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Climate Finance Fundamentals

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Brief 6

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Regional Briefing: Latin America

Latin America is both a source of, and a sink for, carbon emissions. Growing energy demand makes many Latin American countries increasingly significant contributors to global emissions. The high level of oil production and drive to develop new petroleum resources contrasts with many governments stated intentions to pursue low carbon development. Nevertheless, there is enormous potential to implement both mitigation and adaptation activities that are compatible with sustainable development objectives. Overall, the number of climate change related initiatives across Latin America is increasing. Many countries in the region are playing a pioneering role in piloting new approaches to climate finance delivery: for example, Brazil has established an Amazon Fund to help it reduce deforestation. Finance is concentrated in a small number of countries, and in general financing for adaptation remains limited.

The challenge of climate change for Latin America

Recent studies show that climate change could cost Latin America about 1% of annual GDP (ECLAC 2010). 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. The small island developing states of the Caribbean are particularly impacted by climate change, which will disrupt their natural resource base, and core economic activities including tourism and agriculture. Tackling such problems demands considerable resources, and access to climate finance is crucial for the region.

Latin America is predicted to experience one of the highest increases in energy consumption rates in the world due to expected economic growth. Recent IEA estimates show that total energy consumption in the region will increase by over 60% between 2008 and 2035. Latin America is the second region after the Former Soviet Union with the highest oil production (IEA 2011:57), with big reserves and state intervention in Venezuela, Brazil, Mexico and Ecuador. Oil production represents a large portion of the region's revenues: for example, Brazil's Petrobas is the biggest oil company in the region and in 2010 had its largest share sale in history ($24.1 billion). This presents tensions with objectives of achieving a 'low carbon' development pathway. Adaptation will also need to be a central component of national sustainable development strategies given Latin American countries' vulnerability to climate change, and persistent income inequality and poverty in even the most developed economies.

Latin America currently receives a relatively small amount of international finance from bilateral and multilateral climate finance initiatives. A total of $930 million has been approved within the region between 2004 and October 2011 through dedicated climate funds monitored through Climate Funds Update. There have, however, been bottlenecks in moving from concept to execution, as only $333 million has been disbursed. As of October 2011 16% of the total registered projects under the Kyoto Protocol's Clean Development Mechanism (CDM) are in Latin America, making it the second largest recipient by region, after Asia and the Pacific. Projects are concentrated in two countries, however, Brazil and Mexico, which together account for 59% of CDM projects in the region.

The distribution of climate finance

Climate Funds Update data suggests that, five countries within the region receive the majority of climate finance: Brazil ($94 million), Mexico ($54 million), Peru ($32 million), Colombia ($25 million), and Chile ($ 18 million). The poorer countries of the region currently receive significant less support. For example Bolivia has received only $2 million for two projects on adaptation. Similarly Paraguay has received $5 million for a REDD project. Adaptation programs are now getting underway in Caribbean countries; however to date only $2.4 million appears to have been disbursed to climate change projects in small island developing countries.

The objectives of climate finance in Latin America

The potential to reduce emissions from deforestation and forest degradation in Latin America is vast, as the region is home to a quarter of the world's forests, and has been a growing focus of climate finance efforts. However, there has also been a great deal of activity on energy and transport-related mitigation activities, and some efforts to enhance resilience to climate change through adaptation projects.

- Mitigation – the Multilateral Development Banks remain central players in mitigation finance in the Latin America region, increasingly engaged on climate change issues through their conventional lending, as well as through dedicated programs supported by the Climate Investment Funds (CIFs). The Clean Technology Fund (CTF) of the CIFs is providing $380 million to programs in Mexico and Colombia. Whilst Chile had sought CTF support, it withdrew its request because the pledged funds had already been allocated.

Since 2006, the GEF has disbursed relatively smaller sums totalling $136 million to countries across the region for renewable energy deployment (wind, solar and biogas, including for rural electrification), as well as for public transport programs). Many of these projects have also been implemented by the MDBs. $49 million of this finance was disbursed in 2011.

