UPDATED MAPPING OF CLIMATE FINANCE IN MEXICO, 2014

Support by:

LATIN AMERICAN REGIONAL CLIMATE INITIATIVE (LARCI)

CEMDA

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Mexican Center for Environmental Law (CEMDA)

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Funding for climate change is an increasingly important role in international climate change negotiations, as developing countries require resources from developed countries to implement national climate policies that seek to mitigate greenhouse gas emissions (GHG) and adapt to the adverse results of the phenomenon. This pursuit that all countries be part of a new global climate agreement and contribute with their commitments to keep the global temperature rise below 2°C.

In the 15th Conference of the Parties (COP 15) to the UN Framework Convention on Climate Change (UNFCCC), held in Copenhagen, Denmark, in 2009, developed countries pledged to contribute USD 30 billion between 2010 and 2012, the latter known as the period of Fast-Start Finance (FSF). In addition, the parties decided to mobilize USD 100 billion annually from public and private sources by 2020, starting in 2012 the process of long-term finance (LTF). These decisions were later ratified in Cancun and the Durban Platform.

Although the aim of the FSF was overtaken by USD five billion, it can be said that not all funding in 2010-2012 was new or additional, as the countries, both contributors and recipients have had the discretion to distinguish what resources were considered as climate finance. For example, 80% of the FSF was reported as official development assistance, not necessarily directed to address climate change, GHG mitigation or reducing vulnerability of recipient countries.

Therefore, for the period of long-term financing, an improved transparency and accountability on climate finance in both developed and developing countries will promote understanding of whether countries are meeting their commitments on financing for climate, if those resources are being used effectively, if climate finance really helps to mitigate GHG emissions, and if it helps the recipient countries to adapt to the adverse effects of the phenomenon.

However, the climate change finance architecture is constantly evolving and still needs to overcome several barriers to transparency and effective and efficient use of resources for climate change. Although a clear definition of the term “climate finance” has not been yet agreed internationally, overall climate finance refers to the financial resources mobilized to GHG mitigation and adaptation to the impacts of climate change, which makes the climate finance global architecture of to be complex. The resources for climate change are channeled through various funds and mechanisms, both through a bilateral and multilateral funding system within the UNFCCC and national funds for climate change in some host countries, so that monitoring and mapping financing flows is difficult; further complicated by the proliferation of financing mechanisms.

Although a variety of financing channels increases its options and, therefore, the chances of developing countries to access financial resources for climate change, it also complicates the process of resource mapping and defining a clear financial architecture, for a variety of channels and instruments, that come along with different methodologies and systems to quantify what each considers climate finance, represents a challenge in mapping and the evaluation of financing. Then, it becomes complicated to report with certainty about climate funding and ensure that the resources have an equitable and efficient use, with real impacts on climate change mitigation and/or adaptation. Consequently, different mapping and monitoring exercises of the resources are helpful to identify barriers and simplify access to information, acquiring experience in better ways to structure climate financing and have real impacts on climate change, environment and society.

Based on the study “La arquitectura financiera para el cambio climático en México: Retos y propuestas para una política financiera transparente y eficiente para la mitigación y adaptación al cambio climático en México”, prepared by the Mexican Center for Environmental Law (CEMDA), published in July 2013, this document has updated data from 2014 in a national and international level. Likewise, it identifies and takes some concerns and barriers that have hindered the way to track the origin, use and impact of resources and the operation of a national and international, transparent and efficient financial architecture.
1. International resources

a) Funding sources

At 2014, the global climate finance flows reached USD 331 billion (range of 328 -334 billion). This represents a decrease of 7.8% from 2013, and 9% less than in 2012. The main reason behind the overall decrease is the major drop in private investment, especially in the energy sector due to the fall of solar photovoltaic energy costs, meaning that more installed capacity was being achieved for less investment. There was also a minor deployment of some low carbon technologies, mainly wind power.

