate finance 'managers' (which include, as stated above, MREs, MOFs, MOEs and MODPs in different categories), on the other.

Disclaimer: This preliminary summary includes information provided by the participating governments for the drafting of country templates (see Annex 1). As an ongoing process of learning, this document may contain factual errors which will be corrected in the final version. The authors of this summary wish to thank the following government officials for their generous collaboration:

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ANNEX 1: Country templates in climate finance

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	Climate change policies	Institutional coordination to address climate change	Climate change as part of national public finance
Colombia	- The government of Colombia articulates its climate change efforts as part of the National Development Plan (NDP) 2010-2014 "Prosperity for All". Four strategies are being used: The National Plan for Climate Change Adaptation (PNACC), the Colombian Strategy for Low-Carbon Development (ECDBC), the National Strategy for Reducing Emissions from Deforestation and Forest Degradation, as well as the Strategy for Financial Protection during Disasters. - Consequently, operational planning is conducted within the national development policy through the inclusion of climatic variables in all elements and with support of a new formula of cross-sector coordination (the National System for Climate Change). - As part of the existing NDP mechanisms, the priorities of the four strategies will be included in the ministry-level plans. There is already progress in the areas of energy, transportation, agriculture, trade, industry and tourism.	- In view of the cross-cutting nature of climate change, the government of Colombia seeks to promote cross-sector coordination through a new National System for Climate Change. - Led by the National Planning Department (DNP), the National System for Climate Change will coordinate 10 ministries at the political level, with an Executive Committee composed of all ministers. - The System's Committee for Financial Management will assume specific responsibilities in the management of climate finance. - In operational terms, the National System will be based on four sub-committees related to the sector and territorial issues, as well as international affairs, and the knowledge production and analytical work. - Local governments will be linked to the system through the territorial subcommittee. Sector representatives will be part of the sectoral subcommittee, and non-governmental actors (civil society and academia) will be involved through advisory groups.	- Apart from the domestic budget allocations, the most important contributions come from the IDB, the United States and Germany. - Registration of development cooperation is still fragmented among the Presidential Agency for Cooperation (for grants) and DNP (for loans). - Colombia has created two specialized national funds: The Calamity Fund for humanitarian assistance and rehabilitation of infrastructure, and the Adaptation Fund which manages primarily domestic resources for the construction of infrastructure for adaptation. - There are noteworthy experiences in the generation of financial resources for adaptation through taxation. Facing historic winter waves in the past two years, the government established a surtax on the estate tax and earmarked a percentage of the financial transaction tax for disaster assistance and infrastructure repair. - To improve the capacities for climate finance management, the IDB is working with the Ministry of Finance, DNP and national development banks such as Banco Agrícola, FINDETER and Bancoldex.

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El Salvador	- At this stage, the Strategy "A Climate Resilient El Salvador" is being prepared under the umbrella of the Environment Act. The new Strategy will be articulated within the Five Year Development Plan and its adaptation and mitigation priorities. - The strategy will be complemented by a Climate Change Adaptation Plan which will ensure mainstreaming across the sectors. Initial successful experiences can already be found in agriculture, public works (infrastructure) and education. - South-South cooperation with Uruguay is feeding into the setup of the system of monitoring and accountability of both the Strategy and its Action Plan. This system will be anchored in local governments and departmental coordination mechanisms.	- Currently, inter-institutional coordination takes place within the National Commission for Civil Protection, Mitigation and Disaster Prevention. However, the upcoming strategy will create a new coordination formula. - MRE (Foreign Affairs), MARN (Environment) and Presidency are leading the Inter-Institutional Committee on Climate Finance, which involves 13 government institutions at the political and technical levels. - Progress has been made to ensure the involvement of sectors on the Inter-Institutional Committee (in particular, health, agriculture, infrastructure, education, water, energy, defense and civil protection). - In addition, the MARN is promoting capacity development initiatives with local governments and civil society groups. Both will be included in the new institutional model to be created as part of the new Strategy. - As a result of the Tropical Depression in December 2011, development partners were invited to a Consultative Group which will meet again in May 2012. In the future, the Adaptation Plan is expected to create mechanisms for continuous coordination with development partners.	- To date, the main mechanisms are the Fund for Civil Protection, Prevention and Mitigation of Disasters (FOPROMID) and the Environmental Fund of El Salvador (FONAES). Through the new Environment Act, the FONAES is expected to become the national climate finance administrator. - External funding is required to complement limited domestic resources. Japan, Norway and the United States, as well as UNDP, World Bank and the GEF, are important sources. In addition, El Salvador is committed to South-South knowledge exchange with countries such as Uruguay, Cuba and Ecuador. - Currently, most external funding is channeled through projects and programs, and adequatly aligned with the priorities of the future strategy. - In 2012, a Climate Change Unit will be created in the Ministry of Finance. It will intend to include climate change into public finance and national budgets, while securing these resources through insurance schemes, reserve funds and other modalities. Both the IDB and ECLAC are supporting national efforts to improve capacities to manage climate finance.

