Economics & Finance

Zero Carbon Analytics

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Promises and reality of climate finance flows in Latin America and the Caribbean

Key points:

- Developed nations pledged USD 100 billion annually by 2020 to support developing countries with climate initiatives. This goal was achieved only in 2022, primarily by adjusting existing development finance.
- Latin America and the Caribbean (LAC) countries face severe climate impacts, including droughts, heat waves and rainfall variability, which affect key sectors like agriculture, mining, and tourism. Economic impacts are significant, with potential GDP losses between 0.8% and 6.3% by 2030, reaching up to 23% by 2050.
- The Inter-American Development Bank estimates that 7% to 19% of LAC's GDP (up to USD 1.3 trillion by 2030) is needed for sustainable, resilient growth.
- Current climate finance flows to LAC are only 0.5% of GDP, requiring an 8-10x increase to meet commitments outlined in Nationally Determined Contributions (NDCs).
- LAC received 17% of international climate finance between 2016 and 2020, mostly in loans rather than grants, increasing regional debt burdens.
- Many LAC countries spend more on debt interest than on social and climate expenditures, complicating sustainable financing for climate adaptation and mitigation.
- Brazil, Mexico, Costa Rica, and Colombia received nearly half of the climate finance directed to the region, focused on mitigation over adaptation.

A little bit of climate finance history and why it matters

As evidenced by the increasing frequency and intensity of extreme weather events worldwide, managing the impacts of climate change requires substantial financial resources, which are out of reach of Global South countries.

To tackle the challenges associated with financing climate change mitigation and adaptation, developed nations pledged under the Copenhagen Accord (December 2009) and the Cancun Agreements (December 2010) to allocate new and additional funding for climate initiatives in developing countries. Through the Copenhagen Accord, developed economies committed to jointly mobilising USD 100 billion annually by 2020 for developing countries.

In 2021, during the Parties to the Paris Agreement meeting, the New Collective Quantified Goal on Climate Finance (NCQG) was settled as an upcoming global target for climate finance, expected to establish a baseline of USD 100 billion per year by 2025. This last commitment is expected to be negotiated during COP29 in Azerbaijan in 2024.

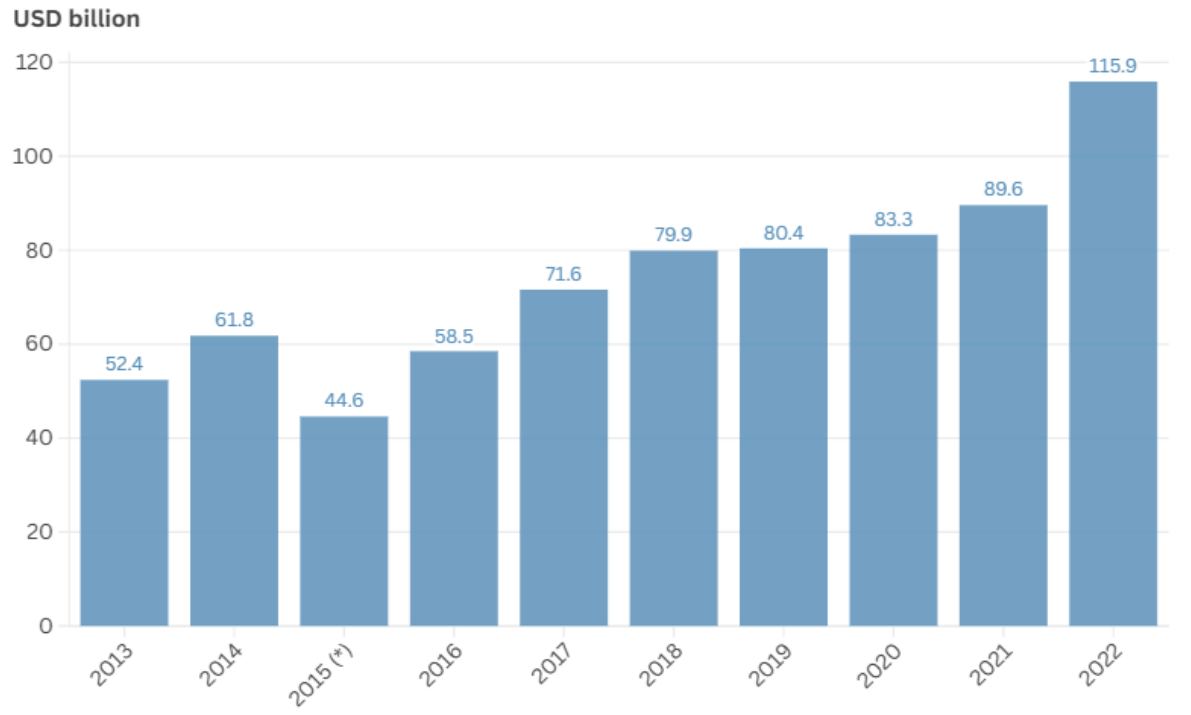
These efforts resulted in approximately USD 30 billion through the Fast-Start Finance initiative between 2010 and 2012. In 2022, developed countries provided and mobilised

