Climate Funds Update

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CLIMATE FINANCE REGIONAL BRIEFING: LATIN AMERICA

CLIMATE FINANCE FUNDAMENTALS 6

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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, Colombia and Costa Rica receiving close to half of the region's funding. Mitigation activities, including forest protection and reforestation, receive more than five times that of adaptation from multilateral climate funds, at USD 3.5 billion and USD 0.7 billion respectively. Since 2003, a total of USD 5.4 billion has been approved for 577 projects in the region from multilateral climate funds tracked by Climate Funds Update (CFU).[1] In 2022, 38 new projects were approved totalling USD 551 million. The Green Climate Fund (GCF) funded 77% 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). Already, climate-related extreme whether events and resulting power and transport disruptions cost more than 1% of GDP on average across the region, and up to 2% annually in several Central American countries (World Bank, 2022). 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 accelerating retreat of Andean glaciers, on which much of the region relies for its water supply, widespread droughts and continued deforestation of tropical forests (WMO, 2022). 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, with a third of its population in poverty at the end of 2022 (OECD et al., 2022). Climate shocks could add up to 5.8 million to the number of people in the region in extreme poverty by 2030, at 15% in 2022 (Word Bank, 2022).

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. Energy, agriculture and land-use (e.g. deforestation) are the three largest sources of greenhouse gas (GHG) emissions in the region. Some 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 the protection, restoration and sustainable use of forests, grasslands and wetlands (UNFCCC, 2020), as well as on agriculture and land-use management and coastal ecosystems (Miranda, 2021).

Where does climate finance come from?

Since 2020, the GCF is the biggest provider of climate finance in the region. It has approved USD 2,330 million across 34 projects for 13 countries in addition to 85 readiness projects (USD 52 million). It surpassed the Clean Technology Fund (CTF), a World Bank-administered multilateral fund, which is the second largest contributor of climate finance in the region, having approved USD 772 million for 43 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 680 million in grant finance allocated to 102 projects within Brazil, comes in third (Table 1 and Figure 1). These three funds make up 70% 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.

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 1,158 million) and Mexico (USD 562 million), with a combined 32% share of all climate finance approved in the region (Figure 2). Colombia, Costa Rica, and Chile – all countries with high or upper-middle incomes – are other top recipients.

What is being funded?

To date, 65% of funding has supported mitigation activities in the region with 37% for mitigation general and 28% for mitigation from forestry and land use (Table 2 and Figure 3). Only 13% of funding supports adaptation projects and the remaining 22% supports projects with

Table 1: Funds supporting Latin American countries (2003–2022, USD millions)

Fund	Approved	Projects approved
Green Climate Fund (GCF-IRM, GCF-1)	2,330.2	34
Clean Technology Fund (CTF)	771.8	43
Amazon Fund	679.7	102
Global Environment Facility (GEF-4, 5, 6, 7)	586.9	135
Forest Investment Program (FIP)	281.2	25
Adaptation Fund (AF)	200.6	46
Pilot Program for Climate Resilience (PPCR)	126.6	21
Forest Carbon Partnership Facility (FCPF)	89.1	13
Scaling Up Renewable Energy Program in Low Income Countries (SREP)	61.5	17
Special Climate Change Fund (SCCF)	50.9	13
UN-REDD Programme	46.6	10
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	30.8	2
BioCarbon Fund	30.0	2
Adaptation for Smallholder Agriculture Programme (ASAP)	27.0	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

Figure 1: Funds supporting Latin American countries (2003-2022)

