

# Primer on Climate Financing: Mechanisms and Opportunities for Latin America and the Caribbean

## Introduction

The United Nations Framework Convention on Climate Change (UNFCCC) describes **Climate finance** as the local, national or transnational type of **financing that is used to support and implement climate change mitigation and adaptation actions, with financial resources that come from public, private and alternative sources, and that are 'new and additional'** (have not been pledged previously).

Climate change is a phenomenon that affects the global community, it knows no boundaries and the severity of its impacts is not based on the level of contribution to the problem; on the contrary, those countries that have historically contributed with the highest levels of greenhouse gas emissions are often least affected. For this reason, [Article 9](#) of the Paris Agreement adopted the principle of “**common but differentiated responsibility**,” dictating that developed nations are to provide financial resources to assist developing countries to mitigate climate change impacts and lead in mobilizing financial and technical capacities. In order to advance this objective, the [Financial Mechanism](#) was created by the UNFCCC. This mechanism decides climate change policies, programme priorities and eligibility criteria for funding, and is also accountable to the Conference of the Parties.

This primer offers a brief synopsis of what climate financing is and presents some of the existing general financial instruments, in order to bring awareness to some key climate funds and highlight some useful resources/tools for accessing these funds. It also identifies other multilateral and bilateral climate financing funds and instruments that do not fall under the Financial Mechanism<sup>1</sup>.

## Sources and Instruments of Climate Financing

Climate finance can have many different sources, and as climate change impacts continue to create greater challenges and threats, a larger number of stakeholders are mobilizing to invest and contribute to the various funds.

Traditionally, **public sources** were the main capital source available for climate funding –including financial resources from multilateral organizations, government, aid agencies and multilateral development banks. However, the cost to mitigate and adapt to climate change overextends the amount of public funding available. Therefore, there is a global need to increase and leverage funding coming from **private sources** such as project developers, commercial financial institutions, philanthropies, NGOs, corporate actors, etc.

This pressing need, has led to the introduction of **blended financing**, where public and private sources contribute to one fund, reducing investment risks for the private sector.

Many countries have opted to create a **National Climate Fund** to help funnel all

## Key Terminology

**Additionality:** The premise that funds allocated for a climate fund have to be additional/cannot include those already promised for official development assistance

**Bankable project:** Project that will have a return on investment but would also fit the criteria of the fund

**Bilateral climate fund:** Funding that is provided and delivered between two entities

**Facility:** A formal financial assistance program

**Green Environmental Facility:** An operating entity of the financial mechanism of the UNFCCC

**Implementing Agencies:** Those entities that have been accredited to receive direct financial transfers

**Leveraged climate finance:** The use of public funds to trigger additional investment, especially private

**Multilateral climate fund:** Funding that is provided and delivered by multiple international institutions

**National Climate funds:** A mechanism that supports countries to manage their engagement with climate finance by facilitating the collection, blending, coordination and accounting of it

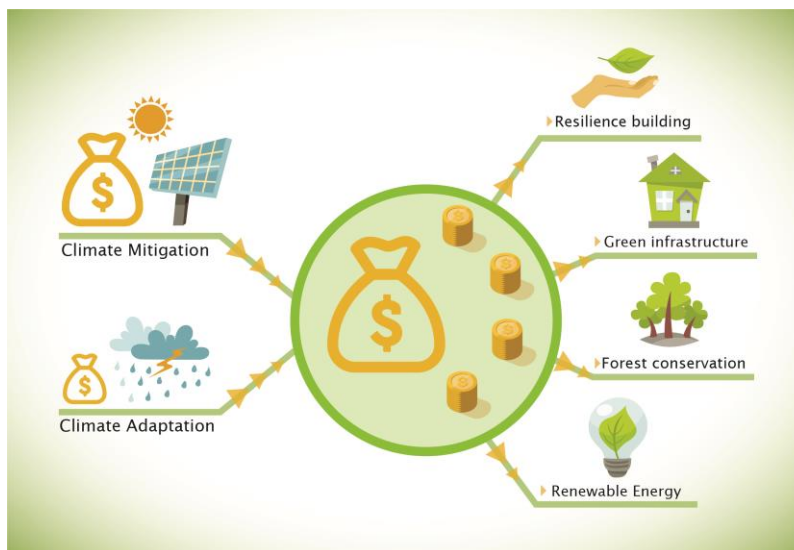
<sup>1</sup> ParlAmericas would like to recognize Environment and Climate Change Canada for its valuable contribution to the development of this document.

