

2014

Climate Finance: Key for the Territories of Central America

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This report would not have been possible without the generous support of the representatives of Central American territories that participated in a workshop of exchange and validation of elements for a roadmap, which occurred on November 25, 2013, in San Salvador (for a list of these individuals, see Annex 1). In addition, the author would like to appreciate the valuable [revisions] of Susan Kandel, Nelson Cuéllar, and Oscar Díaz of the PRISMA Foundation and the extensive contributions of Claudia Aguilar Garza of the MultiPolar network. If you would like to contribute your ideas, expectations, and experiences with climate finance in the territories, you can be in contact with the PRISMA Foundation and MultiPolar through the Community of Practice hosted on climatefinance.info.

Translation from Spanish into English: Bryan Pratt

ISBN: 978-99961-924-1-8



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Abbreviations

AbM	Adaptation-based Mitigation
AF	Adaptation Fund
AMPB	Mesoamerican Alliance of People and Forests
CAT-bonds	Government Catastrophe Bonds for Natural Disasters
CCAD	Central American Commission for Environment and Development
CDKN	Climate and Development Knowledge Network
CDM	Clean Development Mechanism
CEPRENAC	Center for the Prevention Natural Disasters in Central America
CIF	Climate Investment Funds
COP	Conference of Parties (UNFCCC)
COSEFIN	Council of Finance Ministers
CPEIR	Climate Public Expenditure and Institutional Review
ECLAC	Economic Commission for Latin America and the Caribbean
ERCC	Estrategia Regional de Cambio Climático
GCF	Green Climate Fund
GEF	Global Environment Facility
IDB	Inter-American Development Bank
MesoCarbon	Mesoamerican Carbon Community Reservoir
MESPABAL	Permanent Roundtable of Local Actors in the Lower Lempa
NAMA	Nationally Appropriate Mitigation Actions
ODA	Official Development Assistance
PREP	National Program for the Restoration of Ecosystems and Landscapes
PRISMA	El Salvadoran Program for Research on Development and the Environment

(Programa Salvadoreño de Investigación sobre Desarrollo y Medio Ambiente)

REDD+	Reducing Emissions from Deforestation and Forest Degradation
SICA	Central American Integration System
TD 12-E	Tropical Depression 12-E
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
AbM	Adaptation-based Mitigation
AF	Adaptation Fund

Introduction

The international resources for financing climate action are becoming a **cornerstone of the future development of the countries in the global South**. Since 2010, there has been a global commitment to mobilize, beginning in 2020, some \$100 billion annually for climate finance, a sum that approaches the historic maximums of Official Development Assistance (ODA), which is clearly in decline. In 2013 and even though the origin of this unprecedented is still uncertain, the member countries of the United Nations Framework Convention on Climate Change (UNFCCC) reached substantial agreements for defining the basic architecture for channeling these resources, in particular through the new Green Climate Fund.

Notwithstanding its vital importance for supporting low-emission, green development ('mitigation') and climate-resilient development ('adaptation'), the basic aspects of climate finance **continue to be a great unknown for many political actors and their technical staff in the world of development**. On one hand, **national governments** have recently begun entering into this type of financing, which is of great complexity and focused on large-scale programs, which often collide with the scarce capacities of the public sector. On the other hand, for the most part, the **territorial** authorities – the area where climate change is palpable every day in the economy and in the lives of communities and citizens – often do not know the options available and the basic requirements for accessing, managing, and accounting for these funds.

These wide gaps between global decisions, national capacities, and territorial realities are very palpable in Central America, with national governments still little able to attract this type

of financing, and territorial authorities lacking the basic tools to articulate climate proposals of a certain scale. In the face of these severe limitations, this report contributes, in its *first chapter*, an **analysis of current climate finance** and its importance for developing countries, reviewing the global decisions of the UNFCCC, clarifying differences between it and ODA, and explaining some forms of access and management. The *second chapter* highlights the importance of understanding the **impact of climate change in national public finances**, as a way to improve strategic planning, adapt the financial architecture to the risks of climate change, and attract external financing in greater quantities. With this background, in the *third chapter* is an explanation of the political, institutional, and operational foundations for **ensuring the effectiveness of climate finance**, in particular better capacities for access, management, and accountability on the part of receiving countries and some actions from the international community more in accordance with national priorities and needs.

Applying this framework in practice, the *fourth chapter* describes the still scarce **advances achieved in Central American countries**, in the framework of the Central American Integration System (SICA, for its Spanish name) and especially by Central American governments, in areas such as the political framework for climate finance, inter-institutional coordination, capacity development, and dialogue with the international community. Summarizing discussions among representatives of Central American territories, the *fifth chapter* analyzes the **opportunities and limitations that confront territorial authorities and governments** for accessing and managing climate finance that still normally flows through national governments.

With this perspective, the *sixth and final chapter* proposes a series of basic elements for a **roadmap that would allow territories to improve their capacities for addressing climate finance**, clarifying specific roles for the territorial authorities themselves, national governments, and the Secretaries of SICA, as well as civil society and the academia of Central America.

While the following pages only constitute a first approach to climate finance for development, the PRISMA Foundation hopes that this report

can become a **basic reference for actors in Central American territories** that seek to take action to access and manage these resources. Today, these Central American territories are already suffering the severe impact of climate change without sufficient capacities for response and resilience. Therefore, it merits and deserves our urgent attention to establish the viability and sustainability of territorial development that ensures the **welfare and security of the communities and citizens** that live in the them.

What is climate finance?

In recent years, developing countries and their societies have faced the rising impacts of climate change. With countries that are highly vulnerable to climate change, Central America is no exception, having accumulated painful experiences due to the increasing intensity of hurricanes and tropical depressions, generating large-scale human and material losses. They also face structural climate alterations, such as in the rainfall patterns that affect their delicate ecosystems, putting food security at risk and posing grave threats to economic development, in particular in the territories. In sum, climate change is already a palpable reality in many spheres of development and in the daily lives of Central American communities and families.

In this context, fundamental questions have arisen regarding how countries can prepare their social and productive infrastructure for the negative effects of climate change (adaptation), while at the same time reorienting their models of development toward a greener trajectory, with fewer emissions of carbon dioxide, i.e. 'low-carbon' and low in other greenhouse gases, such as methane (mitigation). Both aspects, adaptation and mitigation, are not new priorities in the international climate change policy anchored in the United Nations Framework Convention on Climate Change (UNFCCC), adopted in 1994, which brings together 193 member countries (as well as the European Union), of which 165 have ratified this inter-governmental agreement. However, with the increase in external financing available, the actions corresponding to adaptation (in vulnerable sectors such as agriculture, water,

ecosystems, public works, fishing, etc.) and to mitigation (related to sectors with 'green potential,' such as construction, energy, industry, transportation, and the sustainable management of forest resources) have been profiled more clearly.

More recently, new approaches have been put forth for overcoming the separation between adaptation and mitigation that is occasionally perceived as artificial and even counterproductive, fragmenting and dispersing the implementation of cohesive public policies. Accordingly, many from El Salvador are promoting adaptation-based mitigation (AbM), which seeks to ensure the combined benefits of climate change adaptation for low-carbon, ecosystem-based and territorial development (see Box 1).

Given that climate change is already advancing with grave effects in many countries, global negotiations are moving beyond adaptation and mitigation, in search of compensation models for the loss and damages caused by natural disasters. The current debates and negotiations around a new International Mechanism for Loss and Damages indicate that the financing of loss and damages suffered by countries will follow guidelines and will flow through different channels than climate finance. This will avoid international resources for adaptation from being confused with resources for compensating those affected by natural disasters, and it will leave the door open for compensation to become a legal responsibility of industrialized countries, those principally responsible for climate change.