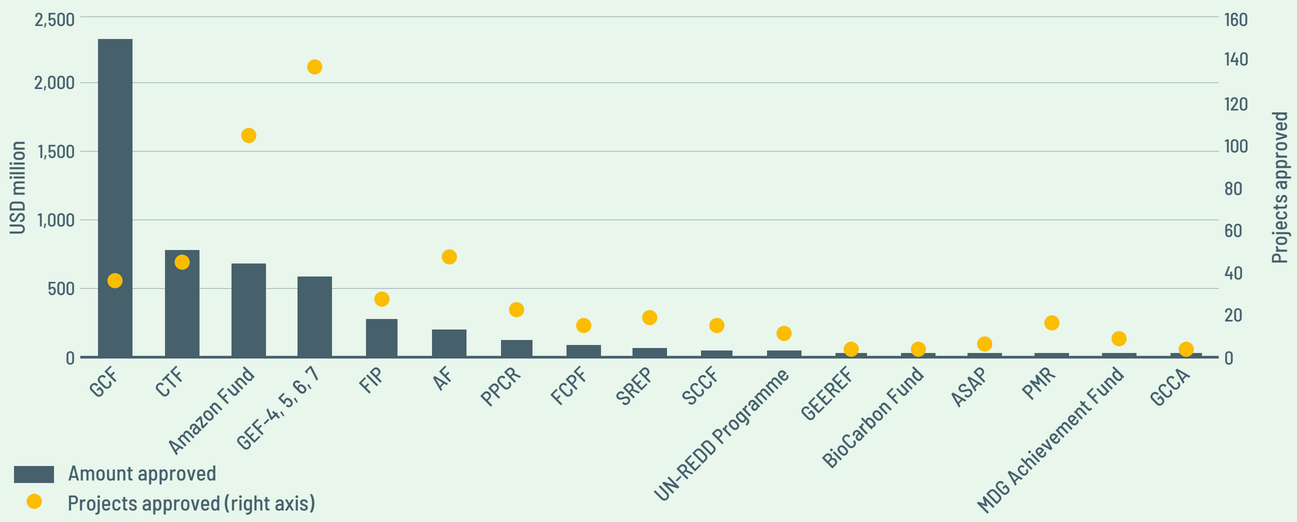
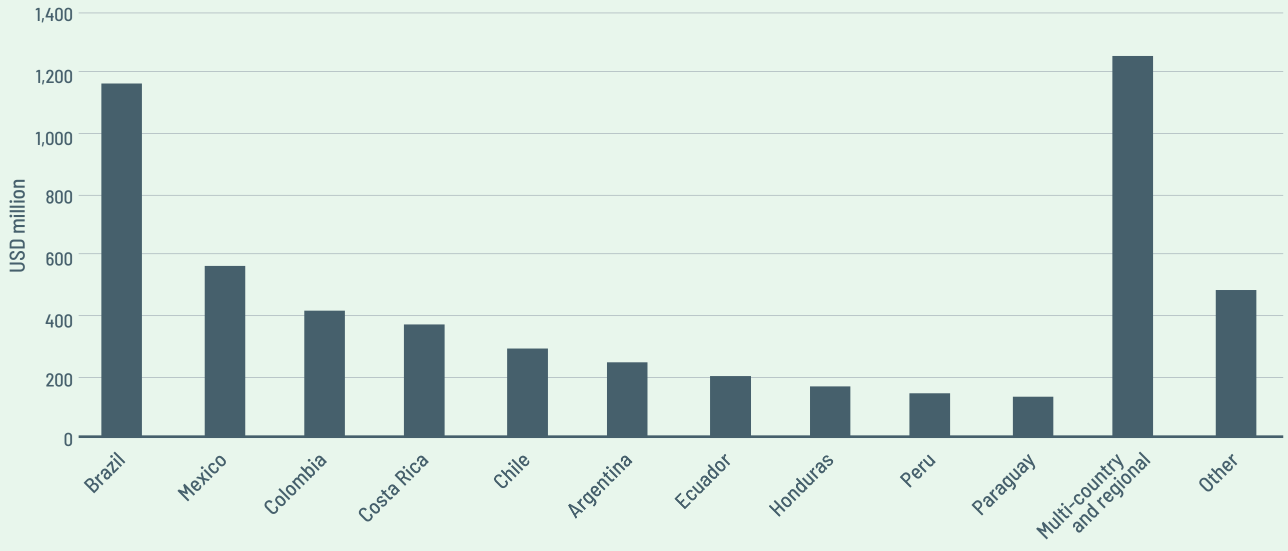


Figure 2: Top ten recipient countries by amount approved (2003-2022)



multiple foci. The continued low financial support for adaptation measures is despite significant adaptation and resilience building needs in the region.

Of the 38 new projects in Latin America in 2022, significant support was forthcoming from the GCF. The GCF approved USD 424 million for five projects (in Colombia, Ecuador, Peru and two with regional coverage). The Climate Investment Funds (CIF) saw the addition of three CTF dedicated private sector projects worth USD 30 million (in Brazil, Colombia and Mexico), continuing the CTF's expanding engagement in the region. Additionally, three new projects were approved through the Forest Investment Program (FIP) totalling USD 35 million and four small projects under the Scaling Up Renewable Energy Program in Low Income Countries (SREP) amounting to USD 1.7 million. The Pilot Program for Climate Resilience (PPCR) supported nine new projects (USD 4.8 million) in 2022. GEF-7 approved two new projects in Colombia (USD 7.9 million) and Ecuador (USD 1.3 million) and continued its support to countries' National Communications and Biennial Update Reports, approving USD 9.5 million for seven projects. The Adaptation Fund (AF) approved USD 35 million for two projects in Costa Rica and two with regional coverage. The Special Climate Change Fund (SCCF) approved just USD 0.9 million in 2022.

The three largest projects approved in the region in 2022 were through the GCF. Two were regional programmatic financing approaches supporting e-mobility programs for sustainable cities and low carbon transportation (total of USD 277 million), while the remaining one was supporting the development of sustainable agricultural production systems in Colombia (USD 73 million).

Figure 3: Approved funding across themes (2003-2022)

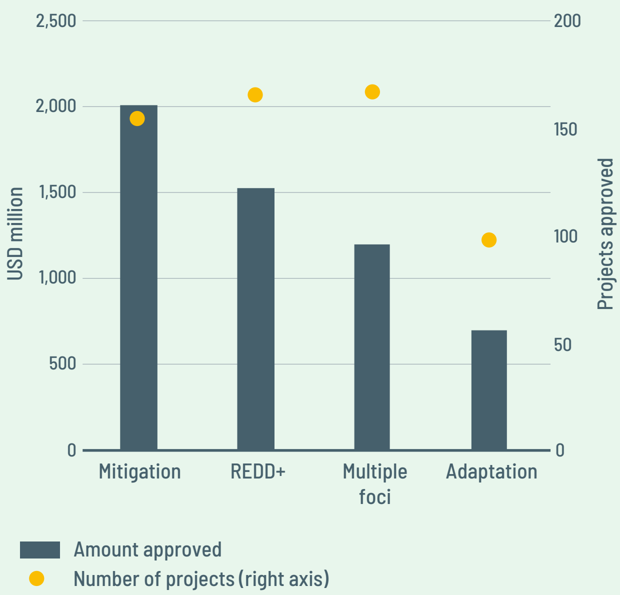


Table 2: Approved funding across themes (2003-2022)

Theme	Amount approved (USD millions)	Projects approved
Mitigation	2,007.1	153
REDD+ (reducing emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks)	1,528.4	163
Multiple foci	1,202.0	165
Adaptation	701.8	96

References and further reading

Climate Funds Update: www.climatefundsupdate.org

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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 up to 2021 also available in French and Spanish at **www.climatefundsupdate.org**

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