Figure 1. Climate Finance and the scope of financial landscape 2012-2014

The above table shows that the gap between the level of funding required to address the problem of climate change and the funding actually delivered is increasing. Most importantly, a key element to achieve the objective to limit the global temperature increase below 2 degrees Celsius is that climate

finance investment must not only grow, but reduces investment in fossil fuels considering that its burning is the main source of GHG emissions. However, the reality is different. In 2014, the International Energy Agency reported that investments in oil, gas and coal extraction, transportation, oil refining and fossil fuel power plants, doubled since 2000, reaching USD 950 billion in 2013. The agency also estimated that from 2011 to 2050 an additional USD 1.1 billion will be required for low-carbon investment in the energy sector each year, in order to keep global temperature rise below 2 degree Celsius.  

However, since November 2013, the multilateral and national funding approved for new projects to address climate has increased between 40% and 50%. A large share of this increase is attributed to the Climate Investment Funds (CIF), especially the Clean Technology Fund (CTF) and its investment in mitigation in emerging economies, and the Fund for the Least Developed Countries (LDCF), supporting adaptation in the poorest countries.  

Of the total of USD 331 billion in 2014, 91% went to support GHG mitigation, 7.5% was used for adaptation, and the remaining 1.5% had multiple purposes. As for the financing for mitigation, 71% went to renewable energy generation, 9% for energy efficiency in industry and buildings, 6% to sustainable transport, and the remainder to other activities such as fugitive emissions, agriculture, forestry, waste and livestock management. For adaptation support, 58% went to the water supply and management, 14% to climate-resilient infrastructure and coastal protection, 9% to agriculture, forestry, land use and management of natural resources, and 9% for disaster risk reduction.  

From the resources generated, two thirds were implemented in the place of origin, and only 10% of the funding flowed from developed countries to developing countries. According to the First Biennial Assessment and Overview of Climate Finance Flows, under the auspices of the Standing Committee on Finance of the UNFCCC, between USD 40 and 175 billion annually flowed from developed countries to developing countries between 2010

3. Idem.  
and 2012.\textsuperscript{7} In 2014, this funding had an average of USD 34 billion, i.e. 20\% less than 2013.\textsuperscript{8}

Among the major contributors of international climate finance are the UK, Norway, Germany, USA, Japan, Canada and France, whose resources are given to funds and climate financing mechanisms or through their own development and cooperation agencies.\textsuperscript{9} The international resources for climate change flow primarily through funding mechanisms of the UNFCCC and the CIF, incorporating the latest CTF, the Forest Investment Program (FIP), the Pilot Program for Climate Resilience Climate (PPCR), and the Scaling Up Renewable Energy Program (SREP). However, as a result of the latest international negotiations, it is expected that more resources flow through bilateral sources and the Green Climate Fund (GCF) within the UNFCCC.

Global climate financing during 2014 was USD 33,457.78 million, increasing only USD 3,256.7 million since 2012, i.e. an increase of 10.7\% in two years. In the following graph (see Figure 2) it can be identified that just over 40\% of international climate financing during 2014 went through mechanisms of the UNFCCC, particularly by the Green Climate Fund, which although still has not allocated resources to specific projects, it completed its first capitalization of resources in late 2014, during the COP 20 held in Lima, Peru. The initial mobilization of resources from the GCF, a total of USD 10.2 billion in contributions of the parties, allows the fund to start its activities to support mitigation and adaptation in developing countries, and it makes it the largest fund dedicated to climate change in the world.\textsuperscript{10}

\textsuperscript{7} UNFCCC Standing Committee on Finance, 2014 \textit{Biennial Assessment and Overview of Climate Finance Flows Report}, 2014, UNFCCC, Germany, p. 7.
\textsuperscript{8} Idem.
Origin of international climate finance in 2014

Prepared by CEMDA. 2014
By 2013, much of the international funding came from bilateral sources, with Japan’s Fast Start Finance contribution to about 50%. Therefore, the changes reflected in the mechanisms through which funding flowed in 2014 are due to the adjustment for the completion of the period of fast-start finance and the beginning of long-term financing, with greater involvement of GCF and contributions to climate financing through the Convention, both from developed countries and developing countries.
b) Resources destination

Of the total funds approved in 2014, about USD 12.4 billion, 40% has been approved for the 10 main recipients of climate finance,\textsuperscript{11} while 55.5% are for support activities in just 20 countries,\textsuperscript{12} leaving the remaining 44.5% to mitigation and adaptation to climate change in more than 115 countries. The situation is the same as in 2012 in terms of diversity of the receivers; however, currently only 2% of international resources for climate change destination is unknown, while in 2012 it was impossible to identify where 15% of climate finance went, which could mean progress on transparency and accountability.

