

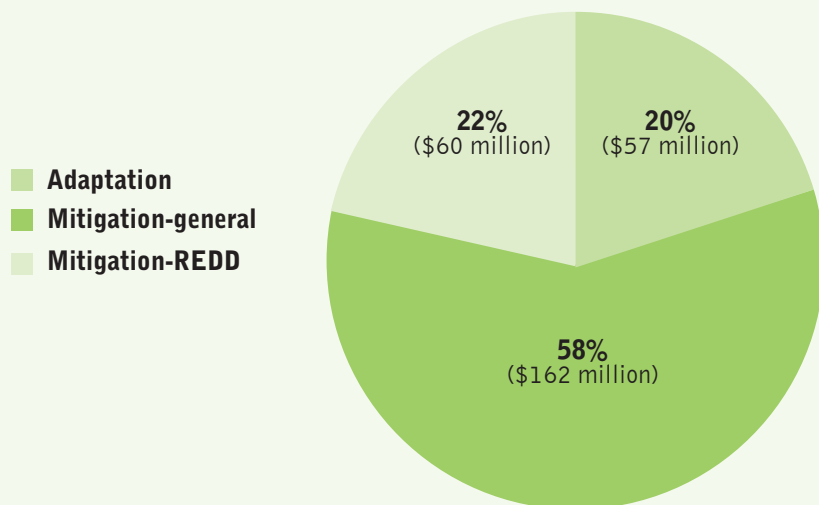
are capital intensive and deliver returns only over the long term. This means that investors need some insurance that returns will be generated compared to other investment projects that generate returns more quickly. In addition, many poor rural areas in Latin America are considered high-risk, which acts as a disincentive on such investments. Grant funding may be required to offset costs that cannot be borne by project revenues, or that require too long pay-back periods.

Latin America presents significant opportunities for large scale mitigation projects, in particular for the generation of renewable energy. The instruments used to exploit these opportunities currently rely mainly on the CDM. However, this comparative advantage in terms of large scale mitigation projects seems to create an emphasis on mitigation, to the detriment of adaptation activities. International and domestic grant finance now needs to be enhanced to sustain adaptation projects, given the public nature of such activities.

References and useful link

Atteridge A., et al. (2009) 'Bilateral Finance Institutions and Climate Change: A Mapping of Climate Portfolios' Working Paper. Stockholm Environment Institute.
 World Bank (2010) 'Energy matters: Achieving secure and clean energy in Latin America and Caribbean'
 Climate Funds Update: <http://www.climatefundsupdate.org/>

Funding for climate projects by theme for Latin America



NOTE: These numbers do not reflect the total amount of climate finance in the region, but only the public funding channeled through some 20 dedicated bilateral and multilateral climate funds and funding mechanisms, for which tracking data is available.

SOURCE: www.climatefundsupdate.org/; accessed on November 16, 2010



Climate Finance Fundamentals

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BRIEF 6

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Regional Briefing: Latin America

Countries in Latin America are both a source of, and a sink for, carbon emissions: on one hand high energy demand makes them an increasingly significant contributor to global emissions but on the other the region's resource endowment gives it enormous potential for both mitigation and adaptation activities. Mexico is one country that has made strong commitments to reduce emission levels. Overall, there is an increasing number of climate change related initiatives across Latin America, including Brazil's Amazon Fund that aims to reduce deforestation. However, mitigation activities far outnumber adaptation actions and activity remains concentrated in a small number of countries. Barriers such as limited public policies, an absence of financial mechanisms and public service delivery constraints, make it difficult to deliver climate finance to the most vulnerable areas and people.

The challenge of climate change for Latin America

In Latin America and the Caribbean the cost of climate-related disasters currently exceeds \$5 billion each year. With climate change this cost will rise. 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, continued deforestation of tropical forests (Latin America contains a quarter of the world's forests) and the warming and acidifying of oceans that will damage coral reefs in the Caribbean. Since tackling such problems will demand very considerable resources, a discussion of climate finance mechanisms is crucial for the region.

Due to expected economic growth, Latin America is predicted to experience one of the highest increases in energy consumption rates in the world, currently estimated at 2.8% annually. This will lead to a considerable expansion of energy infrastructure. Investments now being made will determine what sort of energy mix will predominate - the challenge is to ensure that a 'low carbon' development pathway is followed. Moreover, Latin America's vulnerability to climatic change, with its persistent income inequality and poverty, means that adaptation will need to be an important component of sustainable national development.

Despite these urgent needs, Latin America currently receives only a small amount of international finance from bilateral and multilateral climate finance initiatives. To-date, \$222 million has been disbursed to mitigation projects from dedicated climate funds and only \$57 million for adaptation, with most bilateral support coming from Japan, Germany and France. By contrast, the region received 19% of all project support under the Kyoto Protocol's Clean Development Mechanism (CDM). After Asia and Pacific, Latin America is the second largest regional recipient of CDM projects, but these are mainly concentrated in Brazil and Mexico, which together account for 59% of CDM projects in the region.

