



Climate Finance Regional Briefing: Latin America

Climate Finance Fundamentals **6**

FEBRUARY 2021

Charlene Watson, ODI, and Liane Schalatek, HBS

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 weather 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 Brazil, Mexico and Colombia receiving close to half of the region's funding. Mitigation activities, including forest protection and reforestation, receive more than six times that of adaptation from multilateral climate funds, at USD 3.1 billion and USD 0.5 billion respectively. Since 2003, a total of USD 4.2 billion has been approved for 505 projects in the region from multilateral climate funds tracked by Climate Funds Update (CFU).¹ In 2020, 36 new projects were approved totalling USD 556 million. The Green Climate Fund (GCF) funded 84% of these new projects.

Introduction

Climate change could cost Latin America between 1.5% to 5% of gross domestic product (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 development pathway. Latin American countries have been leaders in committing to ambitious climate targets. In 2019, Costa Rica announced its goal to become carbon-neutral by 2050 and released a decarbonisation plan which details the country's intention to reach net-zero emissions through efforts focused on electrifying the public transport system, energy efficiency, and improved farming practices. Chile was among the first countries in the world to announce an updated nationally determined contribution (NDC) in April 2020 (NRDC, 2020). Forest conservation regimes in many countries (such as Brazil, Peru and Ecuador) are an important part

of the region's climate ambition, with a large majority of countries in the region aiming to increase the ambition of their NDCs through a focus on nature-based solutions (NBS) for the protection, restoration and sustainable use of forests, grasslands and wetlands (UNFCCC, 2020).

Where does climate finance come from?

In 2020, the GCF became the biggest provider of climate finance in the region. It has approved USD 1,172 million across 25 projects for 12 countries in addition to 78 readiness projects (USD 56 million). It surpassed the Clean Technology Fund (CTF), a World Bank-administered multilateral fund, which now becomes the second largest contributor of climate finance in the region, having approved USD 724 million for 35 projects in Brazil, Chile, Colombia, Ecuador, Honduras, Mexico, Nicaragua and Peru. Almost all of this finance has been approved as concessional loans. The Amazon Fund, with USD 720 million in grant finance allocated to 103 projects within Brazil, comes in third (Table 1 and Figure 1). These three funds make up 63% of the total funding for the region.

Bilateral climate finance also flows to Latin America. Such climate finance complements the multilateral climate fund flows. This includes the bilateral climate funds of Germany and the United Kingdom, who are active in the region.² Bilateral funds, however, are not tracked by CFU given their relative lack of transparently available detailed information of current activities and spending.

Table 1: Funds supporting Latin American countries (2003–2020, USD millions)

Fund	Amount approved	Projects approved
Green Climate Fund (GCF-IRM, GCF-1)	1,172.5	25
Clean Technology Fund (CTF)	724.4	35
Amazon Fund (AF)	719.4	103
Global Environment Facility (GEF-4, 5, 6, 7)	550.9	120
Forest Investment Program (FIP)	233.5	20
Adaptation Fund (AF)	164.9	39
Pilot Program for Climate Resilience (PPCR)	112.4	5
Forest Carbon Partnership Facility (FCPF)	89.6	13
Scaling Up Renewable Energy Program in Low Income Countries (SREP)	52.3	12
BioCarbon Fund	51.0	2
Special Climate Change Fund (SCCF)	49.9	12
UN-REDD Programme	46.6	12
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	30.8	2
Adaptation for Smallholder Agriculture Programme (ASAP)	30.4	5
Partnerships for Market Readiness (PMR)	25.9	15
Millennium Development Goal Achievement Fund (MDG-F) ³	24.4	7
Global Climate Change Alliance (GCCA)	24.1	2

Who receives the money?

The distribution of multilateral climate fund flows in the region continues to be highly concentrated in the largest economies of Brazil (USD 1.159 billion) and Mexico (USD 540 million), with a combined 41% share of all climate finance approved in the region (Figure 2). Colombia, Chile and Argentina – all countries with high or upper-middle incomes – are other top recipients.

What is being funded?

To date, 75% of funding has supported mitigation activities in the region with 38% for mitigation general and 37% for mitigation from forestry and land use (Figure 3). Only 12% of funding supports adaptation projects and the remaining 13% supports projects with multiple foci. The continued low financial support for adaptation measures is despite significant adaptation and resilience building needs in the region.