Box 1
Adaptation-based Mitigation:
Grounding climate change
in the territories

Breaking with the conventional separation of climate priorities, the concept of Adaptation-based Mitigation (AbM) is emerging as one of the proposals that most cohesively aligns with the political priorities of development. AbM presupposes that the priorities of adaption be determinants of the priorities of mitigation and that both areas of climate action complement each other. This vision is particularly relevant for the territories of Central America, which for the most part confront various levels of climate vulnerability, which should be the cornerstone of all action against climate change. In other words, the impetus for green, low-carbon development only makes sense if the entire economic and productive system and its determining factors (such as infrastructure) are as minimally vulnerable as possible. This means transcending sectorial approaches that normally lead to climate policy at the national level (for example with climate strategies in agriculture, energy, etc.) and articulating transversal policies, with synergies among different sectors that are strategic for green development that is adapted to the increasing impact of climate change.

For more details, see PRISMA (2013a).

In any event, since 2010 there has been a concrete consensus around the increasingly urgent need to mobilize and provide the resources necessary to allow countries to achieve 'low-carbon' development that is resilient to the effects of climate change. In that year, the Conference of Parties (COP) of the UNFCCC took place in Cancun, Mexico, and gave shape to the shared ambition of all the countries in the world to mobilize some \$100 billion annually beginning in 2020 for the purpose of combatting climate change in the developing world. This sum approaches the historical maximums of Official Development Assistance (ODA), which for its part in recent years has seen strong cutbacks due to financial and economic crises in developed countries. Therefore, this climate finance entails a new window of opportunity for ensuring the continuity of external financing for development (see certain figures

in Box 2). This is especially certain for highly vulnerable middle-income countries, including those in Central America, who are among the priority destinations for this type of financing and, at the same time, have been greatly affected by the cutbacks in ODA.

In effect it is vital to clearly distinguish between ODA and climate finance. A fundamental difference resides in the legal character of each. ODA corresponds to voluntary commitments, for example through the 2002 Monterrey Consensus on Financing for Development, which seeks for every developed country to dedicate 0.7% of its Gross National Product to ODA. On the other hand, through the inclusion of agreements that are legally binding under the UNFCCC, climate finance constitutes an obligation of industrialized countries (those called Annex 1) who have been and continue to be the principal emitters of gases causing climate change. An individual responsibility for each country does not yet exist, but there is a collective obligation to arrive at \$100 billion annually. Applying international law, the UNFCCC establishes that climate should be 'new and additional' funds apart from ODA, precisely to ensure that these resources are channeled directly to the ends of combatting climate change and that they are not diluted by priorities in foreign policy that typically make use of ODA. In practice, however, it is very difficult to control governments in the North to prevent them from renaming ODA as climate finance or, even worse, counting the same resources twice, as ODA and also as climate finance.

Moreover, the menu of modalities for managing and channeling climate finance differs in many aspects from ODA. In very condensed form, climate finance tends to use programmatic models, such as through intergovernmental, multilateral or bilateral funds. Complementing the traditional character of ODA, there exist interesting experiences of joint governance be-

Box 2 And how much is it?

Given that climate finance lacks global recognition and that definitions are quite diffuse, solid figures do not exist regarding how many resources are being invested in combatting climate change. However, thanks to a greater attention to climate finance in global negotiations, little by little a clearer picture of the quantity of available resources is being generated. In that vein, in 2013 it was determined that Fast Start Finance reached \$35 billion in 2010-2012 (ODI, 2013), while reference report called “*Global Landscape of Climate Finance*” (CPI, 2013) estimated that in 2012 governments of the North mobilized between \$35 and \$49 billion for governments of the South. For their part, multilateral development banks, critical for the management of large-scale financing, indicated that in 2012 they channeled \$27 billion (MDB 2013). Based on this data, it is reasonable to assume that the financing available could be as much as \$30-35 billion annually. Among the common features of this financing is that the majority of resources are dedicated to mitigation (between 75% and 95%) and a large portion comes in the form of loans, not grants. Geographically, Latin America is typically one of the regions that benefits the most, but the resources are concentrated in the largest economies with a financial and institutional architecture adapted for climate change, in particular Brazil and Mexico.

tween providers and receivers of climate finance resources.

Examples are the Global Environment Fund (GEF) Council, created in 1991 and with climate financing of \$1.8 billion (2006-2014), as well as the Adaptation Fund (AF) Board, launched with the Kyoto Protocol of 1997 and a total capitalization of \$325 million. The GEF Council and AF Board include a majority of representatives from developing countries, ensuring at least on a formal level equity between providers and receivers of financing. It is true that, in practice, the legitimacy of this shared governance has been reduced by the extensive influence the World Bank as fiduciary administrator of both funds, which has, on occasion, imposed

conditions, requirements, and standards which are very difficult to comply with for developing countries. This critique applies even more to the Climate Investment Funds (CIF), created in 2008 and with a current volume of \$7.8 billion, whose management is inserted directly into the operating procedures and policies of the World Bank.

Add to this the fact that a great diversity has emerged, increasingly difficult to get a handle on, of climate funds created by governments, such as the German International Climate Initiative (ICI, \$950 million) and the British International Climate Fund (ICF, \$4.6 billion, primarily invested in CIFs). Moreover, there are seven operational multilateral and bilateral funds that support the initiative launched by the United Nations in 2008 for Reducing Emissions from Deforestation and Forest Degradation (REDD+), financial commitments totaling to \$2.7 billion.¹ With a total of \$100 million, the REDD+ initiative has also been one of mechanisms receiving the largest financial commitments of those created by the governments of the North during the COP19 that took place in Warsaw (November 2013).

In addition to the binding character and the experiences of joint governance, it is worth noting two additional distinctive elements of climate finance. One refers to the models of direct access by developing countries to intergovernmental and multilateral funds, though protocols of accreditation of national entities, normally linked with institutional capacities, fiduciary guarantees, and social and environmental safeguards. This formula allows a country of the South to manage and implement funds of a certain scale directly, instead of soliciting resources for each project individually. Moreover, climate finance does not only originate from

¹ Among the contributions is the International Climate and Forests Initiative of the Government of Norway, with \$533 million.

public contributions from governments of the North; rather, it is increasingly fed by mechanisms (for example emissions reductions), while many are evaluating the possibilities of generating recourses through international fees and taxes, for example on airplane travel, maritime transportation, or financial transactions (called a Tobin Tax).

These specific characteristics of climate finance are currently in a process of maturation and consolidation since the creation of the Green Climate Fund (GCF). Endorsed by the Durban COP (South Africa) in 2011, the GCF is a fund belonging to the UNFCCC, to which it will report annually. Through a first round of reinvestment of financial resources at the end of 2014, it will be fully operational beginning in 2015 and will probably channel a substantial part of the annual \$100 billion expected to begin in 2020. In the current phase of designing the functioning and procedures it has become evident that the GCF will be jointly governed by industrialized and developing countries and administrated by the World Bank under effective supervision from the countries, which in the case of Central America are represented by the Dominican Republic and, as a surrogate, Belize. The GCF will also include mechanisms of direct access by countries, mobilizing non-traditional resources (private, tax-funded, etc.), and it will offer specific windows for the private sector of the countries (for more details, see CDKN, 2013b; Boell, 2013).

The GCF will also take advantage of lessons learned (ODI et al., 2013) in its pilot phase, called Fast Start Finance (FSF), which between 2010 and 2012 mobilized \$35 billion dollars, mostly (80 percent) contributed by five countries (Australia, Germany, Norway, the United Kingdom, and the United States).