USD 115.9 billion in climate finance for developing nations, according to figures from the Organisation for Cooperation and Economic Development (OECD), finally meeting their annual target of USD 100 billion for climate action two years later than initially planned.

However, there have been some challenges to the OECD's figures, with other bodies pointing out that some financing was overstated or double-counted with other assistance. The Center for Global Development (CGD) estimated total climate finance in 2022 at USD 106.8 billion, noting that the target was partially met by incorporating climate objectives into existing development finance flows and therefore not "new or additional," as outlined in the Copenhagen Accord.

According to Climate Policy Initiative (CPI), climate flows continue to "fall short of needs", particularly in developing and low-income economies and those especially vulnerable to climate change. As of 2023, less than 3% of the global total went to or within least developed countries (LDCs), while 15% went to or within emerging markets and developing economies (EMDEs), excluding China. The ten countries most affected by climate change between 2000 and 2019 – Puerto Rico, Myanmar, Haiti, Philippines, Mozambique, the Bahamas, Bangladesh, Pakistan, Thailand and Nepal – received less than 2% of total climate finance.

Figure 1: Climate finance provided and mobilised between 2013 and 2022



Source: OECD • (*) Due to the change in the OECD's methodology, the 2015 time series for mobilised private finance has a data gap. Consequently, the overall totals for 2016-22 and 2013-14 are not directly comparable.

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Climate change poses significant challenges in Latin America and the Caribbean

As a region, Latin America and the Caribbean (LAC) accounts for only 6.7% of global greenhouse gas emissions but is highly vulnerable to climate change. Most countries are located in geographical areas that are particularly exposed to extreme weather events caused by greenhouse gas emissions, including heat waves and significant variability in precipitation levels and patterns.

The region is also highly dependent on economic activities at risk from climate change, such as agriculture, mining and tourism, creating further economic need for adaptation and mitigation financing. Studies estimate a decline in regional per capita GDP due to climate change impacts ranging between 0.8% and 6.3% by 2030. By 2050, this fall could reach 23%.

Agriculture is expected to be the economic sector most affected by climate change in LAC, facing challenges such as soil erosion, changing rain patterns and pest infestations. This is a significant problem for the region as the World Bank estimates that agriculture, fishing and forestry represent 5.9% of LAC's GDP in 2023.

Energy presents another major challenge, as LAC is projected to have one of the highest increases in energy consumption globally, driven by anticipated economic growth. This pending demand highlights the importance of adopting a low-carbon development pathway to supply electricity to the region's people and industry.

The region's financing needs are not being met

The region's financial frameworks are ill-equipped to deal with these challenges. LAC has the lowest levels of public investment globally, hindering its ability to build dynamic, job-creating economies resilient to climate change.

The Inter-American Development Bank (IDB) indicates that addressing the climate crisis in LAC will require annual spending on infrastructure services amounting to 2% to 8% of GDP, alongside 5% to 11% of GDP dedicated to tackling social challenges. Altogether, this would mean redirecting 7% to 19% of annual GDP – equivalent to between USD 470 billion and USD 1.3 trillion by 2030 – toward sustainable, resilient, low-carbon development goals.

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) estimates that annual investment needed to meet regional climate commitments, as outlined in the Nationally Determined Contributions (NDCs) under the Paris Agreement, ranges between 3.7% and 4.9% of the region's GDP until 2030.

ECLAC breaks this total down by type of financing. Mitigation actions related to the energy system, transportation, and deforestation reduction will require between 2.3% and 3.1% of regional GDP annually by 2030. Adaptation efforts, including early warning systems, poverty prevention, coastal protection, water and sanitation services, and biodiversity protection, will require investments of between 1.4% and 1.8% of regional GDP each year until 2030.

These financing needs translate to an annual flow between USD 215 billion and 284 billion between 2023 and 2030. However, climate finance flows to the region amounted to only 0.5% of regional GDP in 2020, requiring an increase of 8 to 10 times to close the funding gap.