Of the 36 new projects in Latin America in 2020, significant support was forthcoming from the GCF. The GCF approved seven projects (USD 458 million), three of which fell under the REDD+ results-based payments pilot programme. In addition, the GCF approved USD 10 million across 11 readiness programmes. In 2020, the Climate Investment Funds (CIF) saw the addition of four CTF dedicated private sector projects (one regional, with one each in Ecuador, Honduras and Peru), greatly expanding the CTF engagement in the region, and two small projects under the Scaling Up Renewable Energy Program in Low Income Countries (SREP) amounting to USD 2 million. The GCF and CIFs are more focused on larger, transformative projects and programmes and broader policy framework reform in the region, while other active funds target support to smaller project interventions. For example, in 2020, GEF-7 continued its support to countries' National Communications and

Figure 1: Funds supporting Latin American countries (2003–2020)

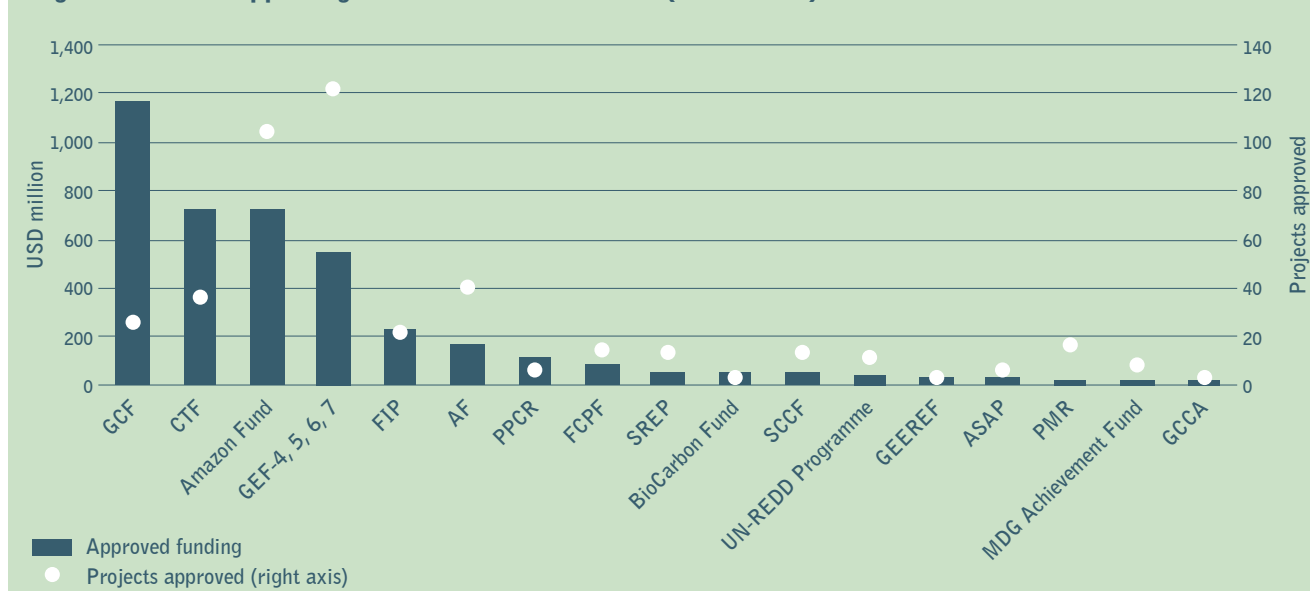
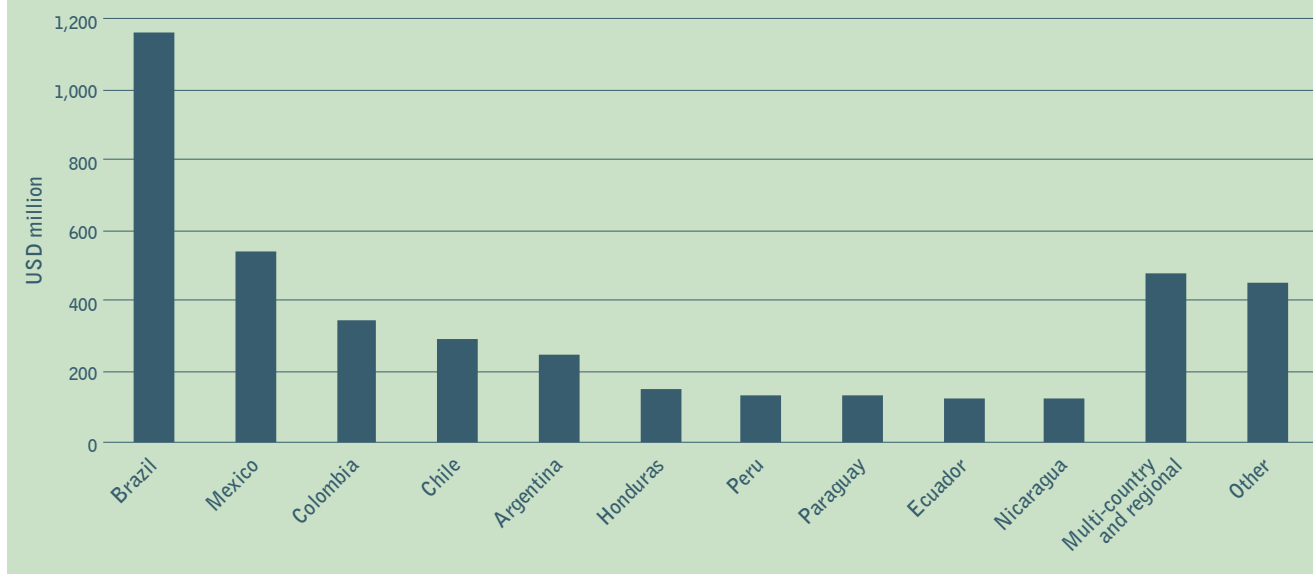


