



Climate Finance Regional Briefing: Latin America

Sam Barnard, Charlene Watson, ODI, and
Liane Schalatek, HBS

Climate Finance Fundamentals **6**

NOVEMBER 2016

Latin America is a highly heterogeneous region, with differences in levels of economic development and social and indigenous history, both among and within countries. The impacts of climate change, in particular glacial melt and changes in river flows, extreme events and risks to food production systems affect development in both rural and urban areas in the region (World Bank, 2014). Climate finance in the Latin American region is highly concentrated, with a few of the largest countries in the region such as Brazil and Mexico receiving a large share of the funding. Mitigation activities receive more than eight times that of adaptation at USD 2.4 billion and USD 0.3 billion respectively. Since 2003, a total of USD 2.8 billion has been approved for 359 projects in the region.¹ Of this amount, USD 1.8 billion is in the form of grants, while slightly over USD 1 billion is provided through concessional loans, largely through projects funded under the World Bank's Climate Investment Funds, implemented in the region by the Inter-American Development Bank. Only nine projects have been approved in Latin America by multilateral climate funds so far in 2016. Notably, these include three projects under the new Green Climate Fund, which is providing USD 112 million in loans and grants to support solar energy in Chile, energy efficiency investments in El Salvador and forest protection measures in Ecuador.

Introduction

Climate change could cost Latin America about 1.5% to 5% of GDP per year (ECLAC, 2014). Agriculture is predicted to be the most affected economic sector, with a range of impacts including heightened erosion, moving growing zones and a proliferation of pests (FAO/ECLAC/ALADI, 2016). A further threat is the retreat of Andean glaciers, on which much of the region relies for its water supply and continued deforestation of tropical forests. Adaptation needs in the region will have to be made more central within national sustainable development strategies, given the region's persistent income inequality and poverty in even its most developed economies.

Latin America is also expected to experience one of the highest increases in energy consumption rates in the world due to projected economic growth. This underscores the importance of a 'low carbon' pathway in the future and in many respects Latin American countries have been leaders in committing to ambitious targets. Mexico, for instance, was the first developing country to release its national climate plan under the Paris Agreement, with a commitment

to reduce its greenhouse gas emissions by 22% by 2030 irrespective of international support. Forest conservation regimes in many countries (such as Brazil, Peru or Ecuador) are an important part of the region's climate ambition.

Where does climate finance come from?

The largest contributions of climate finance in the region are from the Clean Technology Fund (CTF), a World Bank-administered multilateral fund which has approved USD 905 million for 25 projects in Mexico, Chile, Colombia and Honduras. Almost all of this finance has been approved as concessional loans. The second biggest provider of climate finance in the region is the Amazon Fund, with more than USD 575 million already allocated to 85 projects within Brazil. Bilateral climate finance also flows to Latin America, including from Germany, the United Kingdom and Norway. Among these, Germany's International Climate Initiative (ICI) remains the largest bilateral source, the third most important in the region with USD 234 million across 57 projects, largely for mitigation activities (Table 1; Figure 1).

Figure 1: Funds supporting Latin American countries (2003-2016)