Mexico has been one of the main recipients of international resources for climate change. According to data provided by Climate Funds Update in 2013, Mexico received USD 740.04 million labeled as financing for climate change, which represents an increase of about USD 115 million compared to USD 625 million allocated in 2012.\textsuperscript{13} In that sense, in 2013 Mexico ranked as the largest recipient of resources for mitigation and adaptation to climate change. However, in 2014 Mexico received USD 686.15 million, making it the second largest recipient, after Brazil.\textsuperscript{14} From this contribution, 85% went to mitigation-in general, 9.5% to mitigation-REDD, 4% to multifocal subjects, and only 1.5% for adaptation, similar to the 2013 situation, in which resources for mitigation reached 86%, against 1.7% for adaptation.\textsuperscript{15}

This means that Mexico has prioritized and allocated a significant amount of resources to projects for climate change mitigation, but it is the 68th country worldwide in allocating resources for adaptation. This is particularly worrying considering the country’s geographical, economic and social vulnerability against the current and potential adverse effects of climate change.

However, not all resources deployed in Mexico to mitigate GHG emissions and adapt to the adverse effects of climate change are strictly labeled as climate finance. In the environmental and institutional sector as well as in

\textsuperscript{11} Brazil, Mexico, Morocco, India, Indonesia, South Africa, Ukraine, Turkey, China and Philippines.
\textsuperscript{14} CFU, \textit{Global Climate Finance Data}, 2015.
\textsuperscript{15} Idem.
other specific sectors such as energy, forestry, agriculture, water, transport and biodiversity, among others, resources are addressed for projects that promote mitigation and adaptation to climate change, including institutional strengthening and capacity building to face the phenomenon. In this sense, the total approved and implemented international resources for climate change in Mexico to January 2015 is USD 4050.92 million, i.e. USD 1,429.82 million more than in 2012, an increase of 54.5% in two years. This may not be only the result of the increased funding for climate change in Mexico, but the identification of different existing projects during the period, the result of a comprehensive landscaping and a complete data of resources received by the country to address climate problem.

The following graph (see Figure 4) shows the total of these resources divided according to the various international sources. Of the total resources, 64.5% (USD 2,613.5 million) comes from multilateral sources such as the World Bank, the Inter-American Development Bank and the Climate Investment Funds; 30.2% (USD 1,220.4 million) was provided by bilateral sources, with the French Development Agency (AFD), the German Agency for Technical Cooperation (GIZ, for its acronym in German) and the US Agency for International Development (USAID) as major contributors. Finally, 5.3% (USD 215 million) flowed through funding mechanisms of the UNFCCC, like the Global Environment Facility (GEF).
Compared with 2012, there was an increase of resources from multilateral sources, from 45% to 65%, with a reduction of resources implemented through the UNFCCC. This is due to the identification of new projects implemented by the World Bank and the IDB, as well as increased funding from the Climate Investment Funds; also that within the UN mechanisms, currently only the GEF has climate change projects to be implemented in Mexico.

Of the total resources in 2014, USD 3,000.3 million, i.e. 74%, were for GHG mitigation; USD 484.5 million, 12%, were implemented for adaptation actions; 12.6% (USD 509.9 million) aimed at institutional strengthening and capacity building, and only 1.4% of the resources (USD 56.2 million) had all the components. Significantly, much of the mitigation and adaptation projects had a part of the resources allocated to the capacity-building for the party in charge.
As in 2012, most of the resources for climate change in Mexico are for mitigation. Currently, resources for mitigation are increasing, from 57% in 2012 to 74% in 2014, while resources for adaptation decreased from a percentage of about 46% in 2012 to a quarter today. However, more resources to capacity-building and institutional strengthening went from less than one percent to 12.6% in 2014, considering that many of the mitigation and/or adaptation projects contain resources for that component, which can result in the adaptation to the impacts of climate change in Mexico.
Most of these resources, 52.5%, are used for energy projects, where 31% is covered by energy efficiency projects, 20% for renewable energy and 1.5% for both components. The rest is distributed as follows: 12.3% for the forestry sector; 10.3% for the capacity-building and institutional strengthening; 8.9% for transport; 8.8% for water, especially for the water sector adaptation to the effects of climate change; biodiversity 4.6%, and 2.6% for rural development and agriculture.