From 2016 to 2020, the region received an average of 17% of international climate finance each year, with 81% of this funding provided as loans rather than grants, further intensifying the region's debt crisis. Climate action funding is nearly evenly split between public and private sources in LAC, highlighting a strong contribution from private sector players compared to other Global South regions. Africa, for example, gets nearly 90% of its climate financing from public sources.

Box 1: Climate change and debt, interrelated crisis?

According to the United Nations Trade and Development (UNCTAD), global public debt[1] reached a record of USD 97 trillion in 2023, of which LAC countries account for 17% above the region's share of the global population at 8.2%.

The region faces significant debt-related challenges, particularly in light of the increasing financial demands of climate change – including adaptation, mitigation, and addressing loss and damage.

These issues are common across the Global South. Since 2022, interest payments on public debt have grown faster than public expenditures in developing economies: one out of every three countries spends more on interest payments than on social spending (which includes climate investment).

In 2024, debt servicing is projected to consume 41.5% of expected budget revenue across developing countries. For context, this is a higher proportion than was seen during the debt crisis in Latin America in the 1980s before debt relief was provided.[2] Debt service accounted for 35.3% of national incomes in Latin America in 1981, one year before the debt crisis began.

The reality of financing flows

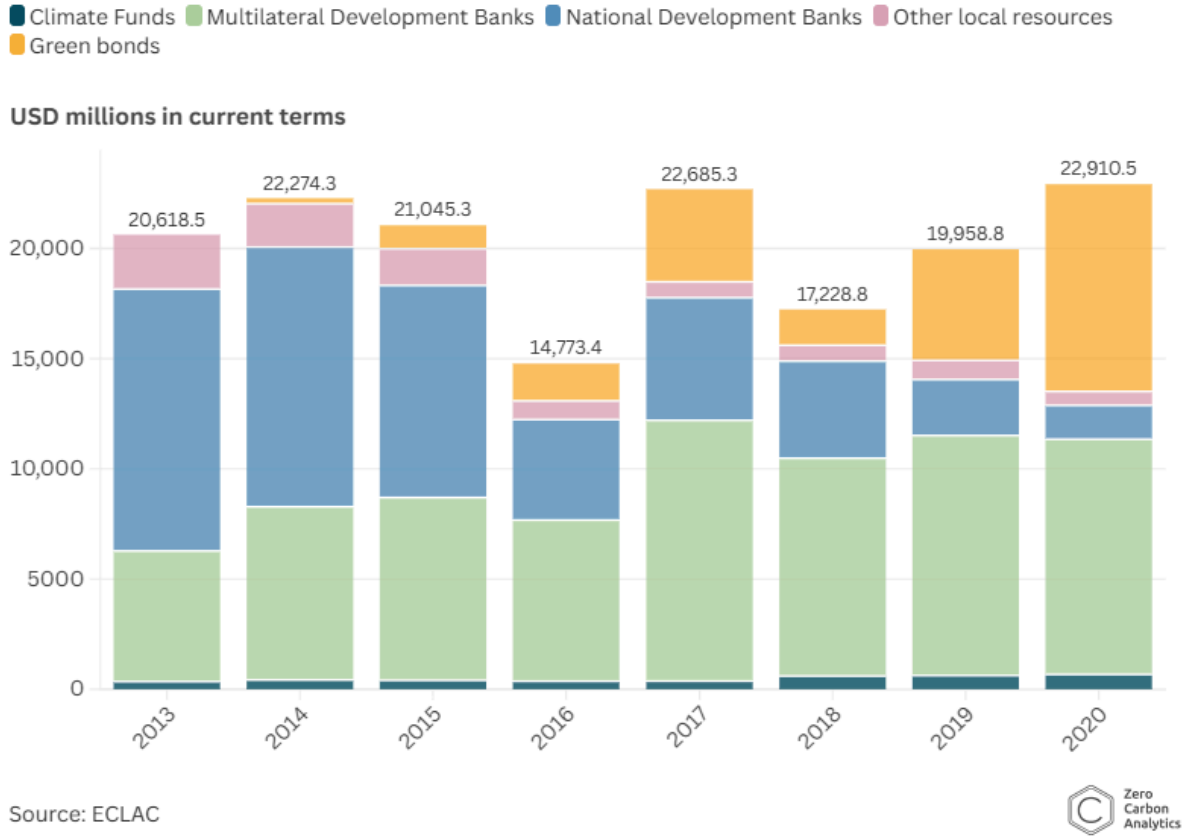
Between 2013 and 2020, an annual average of just over USD 20 billion was mobilised in LAC to fund climate change mitigation and adaptation, which amounted to over USD 161 billion in this period.