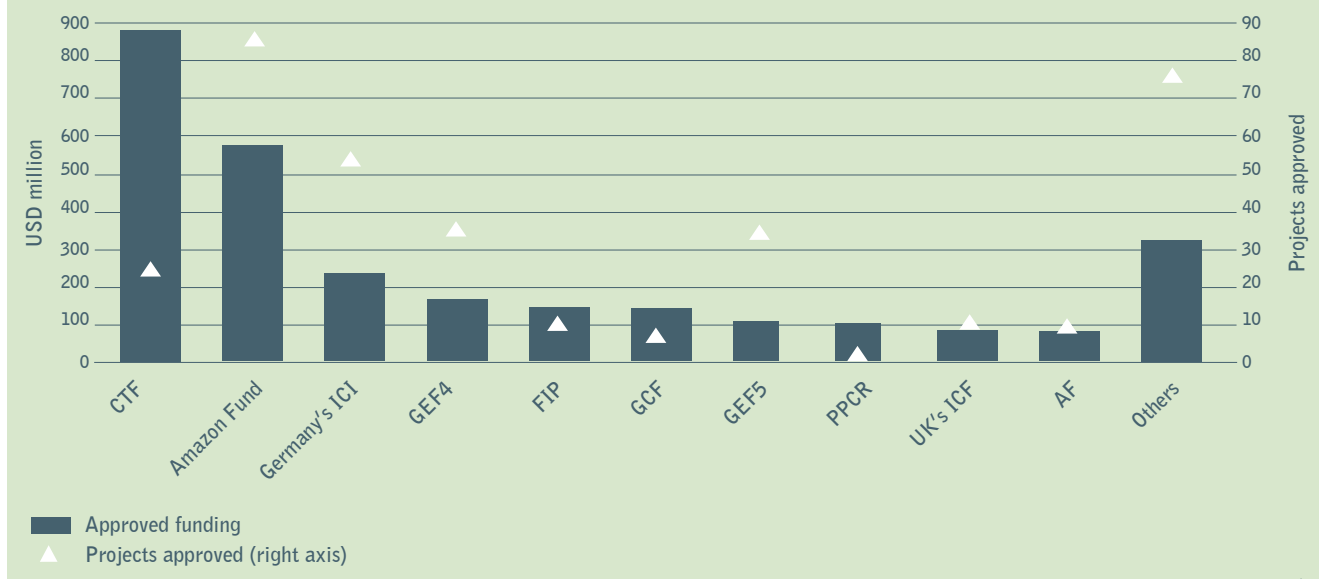
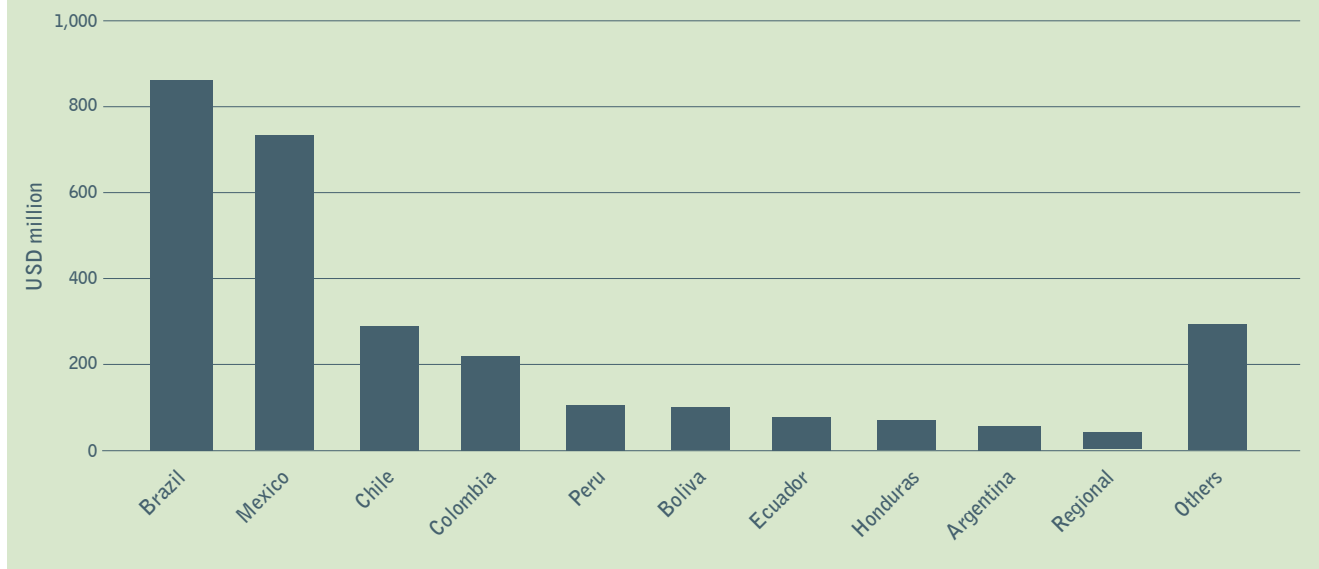