Figure 6. Destination of the international financing resources for climate change in Mexico by sector, 2014
De manera similar al año 2012, los recursos se destinaron principalmente a los sectores energético y forestal, con un gran crecimiento de los recursos aprobados para la eficiencia energética y el desarrollo de las energías renovables. Ello resulta importante al considerar que el sector energético es responsable de 67.3% de las emisiones de GEI en México, con el mayor potencial de abatimiento en proyectos de energía renovables y eficiencia energética. Asimismo, en 2014 se identificaron más recursos implementados en el sector hídrico, principalmente en materia de adaptación al cambio climático; en la biodiversidad, con la conservación y protección de áreas naturales protegidas y/o primordiales en materia climática, y en el fortalecimiento institucional.

c) Challenges and barriers

This mapping exercise of international resources for climate change at a national and global scale allowed us to identify several barriers to the international architecture of the climate change financing flow. These include the following:

- There is a fragmentation among the international financing channels and the incorporation and implementation of resources into national budgets.

- There is a chain distortion in the accountability of international financing institutions. This lack of transparency requires a global or regional binding mechanism in order to ensure adequate access to information and compliance with Principle 10 of the Rio Declaration.

- Currently, the recipient country must adapt to the funder’s climate change agenda, and receives resources focused on the interests of the contributors without reflecting national priorities and local needs for mitigation and / or adaptation.

- Not all projects have an impact measurement in terms of GHG mitigation unless the funder requires it. They also lack the measurement of other impacts or additional co-benefits.

- This is also a result of the lack of a standard methodology with specific indicators to measure impacts.
- There is a lack of clear criteria for measurement, reporting and verification (MRV) of approved projects and implemented actions.

- There is a lack of coordination between the different funding mechanisms to avoid duplication of efforts.

- Approval criteria regarding mitigation, adaptation, and capacity building and institutional strengthening is still needed, as well as what is considered financing for climate change.
2. National Resources

a) Federal Expenditure Budget

In 2012, the climate finance in Mexico reached 32,052 million pesos. These resources were classified as an entry of the tax year budget of the Secretariat of Environment and Natural Resources (SEMARNAT) within the Federal Expenditure Budget (PEF, for its acronym in Spanish), where it was not possible to identify the origin and purpose of their use in concrete actions as well as the involvement of other programs in the Federal Public Administration (APF), states and municipalities that were related to climate change.

However, since January 2012 the Federal Budget and Tax Responsibility Law (LPRFH) establishes the obligation to include in the PEF a cross annex with expenditure forecasts regarding climate change. Therefore, in 2013 the Federal Expenditure Budget created a cross annex (Annex 15) for GHG mitigation and adaptation to climate change. It seeks to develop cross-cutting and comprehensive criteria of public policies implemented by the agencies of the Federal Public Administration to address climate change, ensuring that economic growth is inserted into the sustainable development of Mexico.

Since then, as can be seen in the following chart (see Figure 7), each year different APF agencies allocate resources to climate change through Annex 15, for 2013 and 2014, and Annex 16, for the 2015 PEF.
Figure 7. PEF finance for climate change mitigation and adaptation, 2013-2015