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Guatemala	- The National Plan for Climate Change focuses on poverty reduction through adaptation and mitigation. In 2012, a new Climate Change Act will create a strong legal framework. The process and the implementation strategy of the national climate change policy aim to include its main elements to the new Act, which is currently pending approval in Congress. The Act sets out the instruments and the coordination mechanisms needed to entitle the state of Guatemala to work on climate change-relate aspects through the Government and its various institutions. - The 2010 and 2011 operational planning MARN (Environment), MINFIN (Finance) and SEGEPLAN (Planning) already include the climate change variable, which is expected to be extended to all institutions in 2012. - Managing for results and accountability pilots are underway in adaptation pilots in priority sectors (health, agriculture, forestry and water). The priorities of climate change need to be included in the operational planning for all government institutions, which require specialized units and teams in this area.	- Within the MARN, the National Climate Change Program, a management unit, is currently being strengthened. SEGEPLAN and MINFIN both have a department for disaster risk management in charge of ensuring that public investments reduce vulnerability and enable risk management. - Since 2009, the Interagency Commission on Climate Change (CICC) gathers 17 ministries and secretaries of State, in an effort to harmonize sector policies and ensure implementation of the National Plan. Its work plan includes climate finance and is focused on reflecting and prioritizing relevant resources in the national budget cycles. - The Working Group in Environment and Water, which involves 34 government agencies, is an success case of sector-wide coordination, having led to a Multi-Year Sector Plan (PSMAA 2011-2013), geared toward development and climate change results. - Donor coordination is already under way in sector working groups such as the Environment and Water group. The MARN is expected to assume a more active role in the harmonization and alignment of international cooperation.	- Improved climate finance management lies with the authorities responsible for cooperation (SEGEPLAN) and the national budget (MINFIN). Both already have specialized equipment. As part of the CICC work plan, there are currently plans to design climate finance codes with the national budget. - Among very relevant innovations, the government of Guatemala is promoting a debt for adaptation swap (with Germany), a national climate change fund, and a mechanism for compensating greenhouse gases. External funding is key to Guatemala, as the country had to increase its external debt to address the damage caused by rains and storms of 2010 and 2011. - In the water sector, the PSMAA 2011 leads the way for annual planning and budgeting. A sector-wide Environment and Water Fund, funded by foreign aid, complements the PSMAA. In this sector, the debt for adaptation swap is taking place, benefitting the Guatemalan Dry Corridor. - There is a need for stronger alignment of international cooperation, clearer prioritization of public investment and better programmatic support mechanisms (e.g. a fund) to provide resources to local governments, many of which are highly vulnerable to climate change.