Especially relevant for the future of the GCF is the balance among priorities, and in particular

the urgent need to secure adequate resources for adaptation to the effects of climate change, which only 17% of FSF had as a principal objective, compared with 63% for mitigation. It should also seek a geographic distribution based on clear criteria that respond to the needs and the political and institutional context of the most vulnerable countries. Importantly, there is an increasing concern regarding the fact that a large portion (about 50%) of climate resources are soft loans and other non-concessional modalities. The risk of these modalities resides in the potential for governments to approach the phenomenon of 'climate indebtedness,' especially in the context of already high debt and when there is no clear economic or financial return to the public investments made with these loans. Finally, there should be greater alignment of external financing with the public policies, priorities, and programs of countries, in addition to improving the national capacities, systems, and instruments for managing and absorbing this type of resources in an effective manner.

Against this backdrop, for the countries of Central America it is imperative to begin to construct regional vision that brings them to the search for a common outcome for channeling large-scale climate resources. One should not forget that, of \$333 million in climate funds received in 2012 by the region of Latin America, 45% centered in the two largest economies of the region, Brazil and Mexico (UNEP 2012). This has to do with the incentives that the size of the economies presents for climate funds, but above all with the capacities, mechanisms, and instruments developed by countries for accessing and managing large-scale climate resources.

In this context, and conscious of the fact that Central America is one of the most vulnerable regions in the world with minimal effective access to climate funds, one the critical pathways could be to develop a regional financial

architecture for climate change. This should ensure decision-making occurs from the sphere of the countries and ensure the effective channeling toward governments and toward territories. Only through an increase in scale will the

region be able to generate a financial framework that allows it to attract more and better climate financing that responds to the incentives that govern the channeling of the large funds of climate change resources.

Climate finance: How to adapt national budgets?

Beyond the access and management of external resources, it is vital for the future of developing countries to integrate the climate factor in their public finances. This allows, on one hand, for the analysis of the direct impacts of climate change in national budgets, for example the cost of short-term humanitarian response to and reconstruction after a hurricane. On the other hand, through their distinct sectorial portfolios, national budgets and, more specifically, public expenditures already dedicate resources to national priorities both in adaptation (sustainable agriculture, resilient infrastructure, etc.) and in mitigation (renewable energy, more efficient public transportation, etc.). Although it appears evident that the countries, especially the most vulnerable, exert great efforts themselves, it is certain that to date no country in Latin America has been able to quantify the amount of their own resources that they are already investing in addressing climate change.

Considering the great climate risks that they face, the governments of Central America have realized some first reflections regarding the first aspect mentioned, the impact of climate change in public finances. Utilizing methodologies elaborated by ECLAC (2010), El Salvador calculated that the three climatological events suffered between 2009 and 2011 generated losses and damages totaling \$1.329 billion, equal to 6% of the nominal Gross Domestic Product of the country in 2011. Just in the Tropical Depression 12-E (TD 12-E) of 2011, Guatemala indicated that it suffered losses and damages of \$343 million, especially in the sectors of environment, agriculture, housing, and transportation, and that the storm may have reduced national GDP by 0.14 percentage points (Government of

Guatemala 2012). While these data allow the valuation of how these natural disasters affect the national economy, they still overlook the impact in the management of public finances and in particular public expenditures, with already very tight margins in every Central American country.

In the face of recurring emergencies, and considering habitual sluggishness of the international community, governments are obligated to reorient public resources that were already committed to other priorities to respond to disasters and fund the early stages of reconstruction, in particular basic infrastructure. As a general rule, this is typically accomplished by reassigning resources from 'soft portfolios,' notable among which are health and education. In Central America, the capacity still does not exist for mapping and analyzing the conduct of public finances and the forced modification of public expenditures in the face of the impact of increasingly violent climatological events. However, the rising prioritization of the debate around losses and damages promoted, among others, in the context of Central American Integration System (SICA), opens some doors for the governments and in particular the ministries of finance to have tools and procedures for valuing the impact of climate change on national accounts.

It is precisely the role of the ministries of finance that is key to enabling the integration of the climate factor in countries' public finances. The fundamental question is how many of their own resources they are investing in national climate change priorities, which is to say, to what extent public expenditures contribute to

preparing the country for the effects of climate change and to driving greener development. Here it is important to consider that climate change is a transversal concept that affects practically all productive and social sectors of a country. The analysis of the way in which sector expenditures contribute to combatting climate change (that is to say, their 'climatic relevance') requires complex methodologies. An important step is the definition of criteria of this climatic relevance that should be based in public policies, including the National Climate Change Strategies and other national plans. These criteria may ultimately become proposed tags that could identify not only what public expenditures are relevant, but also their degree of relevance in combatting climate change. Accordingly, an integrated system of collective transportation could partially contribute to mitigation, even though its principal objective might be to improve holistic urban planning. While in Latin America, including in such countries as Nicaragua and El Salvador, there are some valuable experiences in the analysis and labeling of public expenditures in gender equality, to date the region does not have such experience in the area of climate change.

That said, one must note that Costa Rica has initiated, in a timid form, the work of identifying its climate expenditures in public investments and in its budgets. This effort led by the Ministry of National Planning and Economic Policy, although with a still artisanal analysis, has captured the interest of the Ministry of Finance of the country which has also begun to speak of the possibility of labeling climate resources. Recent similar analyses are starting to move forward in El Salvador and Honduras, by the Ministry of Finance and the Secretary of Finance, respectively. These latest advances principally originate from loans received from the IDB that carry conditions relating to the management of fiscal risks stemming from climate change (see Government of El Salvador

2012). Notwithstanding their still slow dynamic, these processes led by the countries are extremely valuable with a view to improving the governance of public finances and action against climate change.

However, in the Asia-Pacific region, many governments have, since 2012, analyzed their climate-related public expenditures, with results that are of high strategic and practical relevance (see Box 3). In that vein, Bangladesh concluded that its climate expenditure in 2012 reached \$1 billion, equivalent to 7.2% of all public expenditure, and that the most relevant sectors were agriculture, territorial development, and disaster management. For its part, Nepal discovered that 8% of its public expenditures are dedicated to climate change, divided among the ten sector portfolios prioritized in its National Climate Change Policy. Finally, Samoa, a small island in the Pacific, directs 42% of its public expenditures towards climate expenses, and practically all of this spending promotes the reduction of its elevated vulnerability to the effects of climate change and in particular the increase in the frequency and intensity of cyclones. Indeed, a common point of these analyses of climate-related expenditures is that the governments usually contribute large-scale resources, occasionally far exceeding the contributions of the international community (in the case of Bangladesh, the ratio of government to donors is 77 to 23), and that these public expenditures are especially directed toward adaptation (80% in Nepal and 90% in Samoa) and only a small minority toward mitigation.

Along these lines, the analysis of climate-related public expenditures has been useful not only to understand the scope of a country's own efforts but also to generate strategic processes in the countries, such as:

- The promotion of the political visibility and strategic relevance of climate change,

Box 3
Towards an analysis of territorial expenditures in climate change

Based on the methodology of the Public Expenditure Review of the World Bank, the Climate Public Expenditure and Institutional Review (CPEIR) studies the allocation and management of public expenditures related to climate change. This can be done for all public expenditures or at the sector level for the priority sectors of climate change public policy.

Initiated in Asia with the support of the UNDP, the CPEIRs have been very useful for understanding the domestic resources, generally quite substantial, that a government invests in climate change. In countries such as Bangladesh, Cambodia, and Samoa, the CPEIRs have also allowed for the adaptation of budget policies, for example through budget codes, the impetus for inter-institutional coordination, and the creation of an overall attractive context for receiving large-scale external finance, especially for adaptation.