the climate revenue streams into one centralized fund that a governing body will administer, which then allocates the variety of activities within the country.

There are different **instruments of climate financing** (a financial contract between parties with the purpose of addressing climate change), many which encourage investment from the private sector and allow climate finance to be more accessible and flexible; the following are examples of some of those that are used for climate change activities<sup>2</sup>:

- **Climate/green bonds:** a type of loan used to finance projects that address climate change, in which the debt is to be paid back within a certain amount of time and interest.
- **Co-financing:** joint financing between two entities that work to fund a climate change activity.
- **Concessional loans:** loans given for the purpose of addressing climate change, which are characterized with longer repayment terms and lower interest rates.
- **Debt swaps:** the sale of a foreign exchange debt to an investor or forgiveness of debt by the creditor, in exchange the debt relief would have to be invested in climate change activities.
- **Equity:** the difference between the value of the assets and the value of the liabilities of something owned.
- **Grants:** a sum of money that is given for climate change activities but does not need to be repaid.
- **Guarantee:** a pledge to pay another's debt, in relation to the climate change activity, in case of default.
- **Insurance/risk management:** the creation of risk transfer mechanisms that provide resources for climate related disaster and shifts loss responsibilities to capital market investors.
- **Non-concessional loan:** loans that are provided at a market-based interest rate for climate change activities.
- **Payment for ecosystem services:** a formal financial transaction between two entities in which one pays for the ecosystem services that are provided by the other entity, it entails a commitment to support ecosystem conservation and expansion to continue supporting and obtaining the benefits/services a properly functioning ecosystem provide.
- **Results based climate finance:** funds disbursed by donor or investor after the pre-agreed results of the climate activity are achieved and verified.
- **Technical Assistance:** non-financial assistance, providing information and expertise, instruction, skills training, and consultation in relation to a climate change activity.

When analyzing climate finance flows – the flow of funds to all activities, programmes or projects that support climate change, it has been [observed by UNFCCC](#) that most investment is going to **climate mitigation finance** (funding used to reduce greenhouse gas emissions) due to greater investment returns, compared to **climate adaptation finance** (funding used to build adaptive capacity and resilience). There have been movements to balance the allocation of climate funds more equally between mitigation and adaptation activities. Furthermore, within these broader mitigation and adaptation categories, the funding could be used for various focal sectors, for example: forest conservation, renewable energy projects, green infrastructure, resilience building and more (*see figure below*).



<sup>2</sup> Climate change activities within the context of this primer can include any projects, workshops, programmes, capacitation etc. that work towards the facilitation or implementation of climate mitigation and adaptation actions.

