Climate Funds Update

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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 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 2.1 billion and USD 0.26 billion respectively. Since 2003, a total of USD 2.5 billion has been approved for 330 projects in the region.[1] Of this amount, USD 1.5 billion is in the form of grants, while USD 0.9 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. Two of the first eight projects approved by the Green Climate Fund in 2015 are to be implemented in the region, one for building resilience of wetlands in the Peruvian Amazon (with USD 6.24 million in GCF funding), and an Energy Efficiency Green Bond financing mechanism for Latin America and the Caribbean (with an initial GCF support of USD 22 million and projected further GCF support of an additional USD 195 million).

Introduction

Climate change could cost Latin America about 1.5% to 5% of GDP per year (ECLAC, 2014). Among the most urgent problems in the region are the retreat of Andean glaciers, which could lead to water stress for around 77 million people by 2020, 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, with countries in the region demonstrating leadership through ambitious targets for the use of renewable energy (such as 35% by 2024 in Mexico), legislation to prevent or mitigate the effects of atmospheric change (such as in Bolivia, Ecuador and Costa Rica), and through forest conservation regimes (such as in Brazil) (Familiar, 2014).

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 a total of USD 820 million for 20 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 553 million already allocated to 70 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) is the largest 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 region[2] (2003-2015)

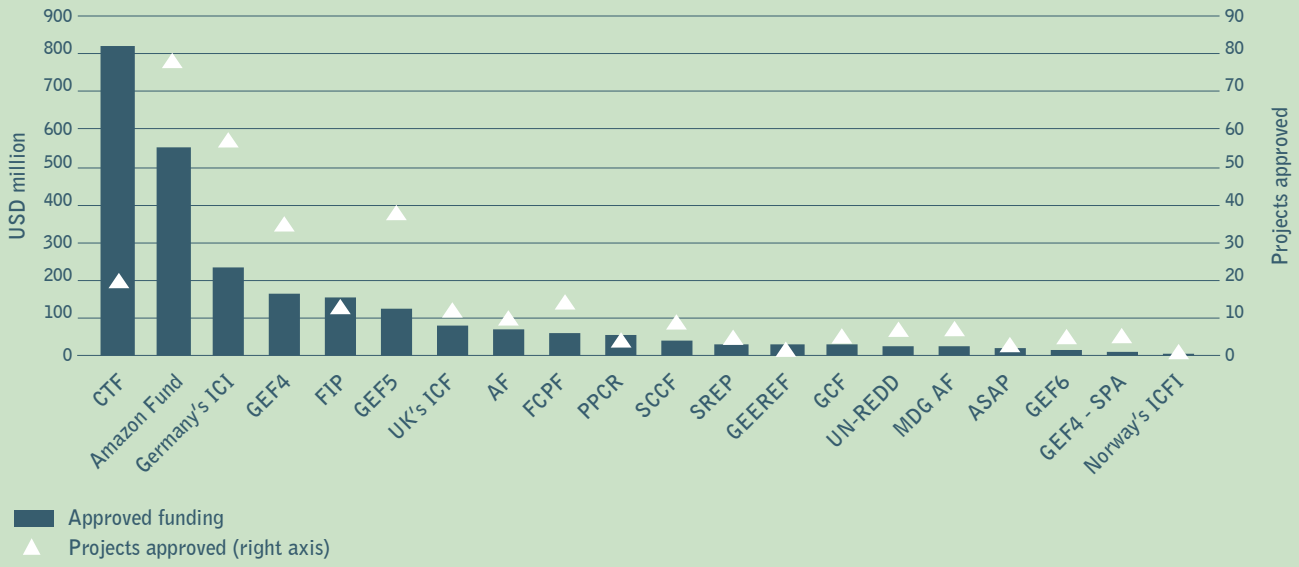
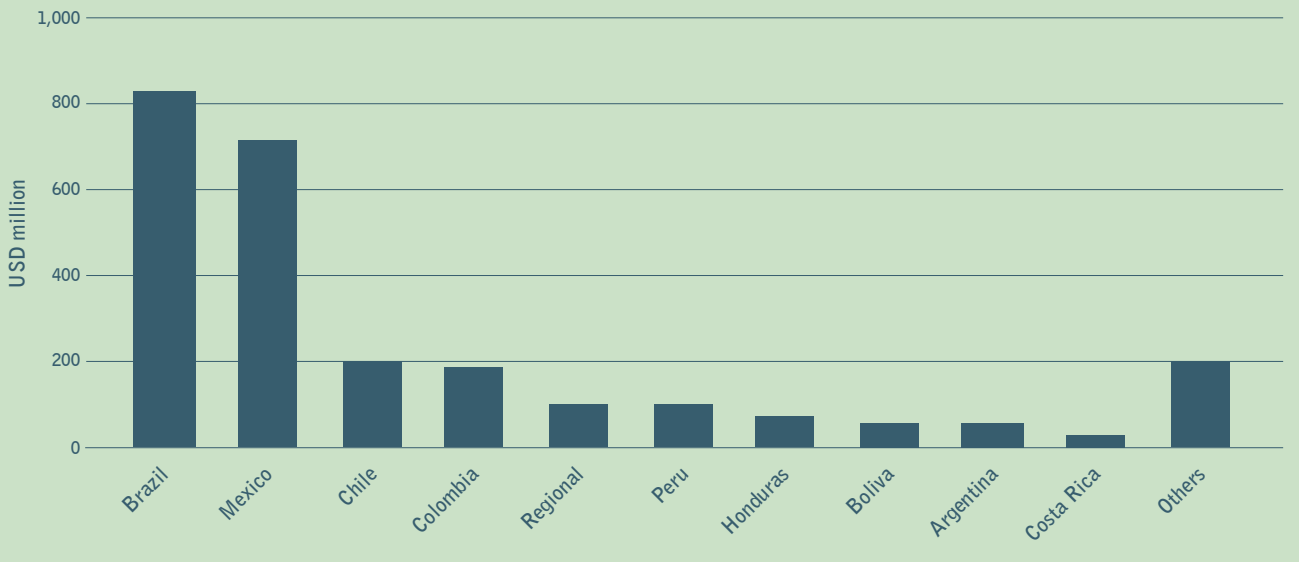


