Climate Funds Update

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Climate Finance Regional Briefing: Latin America

Climate Finance Fundamentals 6

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Charlene Watson, ODI, **Liane Schalatek**, HBS, and **Aurélien Evéquoz**

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, Costa Rica and Colombia 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 3.4 billion and USD 0.67 billion respectively. Since 2003, a total of USD 5 billion has been approved for 550 projects in the region from multilateral climate funds tracked by Climate Funds Update (CFU).[1] In 2021, 30 new projects were approved totalling USD 811 million. The Green Climate Fund (GCF) funded 91% 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 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, 2021). 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 the protection, restoration and sustainable use of forests, grasslands and wetlands (UNFCCC, 2020).

Where does climate finance come from?

Since 2020, the GCF is the biggest provider of climate finance in the region. It has approved USD 1,906 million across 29 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 763 million for 42 projects in Brazil, Chile, Colombia, Ecuador, Honduras, Mexico, Nicaragua, Paraguay and Peru. Almost all of this finance has been approved as concessional loans. The Amazon Fund, with USD 705 million in grant finance allocated to 102 projects within Brazil, comes in third (Table 1 and Figure 1). These three funds make up 68% 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 (2003–2021, USD millions)

Fund	Amount approved	Projects approved
Green Climate Fund (GCF-IRM, GCF-1)	1,906.1	29
Clean Technology Fund (CTF)	762.8	42
Amazon Fund	705.3	102
Global Environment Facility (GEF-4, 5, 6, 7)	569.7	127
Forest Investment Program (FIP)	245.8	22
Adaptation Fund (AF)	165.2	42
Pilot Program for Climate Resilience (PPCR)	126.0	19
Forest Carbon Partnership Facility (FCPF)	89.1	13
Scaling Up Renewable Energy Program in Low Income Countries (SREP)	60.4	14
Special Climate Change Fund (SCCF)	49.9	12
BioCarbon Fund	49.3	2
UN-REDD Programme	46.6	10
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 1,179 million) and Mexico (USD 555 million), with a combined 35% share of all climate finance approved in the region (Figure 2). Costa Rica, Colombia and Chile – all countries with high or upper-middle incomes – are other top recipients.

What is being funded?

To date, 69% of funding has supported mitigation activities in the region with 38% for mitigation general and 31% for mitigation from forestry and land use (Table 2 and Figure 3). Only 14% of funding supports adaptation projects and the remaining 17% 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 30 new projects in Latin America in 2021, significant support was forthcoming from the GCF. The GCF approved USD 734 million for four projects (in Costa Rica, in Mexico and two with regional coverage) and an additional USD 1.5 million across two readiness programmes. The Climate Investment Funds (CIF) saw the addition of seven CTF dedicated private sector projects worth USD 39 million (four regional, two in Honduras and one in Mexico), continuing the CTF's expanding engagement in the region. Additionally, two new projects were approved through the Forest Investment Program (FIP) totalling USD 14.2 million and one small project under the Scaling Up Renewable Energy Program in Low Income Countries (SREP) amounting to USD 0.5 million. Contrary to 2020 when no projects were approved, the Pilot Program for Climate Resilience (PPCR) supported seven new projects (USD 9.4 million) in 2021. GEF-7 approved one new project in Mexico (USD 4.6 million)

Figure 1: Funds supporting Latin American countries (2003-2021)