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>ANNEX 15 PEF 2013</th>
<th>ANNEX 15 PEF 2014</th>
<th>ANNEX 16 PEF 2015</th>
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</thead>
<tbody>
<tr>
<td>Interior</td>
<td>202,098,298</td>
<td>241,797,812</td>
<td>240,030,704</td>
</tr>
<tr>
<td>Treasury</td>
<td>46,200,000</td>
<td>48,096,746</td>
<td>54,150,000</td>
</tr>
<tr>
<td>Agriculture, Livestock, Rural Development, Fishing and Food</td>
<td>10,730,000,000</td>
<td>11,715,010,526</td>
<td>13,492,474,379</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>1,068,600,000</td>
<td>1,075,349,983</td>
<td>1,329,333,000</td>
</tr>
<tr>
<td>Economy</td>
<td>0</td>
<td>10,450,000</td>
<td>10,450,000</td>
</tr>
<tr>
<td>Public Health</td>
<td>634,173,187</td>
<td>651,109,592</td>
<td>643,783,746</td>
</tr>
<tr>
<td>Navy</td>
<td>200,819,326</td>
<td>201,903,004</td>
<td>178,708,250</td>
</tr>
<tr>
<td>Rural, Land and Urban development</td>
<td>0</td>
<td>51,090,000</td>
<td>52,836,193</td>
</tr>
<tr>
<td>Environment and Natural Resources</td>
<td>11,483,927,182</td>
<td>13,126,094,485</td>
<td>16,551,384,030</td>
</tr>
<tr>
<td>Energy</td>
<td>688,187,998</td>
<td>3,768,551,951</td>
<td>1,509,522,257</td>
</tr>
<tr>
<td>Social Development</td>
<td>49,769,060</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Tourism</td>
<td>655,000</td>
<td>655,000</td>
<td>655,000</td>
</tr>
<tr>
<td>Salary and Economic Previsions</td>
<td>5,830,807,975</td>
<td>6,580,659,907</td>
<td>6,355,059,553</td>
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<td>Science and Technology National Council</td>
<td>150,000</td>
<td>232,000,000</td>
<td>245,050,710</td>
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<tr>
<td>Pemex</td>
<td>3,533,988,992</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Federal Electricity Commission</td>
<td>45,417,244</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>34,514,794,262</td>
<td>37,702,769,006</td>
<td>40,663,437,822</td>
</tr>
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</table>


Overall resources for mitigation and adaptation to climate change in Mexico allocated through the Annex 15/16 of the PEF had a growth of 9.2% in 2013-2014, and a lower growth (7.8%) in 2014-2015. Most of the branches had an adjusted growth during the period 2014-2015, except for Public Health, with a decrease of -1.1%; the Navy had a cut down of 11.5%; Social and Economic Previsions, decreased in -3.4% due to the cut on the Natural Disaster Fund
(Fonden), and Energy, with a reduction of their resources down to -59.9%, identified in the climate change annex. The sectors with the highest growth rates in terms of the resources for the Annex were Transportation, with 23.6% growth, and Environment and Natural Resources, with an increase of 26%.

From this analysis we can identify that the way the resources are assigned, distributed and prioritized in different programs is unclear and inefficient since it is not possible to know the specific objectives of the programs to which resources are allocated, it does not allow to identify the sources from which the resources came from and whether they are implemented effectively and transparently, and it is impossible to detect whether its implementation has real impacts on mitigation and / or adaptation to climate change and, therefore, their allocation is justified in the cross Annex.

The proof of this is in the energy sector, for example. Despite being the largest source for GHG emissions in our country, this sector has a low and declining share in the allocation of resources for mitigation and adaptation to climate change within the PEF. The Annex does not have a desegregation of the resources, so it is not possible to verify whether they were actually used in the development of renewable energy or energy efficiency projects and justifying its importance in climate change. Likewise, some of the resources listed in four programs which are part of the Annex cannot be tracked, so it is difficult to know the source and end use of this public spending.

Nor does it have indicators to quantify the emission reduction of the programs, thus justifying the inclusion of such resources in the annex to climate change. And finally, the participation of the productive state enterprises such as Petroleos Mexicanos (PEMEX) and the Federal Electricity Commission, are less than one percent of the total projected expenditure reflected in the Annex 15/16, being vital actors in terms of mitigation and adaptation to climate change in the energy sector.

In this way the allocation of resources within the Annex does not necessarily respond to an effectively mitigation and adaptation to climate change. This happens because the indicators that regulate the resources by program do not have MRV or impact criteria. The assignment process and transparency of resources still requires a standardized methodology between different agencies to allow monitoring of national and international resources allocated
to climate change, and the encouragement of an interdisciplinary participation of different sectors and actors of climate policy at an international, national and local level.