- REDD+ – With the rich forest ecosystems of Latin America under increasing pressure, the region plays a crucial role in efforts to reduce emissions from deforestation and forest degradation (REDD+). Costa Rica was one of the first proponents of the concept of harnessing carbon markets to generate financing for REDD+ activities as a member of the rainforest coalition grouping within the UNFCCC. Brazil has also been a key actor in REDD+ although it has been wary of market based approaches and their implications for national sovereignty. Nevertheless it has taken a leadership role in the implementation of REDD+ projects, including by setting up the Amazon Fund in 2009, which is managed by the Brazilian National Development Bank (BNDES). The Amazon Fund invests in projects and programs that prevent, monitor and combat deforestation, and promote the preservation and sustainable use of Amazonian forests. By October 2011, it had approved 20 projects worth $127 million, and disbursed nearly $33 million mainly as grants. Norway is the largest contributor to the Amazon Fund, having pledged $1 billion in support between 2009 and 2015. Guyana has also been active in efforts to pilot new approaches to REDD+. Brazil and Peru are participants in the CIF Forest Investment Program.

- Adaptation – activities represent only a small share of funding in Latin America. However, Ecuador, Nicaragua and Honduras have been early beneficiaries of the Adaptation Fund. Over the last year the Pilot Program for Climate Resilience (PPCR) of the CIFs has been increasingly active in Latin American countries. The PPCR is designed to provide programmatic finance to strengthen resilience; for Bolivia $86 million was recently approved, using a national resilience plan as the basis for programming. The PPCR is also supporting a regional program in the Caribbean based on pilots in Dominica, Jamaica, Haiti, Grenada, St Lucia, St Vincente, and the Grenadines with $33 million of approved funding. Although the majority of PPCR projects are supported through grants, a large volume of this financing will be provided in the form of loans.

Chart: Breakdown of activities in the Latin America and contribution from each fund

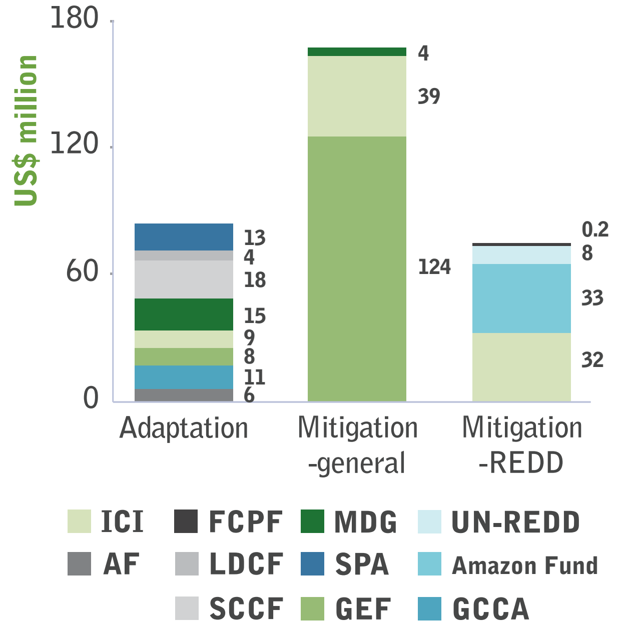
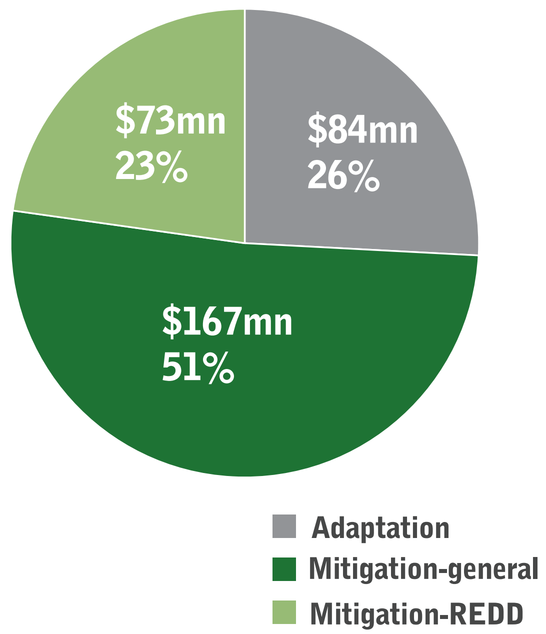