Considering that municipal budgets in many territories are directly affected by their climate and environmental vulnerability, it would be very relevant to be able to analyze territorial expenditures in climate change. In parallel with the experiences of small countries that are very exposed to climate change (such as Samoa), it is likely that the weight of climate change in municipal public expenditures may indeed be quite extensive.

For more details regarding the analysis of climate-related expenditures, see Aguilar Garza (2013).

as well as the construction of a narrative thread regarding its impact in the financial reality of the country. In all countries that conduct a CPEIR, this analysis has generated a greater attention at the highest political levels (presidents, ministries of economy and finance, etc.) beyond the conventional leadership (ministries of environment and occasionally sectors such as agriculture and public works).

- The greater capacity of the government to generate frank dialogue and informed negotiations with the international community regarding climate finance. Since

its CPEIR, the Government of Bangladesh has achieved a greater transparency and political alignment of the contributions of different bilateral and multilateral agencies in the country, in addition to generating a renewed commitment for its multi-donor climate change fund.

- The integration of the climate factor in active process of modernization and reform of public finances, which will ultimately permit a greater cohesion among public policies and public expenditures for implementing them. In this vein, the Government of Samoa is expecting climate change to be reflected in its new results-based budgeting modality, while Nepal is exploring how to include the climate factor in the frameworks of local government expenditures and performance.
- The backing for the incipient dialogue with the private sector and the revision of frameworks for incentivizing private investment with direct relevance for national public policies, and in particular for the priorities of mitigation. Both in Bangladesh and in Samoa efforts are being made to map this private financing, and some have started to include business representatives in their agencies for consultation and coordination regarding climate change.

Beyond public expenditures, there is an emerging need to adapt the function of States when it comes to the climate risks that countries face and the opportunities that arise from lower-carbon development. Countries like Colombia and Mexico are already working on financial climate change strategies that attempt to address all of the nation's public finances. In other words, it is necessary to revise the entire fiscal framework, comprised of the revenue, expenditure, debt, taxes and fees, incentives, and subsidies. All of these elements play a critical role in combatting climate change. For example, gov-

ernment subsidies for fossil fuel, such as gasoline, typically represent a 'dirty expenditure' that compromises other public expenditures oriented toward fighting climate change. It is also observed that instead of spending, it can be equally effective to stop collecting taxes, for example temporarily eliminating the import fees for renewable energy to allow a domestic market to develop for these technologies. On the other hand, given that a substantial part of external climate finance occurs through credits, the most vulnerable countries in particular need greater clarity regarding the degree of climate debt that they are able to support, for example in the wake of natural disasters. In this area, innovative initiatives have also emerged, such as government catastrophe bonds (CAT-bonds) for natural disasters, which function as risk insurance that is active in the event of a disaster and allow governments to immediately access resources in the first weeks and months following a disaster. For example, Mexico secured \$290 and \$300 million in issuances of CAT-bonds in 2009 and 2012, respectively, which is estimated to be able to cover, together with the reserves of the National Disaster Fund, the first three to six months of response to the most critical emergency scenarios presented by hurricanes and earthquakes (World Bank 2010).

As will be seen in chapter four, to advance climate finance requires – within the joint collaboration of the cabinet of the government – a more determined role for the Ministries of Finance in the design and implementation of public policies and in the decisions regarding the type of external climate finance that a country accesses. Considering the grave impact of climate change on national budgets, one should not doubt that a greater involvement of these governing bodies in financial matters is a key for countries that are at the height of the many systemic challenges that await us.

Harshly hit and threatened by the impacts of climate change, the countries of Central America suffer from a tight fiscal margin, from significant budgetary rigidities, and levels of debt that, in their most elevated, are at a critical level in El Salvador and Honduras. Therefore, incorporating the climate variable in public finances is becoming increasingly imperative, not only to have a margin for responding in the event of a disaster but also to be able to better take advantage of the opportunities presented by climate finance and improve the governance of their own finances that are so clearly and directly affected by the impact of climate events.

Effectiveness and quality of effective climate finance: Some guidelines

As seen in chapter 1, global agreements foresee climate finance as reaching a magnitude similar to historical maximums of flows of international development assistance. At the same time, as indicated in chapter 2, countries find themselves in a moment of ample opportunities for including the climate factor in their public finances.

The volume of the financial commitments and the complexity of the financial responses to climate change make it urgent to reflect regarding how to appropriate, spend, and account for these resources. Up to now, the starting point in the majority of countries, and in particular in Central America, is not very favorable for receiving and channeling large-scale climate finance, given that:

- Climate change usually occupies a niche with little relevance to the political task of countries, and whose relevance only increases circumstantially in short-term responses to the impact of natural disasters,
- Experience with climate finance remains limited, and in general, countries are unaware of the specific characteristics, procedures, and opportunities of this type of external resources,
- The majority of these resources are channeling through Ministries of Environment that typically have neither the experience nor the instruments for managing financing of a certain scale and occasionally are not well-positioned the efforts of other sector or governing ministries are undertaking or desire to undertake to obtain climate financing,

- For their part, the Ministries of Development Planning, Foreign Affairs, and Finance have a track record in the programmatic management of international cooperation, but they have only recently been approaching the concept of climate finance, and
- In many instances, the offices representing the international community in developing countries do not know about the financing opportunities available from their own governments and confuse climate finance with ODA, making accessing this financing through these channels difficult.

In the face of these challenges, since 2011 a deep debate has begun concerning the effectiveness and quality of large-scale climate finance. For many developing countries, it is evident that there are universal principles for international flows of development financing, as reflected in the Paris Declaration on Aid Effectiveness (2005) and now in the process of being updated under the Global Partnership for Effective Development Co-operation, launched at the Busan High-Level Forum (2011) in Korea and which will meet again in April 2014 in Mexico.

These principles relate to national appropriation, the use of national systems (alignment), the harmonization of international cooperation, the orientation towards results, and mutual accountability for jointly accomplished results. And it is certain that especially since 2005, practically all developing countries have been investing great efforts in the generation of structures and instruments that would allow them to increase the effectiveness of ODA. Examples

include the design of public policies capable of directing international contributions, the improvement of public financial management, the launching of such initiatives as budgetary support and sectorial programs, and the creation of roundtables for political and thematic dialogue with the international community. These historic advances have been coordinated in particular by the Ministries of Development Planning, Foreign Affairs, and Finance as governing entities for international cooperation. In effect, their lessons learned are of vital importance for ensuring the adequate quality of climate finance, both in the provider and in the receiver of these resources.

In this vein, some Latin American countries have embarked on an analysis of the current barriers to effective access to, management of, and accountability for climate finance (see the examples of El Salvador and the Dominican Republic in Box 4).² Compared with other initiatives focused exclusively on the need to prepare countries with better capacities (climate finance readiness),³ this focus on barriers also considers the quality of the performance and conduct of the international community.

Within this dual perspective, it is possible to highlight the following criteria and principal guidelines:

² The conceptual and methodological focus of the climate finance barriers can be found in MultiPolar 2013, which constitutes a methodology created at the request of the governments participating in the regional climate finance process in Latin America and the Caribbean (see chapter 4).

³ There is a range of proposals focused on the improvement of the countries, in particular of national governments, in CDKN 2013a, TNC 2013, UNDP 2012a, and UNDP 2013b.

Box 4

Overcoming the barriers to climate finance in El Salvador and the Dominican Republic

To improve the capacities to access, manage, and account for climate finance, the Governments of El Salvador and the Dominican Republic conducted studies of barriers, based in regionally shared methodology. In both cases, multiple strategic, institutional, and operational advances were achieved, which translated into roadmaps.