Country responses

■ **Country concentration** - Five countries within the region receive the majority of international support for climate change: Brazil, Mexico, Colombia, Peru and Chile. Overall, the distribution of climate-related projects seems to depend upon country GDP, not demonstrated needs. The less rich countries of the region (e.g. Bolivia, Paraguay) currently receive much less support.

■ **One country's approach to tackling climate change** - Coming out of the 2009 recession, the IMF forecasts that Mexico will grow by 4.2% in 2010 and 4.5% in 2011. This will lead to a substantial increase in energy demand and subsequent carbon emissions. The challenge is for the country to find ways of securing climate resilient development pathways.

In terms of international support, Mexico has worked extensively within the CDM mechanism with over 100 projects registered, of which 20 have received certified emission reductions. It is also among the first to work with the World Bank administered Climate Investment Funds (CIFs). The '*Mexico Efficient Lighting and Appliances Project*', co-funded by the CIF's Clean Technology Fund

(CTF), was approved in September 2010 to fund the acquisition and distribution of compact fluorescent lamps for low-income urban and rural households. Mexico was also recently selected as one of eight countries worldwide by the governing body of the Forest Investment Program (another one of the CIFs) to receive substantial financing for activities to reduce deforestation and forest degradation and conserve forests (REDD+; funding for REDD+ is described in more detail in Brief 5 of this series).

Funding across major themes

The breakdown of support for mitigation, REDD+ and adaptation varies across the countries of the region.

■ **Mitigation** - The International Bank for Reconstruction and Development (IBRD), which is part of the World Bank Group, is very active in supporting mitigation activities, having focused on:

- (i) Clean energy investments in Mexico and Peru;
- (ii) Provision of electricity services and the reduction of electricity losses of public sector distribution companies mainly in Brazil and Dominican Republic;
- (iii) Identification of low carbon pathways for economic development in Mexico and Brazil.

GEF, carbon finance projects, and most recently the CTF provide significant opportunities for synergies with IBRD financing in the energy sector and in other mitigation activities. However, IBRD contributes through loan finance and support is presently limited to operating very large scale projects in a small number of countries.

■ **REDD+** activities are developing fast within the region with innovation taking

place in several countries, particularly within Brazil. Brazil is not only among the most favoured of recipient countries for international support, but it has taken a leadership role in the implementation of REDD+ projects. In 2009, the Amazon Fund, managed by the Brazilian Development Bank was created and aims to raise donations for investments to prevent, monitor and combat deforestation, and to promote the preservation and sustainable use of forests in the Amazon Biome. By September 2010, almost \$60 million has been disbursed, mainly as public grants, with eight forestry projects being approved. Norway is the largest partner of the Amazon Fund, having pledged \$1 billion between 2009 and 2015.

■ **Adaptation** activities represent the minority of funding in Latin America. However, the Adaptation Fund is starting to make some progress in support of such activities. In September 2010, a grant of \$5.7 million was approved for a project in Honduras. This project aims to reduce the vulnerability of at least 13,000 of the poorest households in the capital Tegucigalpa by improving water management.

Active players with regard to climate finance

A central player within the region is the Inter-American Development Bank (IDB), both in its own right and as an implementing agency of CIF projects in Latin America. One of the IDB's own climate finance initiatives is the Sustainable Energy and Climate Change Initiative (SECCI), which was launched in 2006. This initiative aims to build climate resilience in key priority sectors.

Another actor that supports climate change activities in the region is the MDG Achievement Fund (MDG-F). Environment and Climate Change is one of eight thematic areas supported by the MDG-F. Under this window, projects totaling almost \$10 million have been implemented in Colombia, Ecuador,

Guatemala, Nicaragua, Panama and Peru. They are mainly based on securing the provision of ecosystem services and mitigation activities.

The region is also home to one of the most forward-looking and innovative attempts to generate climate financing. The recently established Yasuni Ishpingo Tambococha Tiputini Trust Fund, developed by the government of Ecuador with the support of UNDP, seeks donor country compensation of \$3.6 billion for foregoing oil exploitation in the biologically diverse Yasuni National Park.

Amongst other bilateral funding arrangements, Germany through the International Climate Initiative also plays an important role in Latin America. The ICI supports projects in the region, mainly related to mitigation activities.

Lack of funding reaching the sectors and people most in need

There are a number of challenges in securing climate finance for those most in need. Many regional policy makers are not fully aware of the urgency of the impact of climate change. This lack of knowledge may lead to an under-estimation of the scale of the problem. Furthermore, investment opportunities need to match national agendas. But today many Latin American governments are not classifying climate change as a public policy priority.

Large-scale CDM emission reduction projects, with proven methodologies, tend to be favored by investors. Indeed this is the predominant mechanism throughout Latin America. However, there are significant obstacles in delivering funding to those most in need within the region under this model. For example, investments in many renewable technologies, such as wind and solar,