Figure 2: Top ten recipient countries by amount approved (2003–2020)



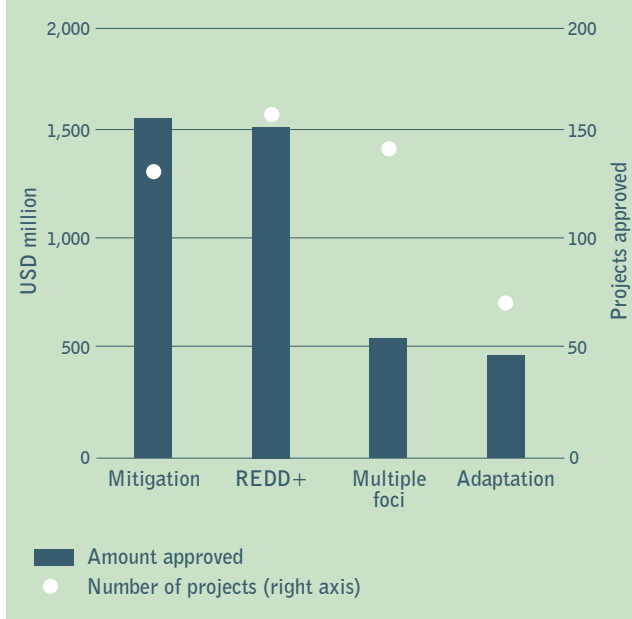
Biennial Update Reports, approving USD 17 million across 10 new projects in 2020. The Adaptation Fund (AF) approved just USD 0.08 million, and the Special Climate Change Fund (SCCF) USD 1.1 million in 2020.

The five largest projects approved in the region in 2020 were through the GCF. The largest was a regional green climate finance facility for local financial institutions (USD 100 million), while the remaining four were all in the forestry and agriculture sectors supporting climate actions in Brazil (USD 99.5 million), Argentina (USD 82 million), Nicaragua (USD 64 million) and Costa Rica (USD 54 million).

Table 2: Approved funding across themes (2003–2020)

Theme	Amount approved (USD millions)	Projects approved
Mitigation	1,580	132
REDD+ (reducing emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks)	1,541	159
Multiple foci	557	143
Adaptation	480	71

Figure 3: Approved funding across themes (2003–2020)



References and further reading

Climate Funds Update: www.climatefundsupdate.org

ECLAC (2014) The economics of climate change in Latin America and the Caribbean: paradoxes and challenges, overview for 2014. Santiago, Chile: Economic Commission for Latin America and the Caribbean, United Nations. 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. Santiago, Chile: United Nations. <http://www.fao.org/americanas/noticias/ver/en/c/428177/>

NRDC (2020) Latin America's 2020 climate leaders and laggards. Washington, DC: Natural Resources Defense Council. <https://www.nrdc.org/experts/amanda-maxwell/latin-americas-2020-climate-leaders-and-laggards>

UNFCCC (2020) Survey on NDCs Latin America 2020. Bonn: United Framework Convention on Climate Change. https://unfccc.int/sites/default/files/resource/RCCPanamaSurveyOnNDC_13Octubre2020.pdf

World Bank (2014) Turn down the heat: confronting the new climate normal. Washington, DC: World Bank. <https://www.worldbank.org/en/topic/climatechange/publication/turn-down-the-heat>

Endnotes

1. The Caribbean is excluded from this regional analysis. Caribbean countries are featured in a separate briefing on Small Island Developing States (SIDS) (see CFF 12).
2. In 2014, the last year when CFU was able to track bilateral climate funds, cumulative bilateral flows to Latin America since 2008 included USD 234 million from Germany's Internationale Klimaschutzinitiative (IKI, international climate initiative) and USD 82 million from the UK's International Climate Finance (ICF).
3. The Millennium Development Goal Achievement Fund (MDG-F) was operational from 2007-2013. As of May 2019, all of its projects had been financially closed.

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

© ODI and HBS 2021.
CC BY-NC 4.0.

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

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