In this sense, the pilot study in El Salvador created the space for concerted effort by the Inter-institutional Committee for Climate Finance. Based on the analysis, a roadmap was created centering on the development of institutional capacities, inter-institutional coordination, and adaptation of the financial architecture of the country (Government of El Salvador 2012).

In the Dominican Republic, under the coordination of National Committee on Climate Change, 15 ministries and governmental organizations were involved in an autodiagnostic process. They identified ample opportunities for including climate change sector policies and strategies, means for improving the capacities of key institutions, and strengthening alliances with the private sector (Government of the Dominican Republic 2013).

Although the territories were not included in these analytical efforts, the methodology of barriers could be relevant to enable an understanding and an improvement of the capacities of localities and municipalities in the face of climate change.

In accessing climate finance

Guidelines for receiving countries

- Based in solid public policies at the national and sector levels, plans and programs regarding climate change should exist with sufficient financial planning, prioritization, and costing of actions
- Government institutions need to have the capacities (human, organizational, and financial) for the design, implementation, and execution of climate change programs

- Government institutions should articulate climate finance through inter-institutional coordination, facilitating an adequate programming of joint work.

Guidelines for the international community

- Local offices of the international community should offer relevant, useful, clear, and accessible information regarding the different opportunities and modalities available for accessing climate finance
- Financial assistance should directly align with national and sector priorities established in the corresponding strategies and plans
- The climate finance that is planned, currently in execution, and already executed should be reflected in the national registers and information systems, increasing thereby the transparency of financial contributions.

In managing climate finance

Guidelines for receiving countries

- Government institutions and ministries need to use financial instruments adapted to manage large-scale climate finance (such as funds, sector-wide approaches, etc.)
- Climate change should be reflected in the public finances of the countries, with clarity regarding the weight of climate change in the national and sectorial public expenditures.

Guidelines for the international community

- Actors in the community should use national systems and instruments for channeling external financing, avoiding when pos-

sible parallel execution/implementation from the government.

- The requirements and procedures for the management of external financing (reports, frequency, etc.) require harmonization and coordination by the national government.

In accounting for climate finance

Guidelines for receiving countries

- Climate change should be integrated into the national processes of monitoring, managing for results, and accountability, and into dialogue with parliament and civil society.
- The government should have vision of how to design a future system of Monitoring, Reporting, and Verification for climate change actions.

Guidelines for the international community

- The international community should use national systems for monitoring, managing for results, and accountability of its financing.
- A mechanism/platform for mutual accountability and continuous dialogue between the government and the international community is necessary.

This basic menu for effective climate finance fundamentally depends on the development of the institutional and operational capacities of governments. One way to achieve these improvements is through roadmaps that clarify the priority areas and the (shared) responsibilities of the various government institutions. And indeed, as will be noted in the following chapter, a series of initiatives with great value already exists in the region of Latin America and, in particular, in the context of Central America.

The regional process and the experiences of the governments of Central America

Recognizing the urgent necessity of preparing themselves for climate financing, a series of Central American governments have, since 2012, embarked on a systematization of their experiences and innovations in public policies, institutionality, and financial management, with respect to climate change. As part of a shared process with other countries in Latin America and the Caribbean, this review and later exchange around existing national solutions established itself as a vital opportunity for countries to position themselves in the international context of climate finance, which is strongly marked by multilateral institutions, particularly multilateral financial institutions. Under a logic of 'empowerment from practice,' two Dialogues on Climate Finance in Latin America and the Caribbean, centering on knowledge exchange and mutual learning regarding practical and technical aspects of accessing, managing, and accounting for climate finance (see UNDP et al. 2012 and Government of El Salvador 2013). Considering the lead that different governments took, it is not surprising that both events took place in Central America (Tela, Honduras, May 2012, and San Salvador, El Salvador, June 2013).

And in effect, the governments of Central America have begun to mobilize the space of SICA to improve their political position when addressing climate finance, in addition to improving synergies among the countries. It is certainly true that grand divergences exist among national priorities, above all in terms of the balance between mitigation and adaptation, or in the use of financing based on market mechanisms in relation to forests based on rights and obligations of international law.

However, especially in the past two years, the members of SICA have come closer together and have begun to take better advantage of the distinct mechanisms that are available through integration. Since the development of the Regional Climate Change Strategy (2010) and its Plan of Action, the Central American Commission for Environment and Development (CCAD, for its Spanish title) has pushed for spaces for exchange, specialized support, and joint preparation of national delegations attending the COPs of the UNFCCC, which have integrated the priorities of climate finance. This has allowed the various countries of Central America to, among other things, establish a common position for the International Mechanism for Loss and Damage during the most recent Conference of Parties of the UNFCCC.

More cautiously, CCAD is approaching the promotion of regional, national, and local climate financial instruments, through the Regional Climate Change Strategy (ERCC, for its Spanish title). Together with the Center for the Prevention Natural Disasters in Central America (CEPREDENAC, for its Spanish title), CCAD is also coordinating the Central American dialogue regarding the quantification of and political positioning concerning the losses and damages that the countries suffer due to the impact of climate change. This work is aligned with the Central American Policy on Integrated Risk Management, also from 2010. Finally, the Council of Finance Ministers (COSEFIN) is driving technical forums for members to reflect on the entirety of public finances and financial risk management related to climate change. In the materials mentioned, there is also a growing coordination with other key actors, such as the

Inter-American Development Bank (IDB, which is supporting various Ministries of Finance in Central America in the creation of Climate Change Unites) and the Economic Commission for Latin America and the Caribbean (ECLAC, in methodologies for quantifying losses and damages).

In this valuable context of greater leadership and better preparation for climate finance, the countries of Central America can already share experiences and solutions of great relevance for adequate access to, management of, and accountability for these resources. To date, the systematization realized by different governments in the region⁴ highlights the following advances and lessons learned.

Public policies addressing climate change

Climate change is completely integrated into the development policies of every country in Central America, permitting an integrated vision of development and climate change. To specifically clarify the priorities, needs, and opportunities, every member of SICA (except El Salvador)⁵ has also articulated its climate change policies in National Strategies. These strategies have been operationalized under the leadership of the Ministries of Environment and with the close involvement of the Ministries of Finance, as well as the Ministries of Planning and Foreign Affairs in Guatemala,

⁴ Experiences reflected in the thematic papers created by various governments of Latin America for the First and Second Regional Dialogue on Climate Finance and Development Effectiveness in Latin America and the Caribbean, which took place in Tela, Honduras (May 2012) and San Salvador, El Salvador (July 2013), respectively. Summaries of these papers are available in UNDP/WBI/MultiPolar 2012 and the Government of El Salvador 2013.

⁵ Currently, the Ministry of Environment and Natural Resources (MARN) is in the process of developing the National Climate Change Plan.

Costa Rica, Nicaragua, and the Dominican Republic. This last aspect is key for public policies to guide the work of the government and to lead climate change being reflected in plans for public investment, in which Honduras, Costa Rica, and the Dominican Republic have initial experience.

Climate change in sector policies

Considering its great impact on the entire national economy, it is necessary to ground action against climate change in the various sectors. Here, Nicaragua has plans in such as energy, agriculture, housing, and education; El Salvador in agriculture and education; and Costa Rica in transportation, energy, water resources, and the farming and livestock sector. For its part, Panama has integrated climate goals in its policies for energy, water resources, and disaster management. The Dominican Republic involves the key sectors, such as tourism, energy, and water, through an analysis of investment flows for climate change. Although it continues to be an incipient dynamic, the anchoring of climate change at the level of sector policies is an important pre-condition for governments to be able to articulate and solid programs at the financial level, which as result allows for accessing and managing resources at a larger scale.