Chart: Funding for climate projects by theme for Latin America



Important players in climate finance

The Inter-American Development Bank (IDB) is a key player in the region, both as an implementing agency for CIF projects and in its own right. In 2006 it launched the Sustainable Energy and Climate Change Initiative (SECCI) to support renewable energy and energy efficiency; sustainable biofuel development; access to carbon markets; and adaptation to climate change.

Another actor has been the MDG Achievement Fund (MDG-F), which supported ecosystem service and mitigation projects in Colombia, Ecuador, Guatemala, Nicaragua, Panama and Peru. To date $24 million has been disbursed in support of these programs. While the fund is now closed, disbursement of funding for approved projects continues.

Ecuador's efforts to seek compensation for foregoing oil exploitation in the biologically diverse Yasuni National Park have also attracted significant attention as an innovative effort to raise financing for low carbon development. In August 2010 the government of Ecuador with the support of the UNDP established the Yasuni Ishpingo Tambococha Tiputini Trust Fund, to seek compensation of $3.6 billion from governments, foundations, public and the private sector over the next 13 years. This is only half of the estimated revenue from oil exploitation. If fund capitalization does not reach $100 million by December 2011, the initiative may come to an end and oil production may proceed. The current level of contribution (less than 2 million) suggests this target is unlikely to be met. Some European countries, notably Italy, had pledged funding for Yasuni that is unlikely to be delivered. Many developed countries have been sceptical of the political commitment to pursuing sustainable development in Ecuador.

Climate finance is also being increasingly directed to Latin America through bilateral channels. UNFCCC reports suggest that by 2010 Latin American and Caribbean countries had received $421.92 million from countries including Germany, France, and Japan. Germany's International Climate Initiative (ICI) plays an increasingly important role: as of October 2011, the ICI had disbursed $79 million. As noted bilateral support from the government of Norway for REDD+ activities, particularly in Brazil and Guyana, has also been a very significant development.

Targeting the sectors and people most in need

A number of large Latin American countries, notably Brazil and Mexico, have invested in developing national climate change response strategies with high level political support.

Large-scale emission reduction projects, including CDM projects with proven methodologies, tend to be favoured and are a predominant source of finance for climate change activities throughout Latin America. It has proven difficult to effectively target technology projects with a higher and more variable risk profile, as well as to target the poorest, often rural communities and the most vulnerable, but often disenfranchised population groups such as women or Indigenous Peoples within countries.

More recently efforts have been made to experiment with public-private partnerships for implementing climate compatible projects and programs, with the public sector taking measures to reduce risks that the private sector is reluctant to take on, including through guarantees. Targeted public investment will be unavoidable in projects and programmes that address crucial issues related to climate change, but where there is limited scope for private profit.

There are a number of challenges in securing climate finance for those most in need, both among and within recipient countries. Many regional policy makers are not fully aware of the urgency of addressing the impacts of climate change on their populations and their livelihoods and economic development prospects. This lack of knowledge may lead to an under-estimation of the scale of the problem.

Furthermore, investment opportunities need to match national priorities, and ideally should be developed through fully participatory processes. The involvement of all relevant stakeholders, including Indigenous Peoples and women, is particularly important in this region.

References and useful links:

CEPAL (2010). Economics of Climate Change in Latin America and the Caribbean.

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