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Honduras	- Responding directly to strategic guidelines of the Nation Plan 2010-2022, the National Strategy on Climate Change (ENCC) is articulated in the Action Plan 2011-2015, which entails 15 strategic objectives for climate change adaptation and another two for mitigation. - As the Action Plan clearly states environmental, social and economic objectives and indicators, there is good basis for results-based management and accountability which in turn will be put in practice as part of the operational and budgetary frameworks established by the Nation Plan. - Since the Nation Plan is anchored at the regional level, sub-national governments play a key role in implementation of both the Nation Plan and the ENCC. Regional development councils and regional development plans will ensure sub-national articulation of climate change priorities.	- As the entity responsible for national climate change policies, SERNA (Environment) relies on the National Directorate for Climate (DNCC), created in 2010, which in turn is supported by specialized entities. - The ENCC mandated the creation of the Inter-Agency Technical Committee on Climate Change (CTICC), the permanent body for political consultation and technical support anchored at the DNCC. The CTICC gathers on a monthly basis around 60 representatives of national and sub-national government institutions a, donors, civil society, private sector and academia. The CTICC includes four thematic sub-committees (on adaptation, agriculture, REDD and solid waste), and is currently planning to create two additional ones (on marine resources and infrastructure). Thus far, climate finance is not directly discussed in the CTICC. - However, there are successful experiences of inter-institutional coordination around external climate finance. In the case of the Climate Investment Fund, the Presidency, SEFIN (Finance) and SERNA jointly prepared an Investment Plan for Renewable Energy. - Donor coordination is happening on a continuous basis, as the international community is involved in the CITCC. Additionally, the SERNA convenes donor meetings twice a year. SEFIN and SEPLAN (Planning), both responsible for external finance, are still to be included more actively in these coordination mechanisms.	- Honduras' national budget already uses specific codes for climate change adaptation and mitigation, as part of the environment category. - The two agencies responsible for external funding for climate are SEFIN (for loans) and SEPLAN (for grants). Both submit their plans to the approval of the CITCC. - External contributions are of strategic importance to Honduras. There is a high share of global funds (AF, CIF, CDM, GEF, REDD), as well as multilateral (World Bank, IDB, UNDP) and bilateral (Germany, Netherlands, Japan, US) sources. Given the operational clarity of the ENCC, alignment of external resources is satisfactory. - However, finance registers are still incomplete and difficult to access. In principle, the records should be included in the Public Investment Programs (PIP) and other national systems created under SEPLAN, but procedures are not clear yet. In the future, the CTICC can be expected to provide tools to capture data on finance and projects. It will also be critical that SERNA, SEFIN and SEPLAN collaborate closely around the articulation of regional climate change plans, which will be key pillars of the ENCC and the Nation Plan 2010-2022.

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Nicaragua	- Anchored in the National Plan for Human Development, the National Strategy for Environment and Climate Change (ENACC) and its Action Plan 2010-2015 articulate the priorities for adaptation, mitigation and risk reduction to the change climate, among other environmental objectives. - The operational planning of the Action Plan clarifies the objectives, funding sources, deadlines and national authorities responsible for each area. The availability of indicators enables result-oriented management and accountability, for example to measure changes in energy supply or progress in forest cover, where important advances can already be reported. - Climate change priorities are included in sector strategies and action plans, in particular energy, agriculture and food security, forestry and water resources, housing and education. - There are valuable experiences at the municipal and departmental levels. Examples include Adaptation Plans in ten municipalities of the country's dry zone and the Regional Climate Change Strategy for the Autonomous Region of the Northern Atlantic.	- In order to implement the ENACC, the Government of Nicaragua is working with the model of Citizen Power, by awakening the citizenry to generate a wide mobilization in a great alliance between the national government, municipal and regional governments, private companies, producers, workers, universities, as well as social and environmental movements. - At the sector level, work is progressing with the ministries responsible for environmental, production and social affairs. The coordination lies with the Directorate General of Climate Change (DGCC) at the MARENA (Environment). As examples, the DGCC helps develop a Strategy for Climate Change Adaptation in Agriculture (with the MAG) and jointly prepares plans to change the energy supply matrix (with the MEM). - This inter-institutional coordination involves the 152 municipal governments of the country, the two autonomous regional governments of the Caribbean Coast, and the governments of the indigenous communities. Achievements include municipal plans for adaptation, risk management, renewable energy and reforestation. - Another specific example is the National Roundtable for Risk Management which brings together all relevant actors. - There is a country-led coordination mechanism with donors supporting the implementation of the ENACC, which is facilitated by the Foreign Ministry (MINREX).	- The ENACC Action Plan clearly outlines the funding sources for each of its lines of action, ensuring high alignment of domestic and external finances to national priorities. - Between 2012 and 2016, the Government expects to invest 2.8 billion USD in changing the energy matrix, and to mobilize 36 million USD in adaptation projects, focusing primarily on risk management and disaster prevention, water infrastructure, environmental restoration, and training. The main donors are the IDB and the Adaptation Fund. Funding is being raised with the World Bank's Special Climate Change Fund and the Nordic Development Fund. The Global Environment Facility (GEF), Austria, Finland and the European Commission also contribute significant resources. - The Ministry of Finance and Public Credit (MHCP) is in charge of including climate finance into the national budgets, while MARENA and the Foreign Ministry are responsible for the dialogue and agreements with donors.