Climate policies at the territorial level

Although many climate priorities are only achieved if realized at the local or regional level, the national governments of Central America have achieved rather timid progress in territorial planning for adaptation and mitigation. Nicaragua has piloted a Climate Change Strategy in the Autonomous Region of the North Atlantic and also has a dozen municipal plans concerning climate change. The Government of Honduras is seeking an articulation of its sub-

national authorities through the climate priorities of the Nation Plan and their involvement in the Climate Change Coordinating Committee (see below). Considering the high vulnerability of many territories and their cross-border nature, many tasks still remain for grounding climate change policies at this level.

Adapting the financial architecture to climate change

In order to take advantage of the opportunities of climate finance, some countries have begun to design financial instruments and arrangements for channeling resources specifically for climate change. Among the notable institutional arrangements is the accreditation that Belize and Costa have obtained for the Adaptation Fund (through the Belize Protected Areas Conservation Trust [PACT] and Fundecooperación, respectively), and which such countries as El Salvador and Guatemala are pursuing in a timeframe that remains uncertain. As aforementioned, this accreditation can be one of the keys for enabling rapid access to the resources of the GCF. For their part, Honduras, Panama, and the Dominican Republic have created different types of institutional frameworks for managing Clean Development Mechanism (CDM) projects, a channel for resources focused on mitigation. At the level of financial instruments, the experiences of Central America are relatively limited. There are no National Climate Change Funds nor specific windows in the National Development Bank that are normally effective and increasing successful financial instruments in the rest of the region, for example in Brazil, Colombia, Mexico, or Peru. In Costa Rica and the Dominican Republic, the design of Nationally Appropriate Mitigation Actions (NAMA) is moving forward in such areas as agriculture, coffee, and housing (Costa Rica), as well as cement, solid waste, and tourism (the Dominican Republic). While some countries are trying to adapt existing instru-

ments for climate finance (for example, El Salvador with the National Environmental Fund of El Salvador, and Guatemala with the Sector Fund for Environment and Water), to date they have not mobilized important external resources. Definitively, the slow pace of integrating the climate factor in Central American countries is a central challenge in the short and medium term.

Climate change in public finances

Despite the many benefits of the climate public expenditure review (see chapter 2), the reflections regarding the weight of climate change in national budgets in Central America are in a very initial stage. Since 2012, a few spaces for learning have been opened through SICA-COSEFIN in coordination with other actors, including the IDB and ECLAC. The Ministry of Planning and Political Economy, assisted by the Ministry of Finance of Costa Rica and the Secretary of Finance of Honduras, is exploring several options for analyzing public expenditures related to the climate, but as with the rest of the region, these actors face weaknesses in expertise and the prioritization of the climate within public finances, in addition to limitations with respect to working with their respective ministries of environment. Considering the tight fiscal margins and increasingly elevated degree of debt facing practically every country in Central America, understanding climate expenditures could become a priority for the countries of Central America.

Inter-institutional coordination around climate finance

The combined efforts of different branches of the government are critical for ensuring greater coherence and effectiveness in climate finance. To date, only El Salvador has an inter-ministerial coordination mechanism, through the Inter-institutional Committee for Climate

Finance, which emerged in the wake of Tropical Depression 12-E and centers on mapping the needs and opportunities for climate finance, joint work on technical and operational concepts, and the improvement of capacities in the area of climate finance. For their part, the committees that work on climate change more generally in Honduras (Technical Inter-institutional Committee on Climate Change) and the Dominican Republic (National Council on Climate Change) have created ad-hoc groups for financial topics, with still limited maturity. These lags contrast with the ample gaps that exist in every country regarding basic concepts and definitions for climate finance, as well as the diffuse attribution of ministerial responsibilities, for example among ministries of environment, finance, and planning.

Capacity development

For accessing, managing, and accounting for climate finance, ministries and sector institutions need sufficient institutional (policy clarity, mandate, human resources, etc.) and operational capacities (expertise, resources for preparing proposals, management procedures, etc.). Today, only El Salvador has invested substantial efforts in promoting these capacities, among other initiatives taking place in 2013, through the design of National Program for Capacity Development, in which representatives of academia and civil society also participate. Like El Salvador, the Dominican Republic conducted a study of barriers to climate finance, which identified ample demand for strengthening in 15 ministries and institutions of the government, for which they are currently designing a roadmap. In general terms, it is worth noting that the comprehension of climate finance, and specifically climate financing, continues to be very low in the institutions of Central American countries, which could explain, in part, the difficulty of accessing such financing that is observable throughout the region.

Dialogue with the international community

As noted above (chapter 3), the effectiveness of climate financing depends not only on the national conditions of the receiving country, but also on the conduct of the international providers of these resources. However, no Central American country has a platform specifically devoted to discussing the principles and procedures of climate finance. Indeed, only Honduras and the Dominican Republic sporadically maintain formal conversations with the members of the international community present in their countries regarding climate change in general. To this add the absence of registries and information systems for climate financing already taking place, which is the authorities directly in charge of the topic typically maintain tentative figures regarding the resources that the country receives. It is likely that dialogue and coordination with the international community, which is not typically a strength of Ministries of the Environment, may improve with the ministries more accustomed to this interaction, such as the Ministries of Planning and Foreign Affairs, taking a more active role with respect to climate finance.

Partnerships with the private sector

Companies play a central role in the implementation of public policy concerning climate change and have a great potential to contribute to climate financing. Collaboration between the government and private companies seems particularly promising in key sectors that require far-reaching investment and can be regulated relatively easily, such as energy, transportation, or construction. Furthermore, the international community tends to favor climate programs that ensure an effective role for national companies, including the leveraging of private investment. To date and despite an incipient demand from the private sector, there are only a

few isolated experiences among the governments of Central America for seeking synergies with companies, primarily in the area of mitigation. One quick pathway is the mechanisms of voluntary certification implemented by Costa Rica (C-Neutral Seal [Marca C-Neutral], which generates national carbon market) and Honduras (Cleaner Production [Producción Más Limpia], focused on the efficient use of primary materials). Honduras and the Dominican Republic are also very active in the use of the CDM, whose projects typically involve far-reaching national firms. In Costa Rica, the private sector is a key ally for putting into practice its NAMAs and the Payments for Environmental Services Program linked with the National Fund of Forestry Financing, an instrument that offers incentives and economic compensation

for proprietors and users to manage forest resources in a sustainable manner. Beyond these rather small examples, collaboration with the private sector has not advanced substantially, and in many countries a strong cultural break remains evident between the government and companies, with the latter demanding flexible frameworks, an agile dialogue, the capacity to assume risks, and predictable incentives for investing in areas related to climate change. In line with the experiences of other Latin America countries like Brazil and Mexico, there is a need for a greater capacity for dialogue, openness, and consultation on the part of the governments of Central America, while the private sector needs to further involve itself in the many opportunities for investing adaptation to and mitigation of climate change.

Climate finance in the territories: A first approach

As we have seen in previous chapters, the governments of Central America are moving forward, through specific steps, with climate finance as a vital option for accessing and managing external resources for climate change. The capacities and initiative of the central public administration are a critical pillar for generating and financing a model of development that is green and resilient to climate change in the medium and long term, for example through public policies, frameworks for public investment, regulations for the private sector, and the capacities of sector ministries to access and manage climate financing. And in effect, these commitments could improve national preparation for climate finance, in particular at the level of central governments, of which some are already implementing roadmaps specifically to this end.