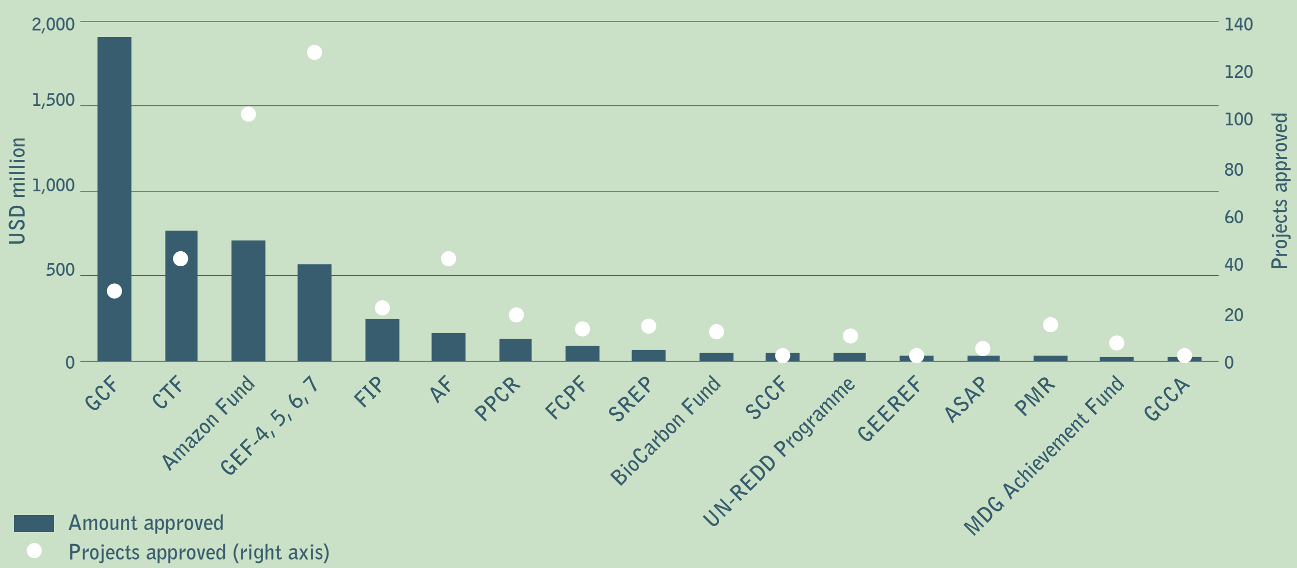
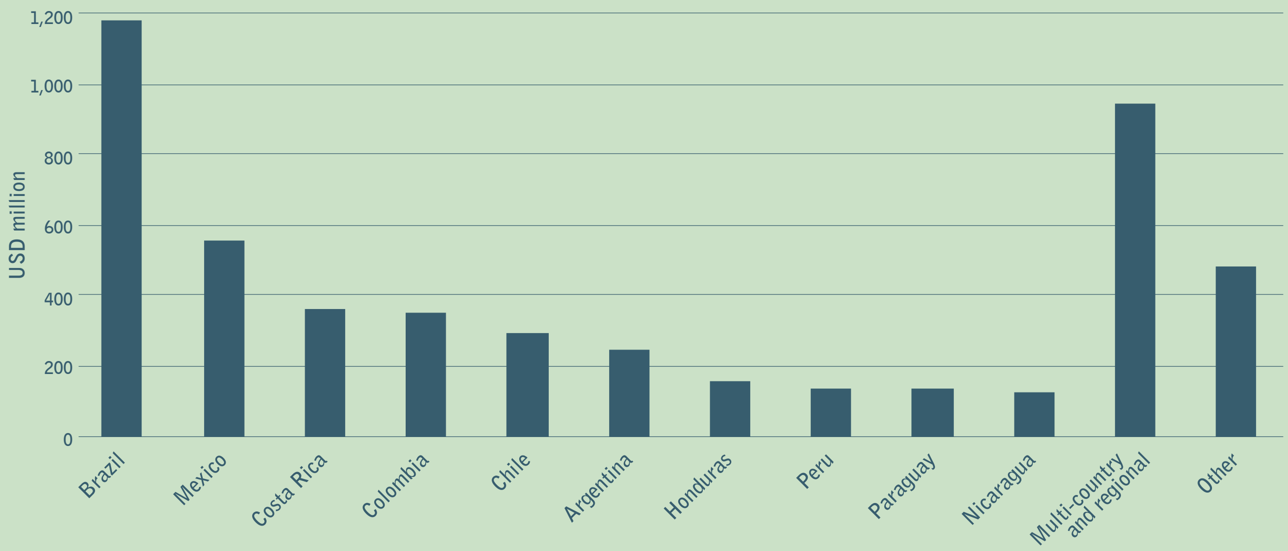


Figure 2: Top ten recipient countries by amount approved (2003-2021)



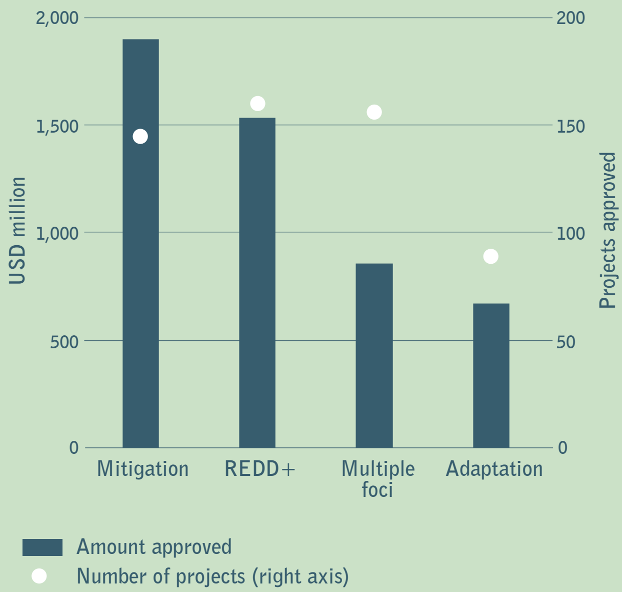
and continued its support to countries' National Communications and Biennial Update Reports, approving USD 7.5 million for one project in Brazil. The Adaptation Fund (AF) approved just USD 0.3 million, and the Special Climate Change Fund (SCCF) USD 0.5 million in 2021.

The three largest projects approved in the region in 2021 were through the GCF. Two were regional programmatic financing approaches, namely the Amazon Bioeconomy Fund supporting solutions to reduce the impacts of climate change in the Amazon biome through the valuation of bioeconomy services and products (USD 279 million) and one a programme supporting eco-system based adaptation in six countries in the Dry Corridor region of Central America (USD 174 million), while the remaining one was in the transport sector supporting the installation of an electric rail transit system in Costa Rica (USD 271 million).

Table 2: Approved funding across themes (2003-2021)

Theme	Amount approved (USD millions)	Projects approved
Mitigation	1,902.2	145
REDD+ (reducing emissions from deforestation and forest degradation, forest conservation, sustainable forest management and the enhancement of forest carbon stocks)	1,537.8	160
Multiple foci	855.5	156
Adaptation	668.3	89

Figure 3: Approved funding across themes (2003-2021)



References and further reading

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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 available in English, French and Spanish at **www.climatefundsupdate.org**

ODI
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