Table 1: Funds supporting Latin American countries (2003-2015)

Fund	Amount Approved (USD millions)	Projects approved
Clean Technology Fund (CTF)	820	20
Amazon Fund	553	78
Germany's International Climate Initiative	234	57
GEF Trust Fund (GEF 4)	167	35
Forest Investment Program (FIP)	157	13
GEF Trust Fund (GEF 5)	124	38
UK's International Climate Fund	82	12
Adaptation Fund (AF)	72	10
Forest Carbon Partnership Facility (FCPF)	63	14
Pilot Program for Climate Resilience (PPCR)	58	4
Other Funds	242	49

Figure 2: Top ten recipient countries by amount approved (2003-2015)



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 836 million) and Mexico (USD 711 million), with a combined 60% share of all climate finance approved (Figure 2). Chile, Colombia and Peru – all countries with high or upper-middle incomes – follow as top recipients.

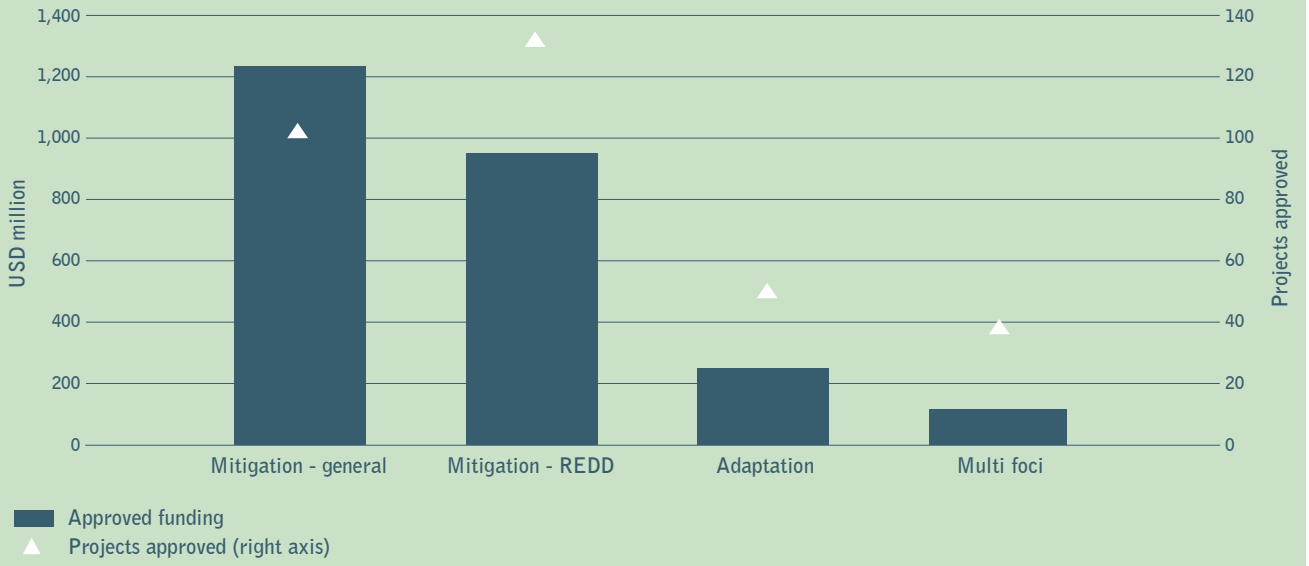
What is being funded?