At the same time, the reality of climate change in Central America is, for many reasons, inherently territorial (in particular, regional and local). On the one hand, the form and degree of climate vulnerability varies by zone, as each zone includes different geography, topography, ecosystems, and populations. On the other hand, the potential for adapting to the effects of climate change and for ensuring low-carbon development depends on territorial factors, including among others, the principal economic activities, the quality of infrastructure, the degree of community organization, and the capacities and commitment of the local authorities. To this add that the territories typically span borders, occasionally sharing more problems and opportunities with territories in other countries than with its compatriots. This is palpable in cross-border regions, such as the

Trifinio (El Salvador, Guatemala, and Honduras) or the Miskito (Honduras and Nicaragua), but also in disperse regions that share vulnerabilities, such as zones that are affected by recurring drought in the Dry Corridor (in El Salvador, Guatemala, Honduras, and Nicaragua) and the indigenous peoples and forest communities of the Mesoamerican Alliance of People and Forests (Guatemala, Costa Rica, Honduras, Mexico, Nicaragua, and Panama).

Climate change entails development options and risks that are very specific to these territories and, particularly for territorial governance, under significant pressure from the climate vulnerability of natural resources that often determine regional and local development. However, to date, the national governments have made little effort to seek communication, not to speak of coordination with territories, around climate financing. A fundamental question is the extent to which the territories are, or could be, in a condition to access, manage, and account for climate financing, resources that are typically channeled primarily through national governments and their sector ministries, with scarce influence from and little access by territorial authorities.

To this add that, to date, no specific analyses nor concrete guides exist regarding how to finance climate change at the sub-national level, given that the international negotiations and discourse has focused principally on the advances necessary at the level of central governments. Supplementing this gap, a brief process of consultations was undertaken for this report with territorial representative from four Central American countries regarding the opportunities

and challenges of climate financing in the territories (Schulz 2013).

Specifically and preliminarily, it is worthwhile to highlight a few factors affecting climate finance in the territories.

Opportunities for territories to mobilize climate financing

Strategic articulation capacity: Given the closeness and the level understanding of actors with one another in the territories, it is easy to articulate climate proposals based on the capacities and interests shared by various key actors, including communities, businesspeople, and local authorities. In particular, the capacity to generate consensus that bring together understood interests under a common objective is highly valuable for articulating strategies for long-term climate action.

Anchoring in the local: There exists a practical understanding about the regional and local conditions, the problems that exist and the means by which to overcome them, and a good capacity to generate solutions based on traditional and indigenous knowledge. Where there exist already-established platforms and mechanisms, the proximity and relationships of confidence in the territories also allows for managing funds with relatively low transaction costs.

Sustainability of the actions: Outside of the political cycles that tend to mark national agendas, territories can ensure good continuity for identified climate initiatives, above all if they are articulated with existing institutional frameworks and territorial governance. Territorial agendas and alliances typically take time and effort to construct, but once established, they typically survive with some ease the situations and crises of political tasks.

Proximity to climate finance providers: There exist historical and recent relationships with certain partners that also offer climate financing (such as Germany, Japan, the European Commission, and agencies of the United Nations) and organizations that can leverage or channel this financing (for example, SICA). In fact, a great number of the territories in Central America already receive substantial resources from these donors for environmental programs that occasionally coincide with climate priorities (for example, in the areas of forests, solid waste, and energy).

Box 5 Strategic action in the Lower Lempa, El Salvador (Bajo Lempa)

While the coordination and construction of alliances at the territorial level is typically slow, once set in motion they are notable for their strength and continuity beyond existing frictions. One can find a good example in the lower part of the basin of the Lempa river in El Salvador, a territory of great social complexity due to post-war resettlement and of high vulnerability to climate change. After multiple efforts over the course of the last two decades, in 2011 the Permanent Roundtable of Local Actors in the Lower Lempa (MESPABAL, for its Spanish title) formed, bringing together mayors, territorial platforms, and civil society organizations, and whose meetings typically include the participation of high-level representatives from the Ministries of Environment and Natural Resources, Agriculture and Livestock, as well as the Technical Secretariat of the Presidency. Thanks to its capacity for dialogue and coordination among actors with very diverse interests, MESPABAL allowed for the design of the Strategic Plan for Territorial Development of the Lower Lempa, and among its four priorities are risk management and adaptation to climate change, as well as the improvement of the institutional and human capacities for territorial management. Moreover, the roundtable also acts as a platform for discussing public policies and national government programs, in particular the National Program for the Restoration of Ecosystems and Landscapes (PREP, for its Spanish title). With these substantial advances, favorable conditions exist for articulating future climate action proposals in the Lower Lempa that at the same time correspond to the priorities already agreed to for territorial management.

For more details, see Cuéllar et al. 2013

Box 6
**The Trinational Fund as an opportunity
for climate financing**

Located in the Trifinio – a region shared by El Salvador, Guatemala, and Honduras that faces grave environmental and climate risks – the Cross-border Trinational Association of the Lempa River includes a financial instrument with a high potential for international climate financing. Launched in 2011, the Trinational Fund for the Sustainable Management of Forests and the Conservation of Natural Areas supports the implementation of the Local Trinational Public Policy “Forests Forever” together with local governments and communities. Currently, the fund is supported with direct contributions from nine municipalities, the funds from which total resources of approximately \$101,500. Some municipalities contribute 1% of their budget to this financial instrument, with plans for the fund to grow as the rest of the twelve member municipalities of the association commit to the same. The existence of a shared public policy, the close relationships of the association with national governments in the three countries, and its capacity to grow in scale, as well as the immediate relevance of the fund for climate priorities portend an elevated potential for attracting climate financing, including REDD+ (see PRISMA 2013b).

Collaboration and exchange of solutions: representatives of the territories of Central America are already accustomed to a relatively continuous exchange with their partners in topics related to territorial management and, more recently, disaster risk management. It will be possible to deepen the mutual learning within and among territories (especially in cross-border networks) to draw lessons on how to access and manage climate financing. An important element is a greater consciousness of the financing opportunities and the factors that determine access to them.

Limitations of territories in addressing climate financing

Climate finance as an unknown concept: There exists a limited knowledge of what climate finance is and almost no information or data regarding how to obtain these resources. While national governments face an absence of databases and registries of financing sources, for territories a major problem is the physical distance from the offices of agencies and organizations that provide and/or channel these resources and which are located in the capital cities, far from the ‘mud’ of the regions and municipalities.

Disconnection of national policies: With a few exceptions, territories are disconnected from the design and putting in practice of the public policies of the national government, which on occasion do not consider the feasibility that these policies should have in the territories. For many national governments and their sector ministries with greater relevance in the area of climate change, a series of territories are part of the formal priorities of public policies that do not, however, include them in the process of defining priorities. Apart from conventional gaps between the national and sub-national agendas, territorial representatives also perceive that climate policies, especially in adaptation, are written in offices that do not understand the complexity of reality in the territories.

Lack of capacities for climate action: The territories have few technical capacities for strategic planning on climate change (action plans, programs, innovative projects, etc.) that could be receptive for climate financing. The municipal authorities do not typically have sufficiently prepared personnel and lack the resources to contract specialized consultants to prepare proposals for climate action that complies with the requirements of international agencies. Moreover, especially the larger programs require feasibility and pre-investment studies that form a barrier for the national government and an insurmountable one for territorial authorities.

Small-scale culture: A majority of the activities in development in the territories take place through very limited budgets and scope, which typically run counter to the preference of climate finance mechanisms for large financial frameworks. Here emerges the need to reflect on the possibilities of grouping (or ‘nesting’) of initiatives and projects with relatively small budgets to create programs of greater scale that could be attractive for this type of resources. This will, of course, depend on the capacity of different municipalities and, increasingly, of different territories to work together and create joint programs (see Box 7).