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Dominican Republic	- As part of the National Development Strategy (END) 2030, the Dominican Republic aims to "reduce vulnerability to climate change and contribute to the mitigation of its causes." The priorities for adapting to climate change are being included across all public policies related to the four END pillars. - In particular, the Multi-Year National Plan of the Public Sector 2011-2014 (PNPSP) articulates concrete synergies between development and climate change policies around adaptation, mitigation and risk management. In the Caribbean, the Dominican Republic is a pioneer in how to include climate change priorities in development strategies and plans. - Consequently, managing for results and accountability is conducted within the established mechanisms for measuring progress in development policies. One example is the National System of Planning and Public Investment, which clearly outlines climate change targets and indicators. - At the sector level, a number of successful experiences are noteworthy. For instance, a Work Plan on Investment and Financial Flows prioritizes policy coherence for development and climate change in the sectors of construction (for tourism), energy and water. The Plan facilitates collaboration of national and sub-national stakeholders who are responsible for regulatory frameworks, planning, implementation, and funding.	- Chaired by the President and the Executive Vice President, the National Council for Climate Change and the Clean Development Mechanism (CNCCyMDL) constitutes the main organ for consultation and coordination at national level. - The CNCCyMDL gathers more than 10 government agencies including the Ministries of Finance (for financial management), Foreign Affairs (to coordinate international support) and Economy, Planning and Development (to ensure inclusion of climate priorities in policies, plans and public sector programs). - To address the cross-cutting character of climate change policies, the CNCCyMDL interacts with focal points in almost all ministries and relies on three operating arms. These coordinate around the Clean Development Mechanism, Climate Change, and the Emissions of Greenhouse Gases. - In 2010, the CNCCyMDL launched a working group on climate change and the Clean Development Mechanism which helps facilitate the coordination, discussion and information exchange with donors and civil society. This coordination effort is led by the Deputy Minister of International Cooperation of the Ministry of Economy, Planning and Development. To date, this mechanism has met in three occasions.	- The national budget of the Dominican Republic includes resources dedicated to both mitigation (2.6 million USD in 2012) and adaptation (91,000 USD). Furthermore, resources for risk management are managed through the Ministry of Environment. - These domestic resources are supplemented by external contributions coming from Japan, Russia, Germany, the United Kingdom, United States, GEF, and UNDP, among other sources. In addition, there is external cooperation in the environmental agenda that can access to ca. 30 million USD annually. - Among the global programs, the Clean Development Mechanism has played a central role in recent years. REDD is another priority framework for generating resources. Within REDD, the Dominican Republic is collaborating with Germany and seeks closer coordination with SICA members around regional priorities. - By sectors, high-priority activities are carried out in energy, water, tourism and forestry. The Work Plan on Investment and Financial Flows is of high relevance in this context. At this stage, there are no consolidated data by sector. - Committed to innovative financing mechanisms, the government is about to launch the National Carbon and Climate Change Fund (FONCAC), as a key effort to improve capacities to manage climate finance. In its first year, the FONCAC will receive an envelope of 1 million USD, an amount that may increase in subsequent years. The country-owned process leading to the FONCAC is supported by UNDP and other agencies.