Table 1: Funds supporting Latin American countries (2003-2016)

Fund	Amount Approved (USD millions)	Projects approved
Clean Technology Fund (CTF)	885	25
Amazon Fund	577	85
Germany's International Climate Initiative	234	57
GEF Trust Fund (GEF 4)	165	35
Forest Investment Program (FIP)	142	10
Green Climate Fund (GCF)	141	8
Global Environment Facility (GEF5)	105	35
Pilot Programme for Climate and Resilience (PPCR)	105	3
UK's International Climate Fund	83	12
Adaptation Fund (AF)	79	11
Other Funds	323	78

Figure 2: Top ten recipient countries by amount approved (2003-2016)



Who receives the money?

The distribution of climate finance in the region continues to be uneven and highly concentrated in the largest economies like Brazil (USD 853 million) and Mexico (USD 721 million), with a combined 55% share of all climate finance approved (Figure 2). Chile, Colombia and Peru – all countries with high or upper-middle incomes – follow as top recipients.

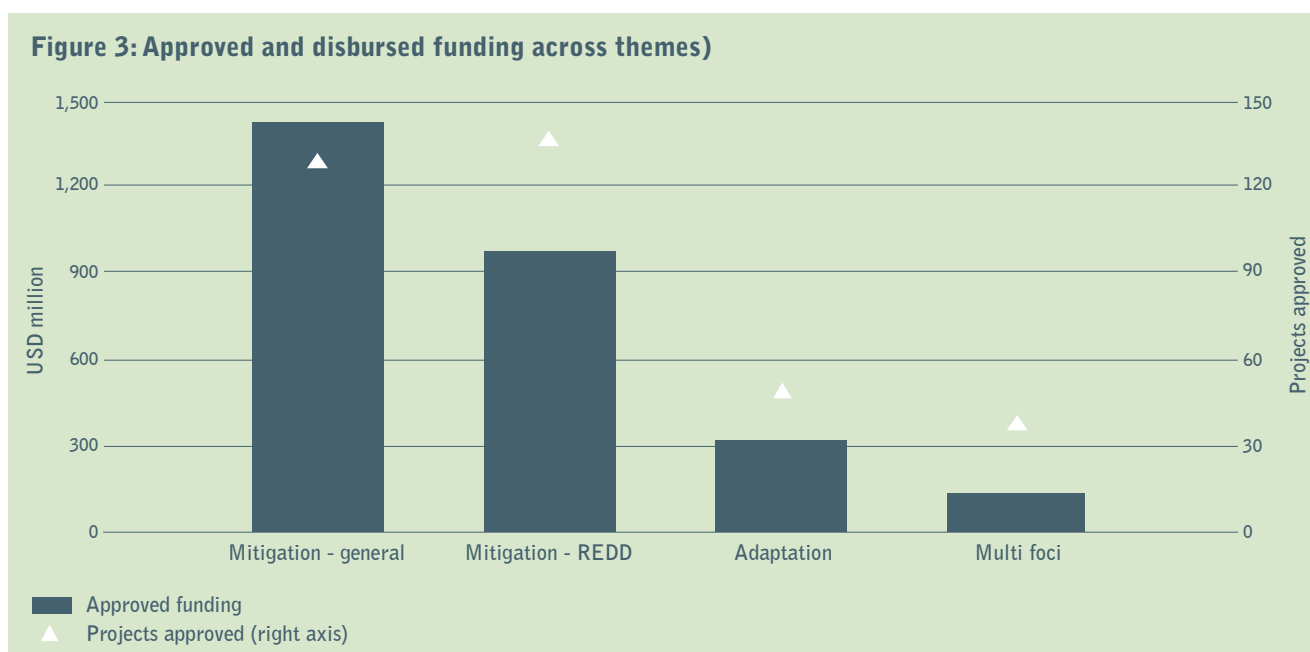
What is being funded?