Although the creation of the annex represents a major improvement in terms of budget transparency, by allowing us to gather the information of all federal climate change resources, there is still the need to strengthen it in terms of presentation and disaggregation of information and monitoring resources to its final destination, in order to facilitate impact measurement; it is also necessary to strengthen the methodology used by departments and agencies to establish what resources will be reported in the Annex, allowing to know the criteria and relevance of resources addressing climate change.

b) National funds

Climate Change Fund
The Climate Change Fund was created in the Article 80 of the General Law on Climate Change (LGCC) which aims to channel public, private, national and international finance to implement actions that contribute to address the climate change problem. Although it is already at an implementation phase, its operating rules haven’t been published and, according to the law, they should have been approved by the Technical Committee in December 2012. Additionally, despite being in its initial stage of implementation, the fund did not received resources for the 2015 tax year, reflecting the lack of priority for mitigation and adaptation in the federal budget.

Fund for Energy Transition and Sustainable Use of Energy (FOTEASE)
The FOTEASE is an instrument of public policy of the Ministry of Energy created by the Article 27 of the Law for the Use of Renewable Energies and Financing of the Energy Transition (LAERFTE), aiming to promote the use, development and investment in renewable energy and energy efficiency. Since its entry into force in 2009, resources have been exercised for a total of 7,343.83 million in 24 projects covering energy efficiency (85%) and renewable energy (15%).16

In 2013, the PEF provided 300 million pesos to the fund that, added to the remaining assets and financial products in previous years, reached a total of 689 million pesos for the fiscal exercise of that year. In 2014, FOTEASE resources increased from 300 million to 1,030.3 million, i.e. 243.4%. However, the PEF 2015 decreased the Fund resources by 58.2%, giving only 430.3 million pesos.

c) Challenges and barriers

Mexico still faces serious barriers to have a clear, effective, efficient and transparent climate finance architecture that concentrates international finance and allocate it to meet the priorities and needs according to its development and its vulnerability to climate change. Among them the following are mentioned:

- Need to improve communication within and among government agencies including capacity building for easy access and management of the international resources for climate change.

- Urgent need for institutional mapping exercises, the know-how and expertise for climate finance to enhance access to information and for removing barriers in the national finance architecture of climate change.

- Improve transparency and accountability of the source and use of resources.

- The need for a standardized methodology for access, distribution and delivery of resources.

- Involve all relevant decision-makers from all three levels of government in the planning phase.

- Using management and coordination mechanisms, such as the National System for Climate Change, to promote the development of a national coordination of access to information, transparency and accountability.

- Use of homologated criteria to integrate budgets and report information to the Ministry of Finance and Public Credit, allowing the tracking of resources from their allocation to their implementation.
- The LFPRH does not submit all budget programs to scrutiny or evaluation; therefore, some of them are not subject to operating rules. Additionally, there is a lack of a clear description of the objectives and the direct and indirect potential impacts of the programs of APF agencies reporting to the Annex of climate change.

- Lack of eligibility criteria and effectiveness of projects to identify the feasibility and possible consequences of mitigation and adaptation actions, prioritizing actions with higher environmental and social impacts that reduce vulnerability to climate change, respect human rights and be included in a framework of transparency, social participation and accountability.

- Coordination of different national funds with potential impacts on climate change to enhance the benefits of climate policy.

- Inclusion and diversification of funding sources and actors involved in its implementation and use.

- Need for the financing systems to promote technical assistance, local capacity-building, research and development and technology transfer.

- Effective involvement and participation of the private sector in the delivery of resources.

- Promoting an attractive and reliable investment environment, reducing the risk perceived by different actors in search of projects and actions that contribute to mitigation and adaptation.

- Require certification for financial intermediaries distinguished by sectors, skills and expertise.

- Submit institutions to external evaluations that allow them to measure the impact of policies and efficiency of financial vehicles, schemes, capacities and priorities on climate change.
3. Recommendations

The study of the financial architecture of climate change prepared by CEMDA in 2013 and this update, showed that most of the barriers identified in the first mapping remain in force and have not been overcome. Therefore, this update the description of several recommendations to facilitate the monitoring of flows of national and international climate finance, and to strengthen the financial architecture on participation, transparency and accountability.

a) Results at an institutional level

- Develop understanding, interest and awareness of the importance and impacts of climate change among public officials from all three levels of the government.