## Available Climate Funds <sup>3</sup>

Source	Name of fund	Description	Focal Sectors	Financial instrument	Website URL	
Multilateral funding	UNFCCC Climate Finance Mechanism	<b>Green Climate Fund</b>	It's a global fund that was adopted by the UNFCCC to make funding available to developing and vulnerable countries in order to enable climate action.	Adaptation & mitigation	Grants & Concessional loans	<a href="http://www.greenclimate.fund/home">www.greenclimate.fund/home</a>
		<b>UN Adaptation Fund</b>	Finances adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol and are vulnerable to climate change.	Adaptation	Grants	<a href="http://www.adaptation-fund.org">www.adaptation-fund.org</a>
		<b>The Least Developed Country Fund</b>	Destined for least developed countries to adapt to climate change. It has financed the creation of National Adaptation Programs of Action (NAPAs).	Adaptation	Grants	<a href="http://www.thegef.org/topics/least-developed-countries-fund-ldcf">www.thegef.org/topics/least-developed-countries-fund-ldcf</a>
		<b>Special Climate Change Fund</b>	This fund supports adaptation projects, technology transfer and capacity building activities.	Adaptation	Grants	<a href="http://www.thegef.org/topics/special-climate-change-fund-sccf">www.thegef.org/topics/special-climate-change-fund-sccf</a>
		<b>Global Environment Facility</b>	Funds available to developing countries or those with economies in transition to meet the objectives of the international environmental conventions and agreements.	Adaptation & mitigation	Grants & co-financing	<a href="http://www.thegef.org">www.thegef.org</a>
	Clean Investment Funds	<b>Clean Technology Fund</b>	It promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies.	Mitigation	Grants, concessional loans, & guarantees	<a href="http://www.climateinvestmentfunds.org/topics/clean-technologies">www.climateinvestmentfunds.org/topics/clean-technologies</a>
		<b>Pilot Program for Climate Resilience</b>	Provides funding and technical assistance to enable developing countries to build upon existing national work to integrate climate resilience into national and sectoral development plans.	Adaptation	Grants & concessional loans	<a href="http://www.climateinvestmentfunds.org/topics/climate-resilience">www.climateinvestmentfunds.org/topics/climate-resilience</a>

<sup>3</sup> For a more extensive list please visit: the REGATTA webpage on their financing opportunities portal and tools <http://www.cambioclimatico-regatta.org/index.php/en/financing-opportunities> or the NDC Partnership climate finance explorer <https://ndcpartnership.org/climate-finance-explorer>

<b>Others</b>	<b>UN REDD Program</b>	A multi-donor trust fund with the aim of significantly reducing global emissions from deforestation and forest degradation in developing countries, it aims to support the capacity of governments to prepare and implement national REDD strategies.	Mitigations	Grants	<a href="http://www.un-redd.org">www.un-redd.org</a>
	<b>IFC-Canada Blended Climate Change Program</b>	Funds to mitigate risks deterring private investment in key areas such as resilient infrastructure, climate-smart agriculture, and renewable energy.	Adaptation & mitigation	Concessional loans, Guarantees, In-Kind Contributions	<a href="http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/blendedfinance/ifccanada">www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/climate+business/blendedfinance/ifccanada</a>
	<b>Climate and Clean Air Coalition (CCAC) Trust Fund</b>	Administered by UNEP aims to protect the climate and improve air quality through action to reduce short-lived climate pollutants	Mitigation	Grants & concessional loans	<a href="http://www.ccacoalition.org/en/content/about">www.ccacoalition.org/en/content/about</a>
	<b>Climate Technology Centre and Network (CTCN)</b>	The centre promotes the accelerated transfer of green technologies for low carbon and climate resilient development.	Adaptation & mitigation	Technical assistance	<a href="http://www.ctc-n.org">www.ctc-n.org</a>
	<b>Climate Risk Early Warning System (CREWS) initiative</b>	The initiative supports Least Developed Countries and Small Island Developing States in increasing their capacity to obtain gender-informed early warnings to protect, livelihoods, and assets.	Adaptation	Grants, technical assistance	<a href="http://www.crews-initiative.org/en">www.crews-initiative.org/en</a>
	<b>Capacity Building Initiative for Transparency (CBIT)</b>	This initiative aims to strengthen national institutions for transparency-related activities, and provide tools, training, and assistance for meeting Article 13.	Adaptation & mitigation	Grants, co-financing, technical assistance	<a href="http://www.thegef.org/topics/capacity-building-initiative-transparency-cbit">www.thegef.org/topics/capacity-building-initiative-transparency-cbit</a>
	<b>Transformative Carbon Asset Facility (TCAF)</b>	A facility that supports developing countries in planning, implementing, and scaling up their NDCs to accelerate a transition to low-carbon economies.	Mitigation	Results based financing & technical assistance	<a href="http://www.tcaf.worldbank.org">www.tcaf.worldbank.org</a>
<b>Bilateral funding</b>	<b>Global Climate Change Alliance</b>	An initiative by the European Union to help climate vulnerable countries to increase their resilience.	Adaptation & mitigation	Grants, Technical Assistance, official development aid	<a href="http://www.gcca.eu">www.gcca.eu</a>
	<b>Nordic Development Fund (NDF)</b>	The fund facilitates climate investments in low income countries.	Adaptation & mitigation	Grants	<a href="http://www.ndf.fi">www.ndf.fi</a>
	<b>Global Affairs Canada and Environment and Climate Change Canada</b>	Canada's bilateral programs are managed by Global Affairs Canada and Environment and Climate Change Canada. Canada previously committed \$2.65 billion in climate finance to developing countries by 2020-2021. A portion of these funds have been allocated to climate initiatives that support Latin America and the Caribbean.	Adaptation & mitigation	Depends on the specific program	<a href="https://climate-change.canada.ca/finance/">https://climate-change.canada.ca/finance/</a>