Absence of specific financial instruments: There still do not exist instruments nor mechanisms strength enough to manage large-scale climate programs for the benefit of regions, communities, and municipalities. It is true that some territories have created their own financial mechanisms with their own resources (such as the Trinational Fund). However, neither the

Recuadro 7
Cohesion and growth in scale:
The example of MesoCarbon

Launched in 2010 during the COP16 in Cancun by the Mesoamerican Alliance of People and Forests (AMPB, for its Spanish title), the Mesoamerican Carbon Community Reservoir (MesoCarbon) has generated a model shared among various territories of Central America, as well as some in Mexico, for the implementation of REDD+ and accessing support mechanisms such as the Forest Carbon Partnership Facility of the World Bank, IDB, and UNDP. MesoCarbon brings together ‘in a bloc’ a total of 50 million hectares of forest spread across Belize, Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, and Panama. Its notable commitments include its focus on rights, the strengthening of territorial authorities (some of which are indigenous), and the push for social justice for the forest communities. In this framework, it has achieved several advances that directly benefit territorial governance (protection, ownership, legal framework, etc.) and access to climate financing (among others, \$6.2 million from DfID to support governance and the carbon market shared among the territories). At the same time, this has allowed for substantial improvements in capacity in many territories, especially for the territorial authorities and community organizations. In its entirety, MesoCarbon represents a vital example of how it is possible to combine political priorities from distinct territories with an increase in scale in accessing climate finance, which is at the same time respectful of the indigenous and community rights of the people.

For more details, see Pasos 2013.

multilateral organizations nor the national governments currently offer modalities of access adapted to the opportunities and needs of the territories, which could pragmatically complement the efforts led by territorial authorities.

How to prepare the territories of Central America for climate financing?

Elements for a roadmap

Over the course of recent years, climate finance has become a key source for developing countries seeking to invest in low-carbon development resilient to climate change. In Central America, national governments are investing efforts in preparing themselves for this type of resources that typically require, among other things, strong coordination among different ministries, proactive communication with the international community, and the design of financial instruments and mechanisms capable of absorbing and accounting for elevated volumes of resources.

While there have been some tepid advances at the national level, the majority of territories are still removed from the pathways and options of this type of financing. However, as we have seen in the previous chapter, the territories have specific opportunities and advantages for receiving external resources dedicated to climate action. At the same time, the identified limitations do not represent insurmountable barriers in the short and medium term. However, it seems evident, considering the scarce resources available in the territories, that overcoming these obstacles will require alliances and collaboration with other actors, in particular national governments and the agencies of SICA, as well as specialized civil society and academia.

In this vein, it is possible to identify some basic elements for the territories of Central America to develop strategic, institutional, and operational capacities that would allow them to access, manage, and account for climate finance.

By actor, the following concrete actions are proposed:

Options for the territories of Central America

Territorial authorities and governments could:

- Strengthen the **strategic planning of territorial development with: (a) a close articulation with national climate change strategies and (b) a clear definition of their climate action both in adaptation and mitigation**, as well as ensure that this climate action has sufficient visibility for national governments and the international community, for example through an analysis of territorial public expenditures on climate change.
- Explore the options for **designing and implementing joint financial instruments among multiple territories**, in line with the experiences of existing funds in certain territories, with the goal of generating a shared operational and institutional framework that allows for articulating (or 'nesting') climate action on a larger scale.
- Deepen **knowledge exchange and promote mutual learning among territories** regarding options and solutions for territorial climate policies and institutional capacities, as well as financial instruments and mechanisms, supported to the extent possible by a mapping of case 'stories' regarding existing experiences.

- Conduct an **exercise of mapping territorial expenditures** for addressing the impacts or products of climate variability, both expenditures committed to climate change and those that have redirected funds committed to other sectors to relieve the budgetary pressures imposed by climate change on territories (especially municipalities and communities) and also of the efforts they are making on their own to prevent and ameliorate the effects of climate change.

Options for national governments

The governments of Central American countries, and in particular the Ministries of Environment, Development Planning, Foreign Affairs, and Finance can:

- Ensure an **adequate inclusion of territorial representatives in inter-institutional coordination** on climate change in general and climate finance in particular, for example through National Committees on Climate Change.
- Support the **training and development of representatives and technical staff of territorial authorities and governments** regarding accessing, managing, and accounting for climate financing, at least through their inclusion in development programs that are already underway (certification, courses, workshops, etc.)
- Provide access to **all of the national government's available information with respect to current and potential sources of climate financing**, in addition to including territorial perspectives in lobbying and coordinating with agencies of the international community.
- **Encourage climate finance strategies** that contemplate mechanisms for channeling resources to territories and that are able to ar-

ticulate regional options (at the level of Central America) with national ones, as well as those of the territories.

Options for the Secretariats of SICA

Through CCAD, COSEFIN, and CEPREDE-NAC, SICA could support the territories of the various countries of Central America through the following aspects:

- Conduct the **inescapable task of ordering the subject within SICA**, beginning with a joint work by the different secretariats in the area of climate change and connected themes, and which also has financing from diverse donors relevant for the territories. The previous with the goal of giving coherence to the same under an integrated strategy in the territories, that ensures complementarities and greater effectiveness and adequate visibility of climate resources with those involved with the regional framework.
- Support the joint work of various territories in **regional territorial climate action programs**, based on local and regional climate change priorities, which are attractive for climate financing, beginning with a pilot program with REDD+ (where both SICA and several territories have initial experiences).
- In line with Regional Climate Change Strategy, analyze the **feasibility of designing a Regional Climate Change Fund**, with calls ('windows') specifically for territorial authorities and governments to access funding to cover both territorial climate action and the institutional development necessary for the same.
- Generate **regional spaces for continual exchange among territories** in different countries of Central America, facilitating al-

so the participation of international experts in the area of climate finance.

Options for the civil society and academia of Central America

Specialized organizations and academia in Central America have an important role to play in the development of capacities and creation of necessary knowledge, for which ends they could:

- **Systematize experiences and document existing solutions in the territories** for accessing, managing, and accounting for climate finance, for example around advances achieved in public policies and environmental funds, adapting the existing methodology to study territorial barriers to climate finance.
- **Support capacity development in the territories and in particular the mechanisms of territorial coordination** with events, workshops, and courses regarding climate change at the regional and local level.
- **Strengthen the multi-actor alliances that exist in different territories** through a greater and more continued presence of civil society representatives and, to the extent possible, serve as antennas for the same to relay information regarding processes led by national governments and articulated from capitals, which are difficult for territorial authorities and governments to access.

Annex 1

List of confirmed participants for the workshop held on November 26, 2013

Name	Institution
Alejandra Aguirre	The community of Río Lempa
Arnulfo Alberto	The community of La Montañona
Claudia Aguilar Garza	MultiPolar
Galileo Rivas	IICA
Héctor Aguirre	The community of Río Lempa
Ileana Gómez	PRISMA Foundation
Javier N. Gómez Pineda	Municipality of Candelaria
Martha Alviar	Proterritorios
Nadia Chalabi	SECAC
Nelson Cuéllar	PRISMA Foundation
Nelson Rodríguez Mejía	Township of Las Vueltas
Nils Schulz	MultiPolar
Oscar Díaz	PRISMA Foundation
René Ramos	MARN
Ruben Pasos	AMPB
Salomón Martínez	The community of La Montañona
Sonia Baires	MARN
Susan Kandel	PRISMA Foundation
Wilfredo Morán	PRISMA Foundation

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