- Increase institutional skills to manage resources and enhance financial architecture of climate change.

- Skills improvement and capacity building of the different actors to promote, encourage and deploy financing schemes according to the needs of each sector at a national level.

- Create a channel of access to information and capacity building to enable investors to identify new windows of opportunity with a focus on climate change that encourages the creation of more attractive markets, where there is not a high risk.

- Promote the creation of a cross policy on climate change built by a series of planning instruments aligned to the needs of each sector.

- Encourage national policy to recognize the need for effective and differentiated policies addressed to each region of the country.

- Strengthen communication mechanisms between the different actors and achieve a necessary level of trust and synergies.

- Establish a coordination mechanism related to climate financing between the three levels of government.
- Effectively implement the legal framework on climate change at the national level as well as integrate climate change criteria into budgetary policy.

- Develop incentive schemes to develop and promote actions to mitigate GHG emissions and adapt to climate change.

- Increase institutional skills to carry out the proper management of funding.

b) Results on the generation, management and delivery of resources

- Establish criteria based on planning instruments for allocation of resources in accordance with national priorities and needs, as well as encourage more environmentally and socially profitable projects.

- Take into account specific needs, scope and priorities of each sector.

- Develop custom financing schemes.

- Create innovative financing mechanisms (sources and actors).

- Designate resources with “clear labels”, specifically for climate change, so that they are not confused with other types of funding.

- Coordinate the different actors and vehicles within the financial architecture of climate change.

- Ensure that, within their jurisdiction, the institutions have the power to identify the traceability of resources for climate change.

c) Results on Monitoring, Reporting and Verification (MRV) systems

- Develop and improve monitoring, reporting and verification systems for both, actions to be financed and financing schemes.

- Enhance the ability to monitor and evaluate the impact and co-benefits of climate change actions and projects.

- Develop methodologies and indicators to measure the impact of climate change policies at national level.
- Develop homologated measurement methodologies and impact indicators for both accessing the resources and those who give them.

- Avoid duplication of efforts by strengthening the coordination between different actors, information systems and updated and reliable registers.

- For the national and international funding sources and the allocation of the resources it is important to have updated, accessible and reliable information systems.

- To improve the current information system in Mexico, such as the National System of Climate Change and the report of the resources received by AMEXID, among others.

- Ensure the implementation of mechanisms for transparency and accountability established in several regulatory frameworks, including social participation.

d) Results on the transparency, participation and accountability mechanisms

For international funding, it is necessary that the resources generated and delivered by the different funding sources to address climate change meet the international guidelines and criteria such as ensuring financing co-benefits and respecting for human rights and gender equality. It is necessary that these processes comply with the requirements of transparency, accountability and social participation.

Mexico has a legal framework for transparency, accountability and social participation that, through the institutions, rules and procedures aim to strengthen legality and democratic sense of public responsibilities and on the other side sanction (positive or negatively) the actors that are responsible for their fulfillment. However, the legal instruments including the obligation of both the State and society are scattered and need to be harmonized and linked with other instruments to give certainty to the creation of a financial architecture for climate change.

Nevertheless, to have a financial architecture to address climate change effectively and with transparency a numerous of constraints must be tackled, such as:
- There is no clarity on reliable and current available information.

- There are no effective and standardized mechanisms for monitoring, reporting and evaluation of resources for climate change.

- Not all public programs that seek to influence climate change are subject to operating rules, which aim for a resource management with transparency and effectiveness.

- It is still necessary to ensure that climate change projects and actions respect the environmental and social safeguards.

- There are no efficient and suitable methodologies to determine the impact of the actions and for project monitoring and improvement.

- In order to meet the objectives to which the resources are intended, in compliance with Article 134 of the Constitution, the principles of efficiency, effectiveness and transparency are slightly followed on the public budget expenditure.

Consequently, a cross-framework is required to meet the traceability of resources for climate change in Mexico, with the aim of meeting the medium and long term commitments and move towards a competitive low carbon economy within a human rights framework.