Eighty five % of funding to date has supported mitigation activities in the region (48% for energy and 37% for REDD+)(Figure 3; Table 2). Only 10% of funding supports adaptation projects and the remaining 5% supports projects with multiple foci. The largest project approved during 2015 was the USD 27 million for the Amazônia Synthetic Aperture Radar (SAR) project of the Amazon Fund, for detecting deforestation in the Amazon forest. The Amazon Fund contributes its finance as non-reimbursable grant investments, however, finance is only transferred after emission reductions have been demonstrated. The second largest project approved in 2015 in the region is one of the first eight projects under the Green Climate Fund (GCF) for developing a regional Energy Efficiency Green Bond scheme with an overall projected GCF allocation over five years of USD 217 million, although thus far the GCF has only approved USD 22 million (USD 20 million in guarantees and USD 2 million in grant finance). The third largest project approved in 2015 was for adaptation, USD 9.96 million from the Adaptation Fund for Enhancing Resilience of Climate Change of the small agriculture in Chilean region of O' Higgins.

Table 2: Approved and disbursed funding across themes

Theme	Amount Approved (USD millions)	Projects approved
Mitigation - general	1231	104
Mitigation - REDD	954	133
Adaptation	262	52
Multiple foci	124	41

Figure 3: Approved and disbursed funding across themes (2003-2015)



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

- **Financing Intended Nationally Determined Contributions (INDCs): Enabling Implementation**. Meryln Hedger and Smita Nakhooda analyse the current and potential role for finance in INDCs published to date (October 2015).
  Available at: **http://bit.ly/1PzzKqc**
- **Climate Finance for Cities: How can climate funds best support low-carbon and climate resilient urban development?** Sam Barnard reviews the approaches taken by multilateral climate funds to support climate action in cities (June 2015).
  Available at: **http://bit.ly/1eTq23L**
- **What counts: tools to help define and understand progress towards the $100 billion climate finance commitment.** With Paul Bodnar, Jessica Brown, ODI's Smita Nakhooda, layout five simple tools to consider what should count to the 2020 target (August 2015).
  Available at: **http://bit.ly/1PzzQ0Y**
- **10 things to know about climate change and financing for development.** Smita Nakhooda and Charlene Watson highlight what you need to know about climate change and development finance (July 2015).
  Available at: **http://bit.ly/1RuUVgr**
- **From Innovative Mandate to Meaningful Implementation: Ensuring Gender-Responsive Green Climate Fund Projects and Programmes.** Liane Schalatek looks at the potential for the GCF to support gender responsive climate action (November 2015).
  Available at: **http://bit.ly/1HtEyMB**

Contact us for more information at **info@climatefundsupdate.org**

References

Climate Funds Update Website: www.climatefundsupdate.org (data accessed in November 2015)

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.

Familiar, J. (2014). Climate change impacts in Latin America and the Caribbean: Confronting the new climate normal. Online, available at: http://www.worldbank.org/en/news/speech/2014/12/02/climate-change-impacts-in-latin-america-and-the-caribbean-confronting-the-new-climate-normal

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

End Notes

1. In 2015, this CFF excludes the Caribbean in this regional analysis and instead presents the Caribbean countries in the new SIDs briefing, see CFF 12.

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

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