## Tools and Resources Available <sup>4</sup>

The following are tools and resources made available for applicants to these climate funds in order to **guide and inform the best ways to apply**, and how to structure projects to be considered ‘bankable’.

Name of Resource	Description	Link to resource
Simplified Approval Process (SAP) funding proposal preparation guidelines: A practical manual for the preparation of SAP proposals	A set of guidelines provided by the Green Climate Fund to inform how to complete a funding proposal.	<a href="https://bit.ly/2Ess37U">https://bit.ly/2Ess37U</a>
Green Climate Fund Proposal Toolkit 2017	A toolkit to inform how to create funding proposals for governments and project developers.	<a href="https://cdkn.org/resource/toolkit-develop-project-proposal-gcf/?loclang=en_gb">https://cdkn.org/resource/toolkit-develop-project-proposal-gcf/?loclang=en_gb</a>
How to Apply for Project Funding – The Adaptation Fund	A description of how to apply to the Adaptation Fund for project funding.	<a href="https://www.adaptation-fund.org/apply-funding/project-funding/">https://www.adaptation-fund.org/apply-funding/project-funding/</a>
Understanding ‘bankability’ and unlocking climate finance for climate compatible development	A working paper that explains the concept of ‘bankability’ and how to design quality project proposals.	<a href="https://cdkn.org/resource/understanding-bankability-unlocking-climate-finance-development/?loclang=en_gb">https://cdkn.org/resource/understanding-bankability-unlocking-climate-finance-development/?loclang=en_gb</a>
Gender and Climate Change: Gender and climate finance	An issue brief that discusses the importance of gender-responsive climate finance, its progress, and lessons learned.	<a href="http://www.undp.org/content/undp/en/home/librarypage/womens-empowerment/gender-and-climate-finance.html">http://www.undp.org/content/undp/en/home/librarypage/womens-empowerment/gender-and-climate-finance.html</a>
NDC partnership Knowledge Portal and Country pages	A website that helps countries to accelerate climate action by providing quick and easy access to data, tools, guidance, good practice, and funding opportunities.	<a href="https://ndcpartnership.org/knowledge-portal">https://ndcpartnership.org/knowledge-portal</a>
G7 Climate Risk Insurance	A database that aims to share the experience of international organizations in the field of risk transfer and insurance solutions to climate risk management.	<a href="https://indexinsuranceforum.org/climate-insurance">https://indexinsuranceforum.org/climate-insurance</a>

<sup>4</sup> Certain resources are currently only available in English. If more information is required please contact the ParlAmericas climate change program ([parlAmericascc@parlAmericas.org](mailto:parlAmericascc@parlAmericas.org)) so that we may connect legislators with contact points to obtain more language specific information.