Also, the resources from the private sector should encourage the use of homologated MRV information methodologies. Even by reducing the perception of risk and establishing standardized methodologies, information becomes more transparent, investment processes become easier and effective and it will be more likely an overall private sector finance investment.
Funding for climate change still faces significant challenges at national and international levels. Although international finance targeting mitigation and adaptation to the impacts of the phenomenon have increased, there are still challenges and barriers to whether the resources deployed actually contribute to the solution of climate change in the world.

The lack of mechanisms to identify the origin, course and end-use of resources has hampered the proper monitoring of the resources and its subsequent impacts on climate change. Internationally, countries have not agreed on a mechanism to ensure transparency and efficiency of resources, while at the national level, countries like Mexico have not yet established adequate and effective mechanisms for measurement, reporting and verification.

The lack of transparency and accountability on climate funds channeled from one country to another has become an obstacle to ensure meeting the international regimes objectives and compliance with global emissions reduction and climate finance targets.

At the same time, to postpone the necessary investments and the development of the unavoidable projects to address this phenomenon, the stated goal of mobilize USD 100 billion annually in project implementation will not be enough to act proactively to this phenomenon and, therefore, the effects and costs of this phenomenon will be higher.

Although Mexico is one of the main recipients of climate finance internationally, there are still difficulties to track and make transparent the use of resources received from the source of the funding to its final use. These difficulties have been exacerbated by the lack of programs for monitoring, reporting and verification that allow tracking the resources and measure mitigation, climate change vulnerability reduction and other impacts and additional benefits.

The lack of implementation of climate finance mobilization instruments, such as the Climate Change Fund, and the lack of inclusion of different APF ministries and agencies in shaping national policies have not allowed the coordination and proper functioning of the financial architecture in Mexico. Also, the lack of transparency and access to information tools has generated some distrust of the private sector to invest in mitigation and adaptation actions. This is also due to the lack of incentives from the Mexican State to ensure certainty and confidence to investors and project developers.
To ensure effective implementation of national and international climate policy, and the development of mitigation and/or adaptation projects, it is necessary that countries like Mexico begin to implement coherent and integrated planning mechanisms along with applicable instruments and measures that will ensure legal and economic certainty and effectiveness for investment and quantify the impacts that these resources can result in mitigating GHG emissions and adapting to climate change. The development of an appropriate financial architecture, would enable Mexico to achieve its targets for reducing emissions and reduce vulnerability to the phenomenon, without compromising competitiveness, economy, public health and environmental care, moving toward a low carbon economy and ensuring sustainable development.

According to the analysis of allocations at national level, it is still necessary that the provisions within the climate change cross-Annex in the PEF allow to measure the reduced emissions and progress in reducing vulnerability within each of the secretariats. This requires compulsory participation of all APF agencies, different sectors of society and the three levels of government; otherwise, efforts to achieve reduction targets and implementation of national climate policy will be ineffective with isolated efforts without long-term continuity.

Therefore, it is necessary that the Mexican government ensures the development of the following actions as a fundamental part of the financing for climate change in the country:

- Promote the inclusion of climate change as one of the national priorities in matters of public safety and welfare for present and future generations.

- Improve mechanisms of participation, access to information, transparency and accountability.

- Build capacity to promote, encourage and develop financing schemes fitted to the needs of each sector at a national level.

- Establish criteria for allocation of resources taking into account national priorities based on planning instruments.

- Develop and improve monitoring, reporting and verification systems for financing mechanisms and projects and/or actions that implement these resources.
• Develop methodologies and indicators that efficiently measure the impact of climate change policies at a national level, fostering the ability to measure the impact of actions or projects and co-benefits for both contributors and recipients.

• Reassess fiscal, economic and regulatory policies with a vision of climate change.
Information Sources

**Chamber of Deputies**


**Centro Mexicano de Derecho Ambiental**

**Climate Funds Update**


**Climate Policy Initiative**
*Global Landscape of Climate Finance*, 2014.

**UNFCCC**

**UNFCCC Standing Committee on Finance**

**Secretaría de Energía**

**Smita Nakhooda, et al.**