Eighty four percent of funding to date has supported mitigation activities in the region (50% for energy and 34% for REDD+)(Figure 3; Table 2). Only 11% of funding supports adaptation projects and the remaining 5% supports projects with multiple foci. The GCF approved the three largest new projects in Latin America this year. The Climate Action and Solar Energy Development Programme in the Tarapacá Region of northern Chile is the biggest of the three. A USD 49 million GCF loan will complete the financing of the apparently 'shovel ready' 143 MW Atacama Solar Project, which is hoped to have a large demonstration effect for future investments in solar power in the area.

The next largest new project is a USD 41.2 million GCF grant to assist Ecuador in implementing its REDD+ Action Plan, including by realigning land-use zoning plans and public financial incentives to support forest protection targets. The third largest project approved in 2016 was a USD 21.7 million GCF loan for energy saving insurance for energy efficiency investments by small and medium-sized enterprises in El Salvador. Only one Latin American project has been approved so far in 2016 focused solely on adaptation, a USD 6.75 million Adaptation Fund grant for adaptation in the coastal fisheries sector in Peru. This project will fund activities to increase the resilience of coastal fishing communities as well the deployment of a modern surveillance, prediction and information system to better guide decision making at local and regional scales.

Table 2: Approved funding across themes (2003-2016)

Theme	Amount Approved (USD millions)	Projects approved
Mitigation - general	1436	127
Mitigation - REDD	972	137
Adaptation	311	50
Multiple foci	135	46



In addition to the series of 12 Climate Finance Fundamentals, these recent ODI and HBS publications may be of interest:

- **Adaptation finance and the infrastructure agenda.** Smita Nakhooda and Charlene Watson review international efforts to support adaptation and their linkages with efforts to mobilise new finance for infrastructure. Available at: <http://bit.ly/2dMu8P3>
- **The AIIB and investment in action on climate change.** Darius Nassiry and Smita Nakhooda explore how the AIIB can expand markets for solar, wind and grid technologies, and extend China's leadership in the region in a manner consistent with the commitments to take ambitious action on climate change made by its member countries and prospective member countries as signatories to the Paris Agreement. Available at: <http://bit.ly/2fk5EEx>
- **Financing sustainable development: The critical role of risk and resilience.** Charlene Watson and Jan Kellett make the case that better risk management and the building of resilience are imperative for sustainable development. Available at: <http://bit.ly/2efIUtX>
- **Mutually Reinforcing: Climate Justice, Equitable Climate Finance and the Right to Development.** Liane Schalatek explores the ramifications of the right to development as an inalienable human right for the global challenge of climate change more broadly and more specifically for the concept of climate justice and its application to climate finance provision. Available at: <http://bit.ly/2eWfuRw>
- **In Search of Policy Coherence: Aligning OECD Infrastructure Advice with Sustainable Development.** Motoko Aizawa and Waleria Schuele discuss the privileged relationship of the OECD with the G20 in acting as a powerful voice on policy related to infrastructure investment and development globally and call for the OECD to use its political clout to demonstrate full policy coherence for investment in sustainable development. Available at: <http://bit.ly/1YeHkeE>

Contact us for more information at info@climatefundsupdate.org

References

Climate Funds Update Website: www.climatefundsupdate.org (data accessed in October 2016)

ECLAC (2014). The Economics of Climate Change in Latin America and the Caribbean. Paradoxes and Challenges. Overview for 2014 Online, available at: http://repositorio.cepal.org/bitstream/handle/11362/37056/S1420806_en.pdf?sequence=4.

FAO/ECLAC/ALADI (2016). Food and nutrition security and the eradication of hunger: CELAC 2025. Available at: <http://www.fao.org/americas/noticias/ver/en/c/428177/>

World Bank (2014). Turn Down the Heat: Confronting the New Climate Normal. World Bank, Washington DC, USA.

End Notes

1. The Caribbean is excluded from this regional analysis. Caribbean countries are featured in a separate SIDs briefing (CFF 12).

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at www.climatefundsupdate.org

Overseas Development Institute

203 Blackfriars Road | London | SE1 8NJ | UK
Tel: +44 (0)20 7922 0300

Heinrich Böll Stiftung North America

1432 K Street | NW | Suite 500 Washington | DC 20005 | USA
Tel: +1 202 462 7512