In 2020, the total reached USD 22.9 billion, representing a 14% increase from 2019 and a 32% increase from 2018, regaining much-needed upward momentum after falling from a 2017 peak. However, this represents only around 10% of the low-end annual total ECLAC estimates will be needed between 2023 and 2030 to meet climate finance needs, highlighting the inadequacies of financing provided and the gap left to fill going forward.

Of the 2020 total – which represented 0.5% of the region's GDP – 90% came from multilateral development banks (MDBs) and green bonds, adding to the region's debt burden.

[1] According to the IMF, public sector debt "combines general government with public nonfinancial corporations and public financial corporations, including the central bank". It also covers publicly guaranteed debt and external public debt.
[2] The Latin American debt crisis was a financial crisis that began in the early 1980s when public debt of Latin American countries surpassed their capacity to generate income, making them unable to repay it.

Figure 2: Climate finance for LAC between 2013 and 2023

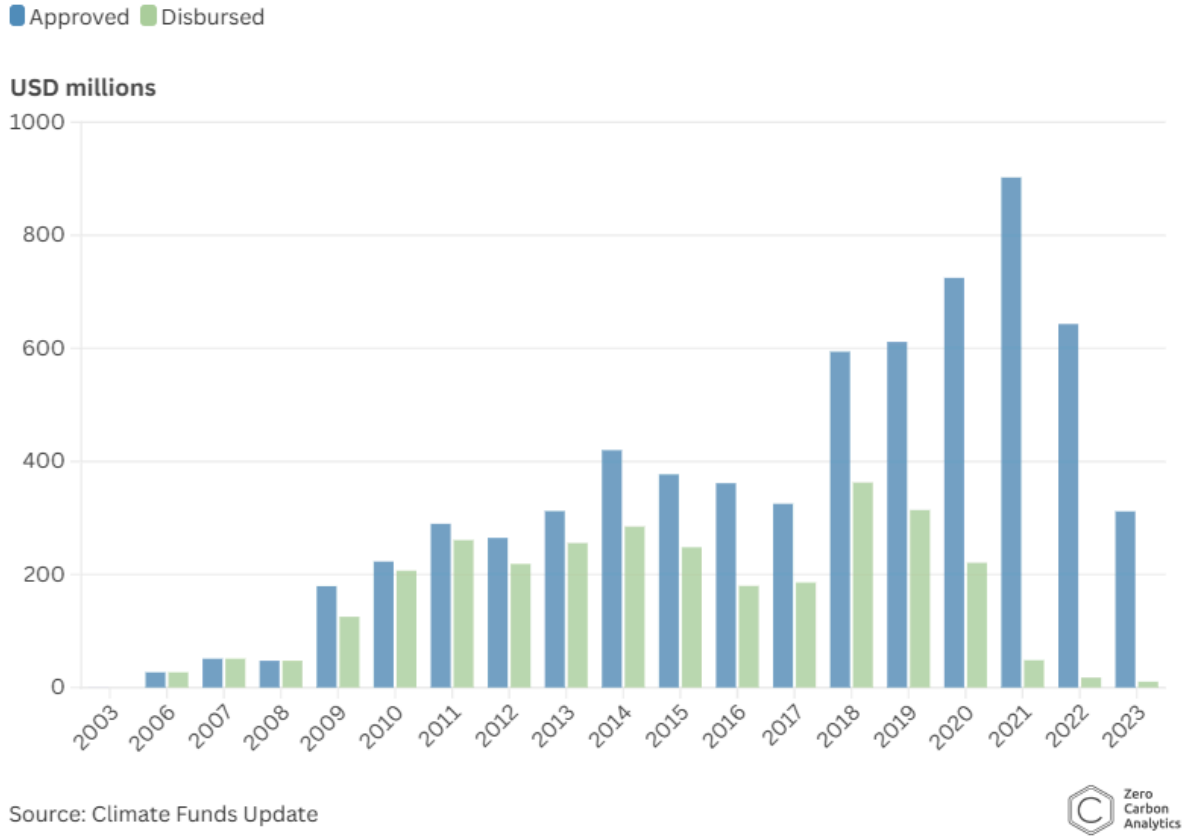


Climate Funds Update tracks multilateral climate funds, covering the period between 2003 and 2023. Though it does not capture the full financing picture, it is a useful tool to access regional financing over time and at the country level.

With some exceptions, climate fund commitments have risen from USD 26.8 million in 2006 to USD 902.2 million in 2021, with notable jumps in 2009, 2014, 2018 and 2021, and a short period of declining commitments from 2014–2017. The most recent peak, in 2021, also marks the end of the growth trajectory for financing approvals, which have fallen to USD 311.5 million by 2023 (figure 3).

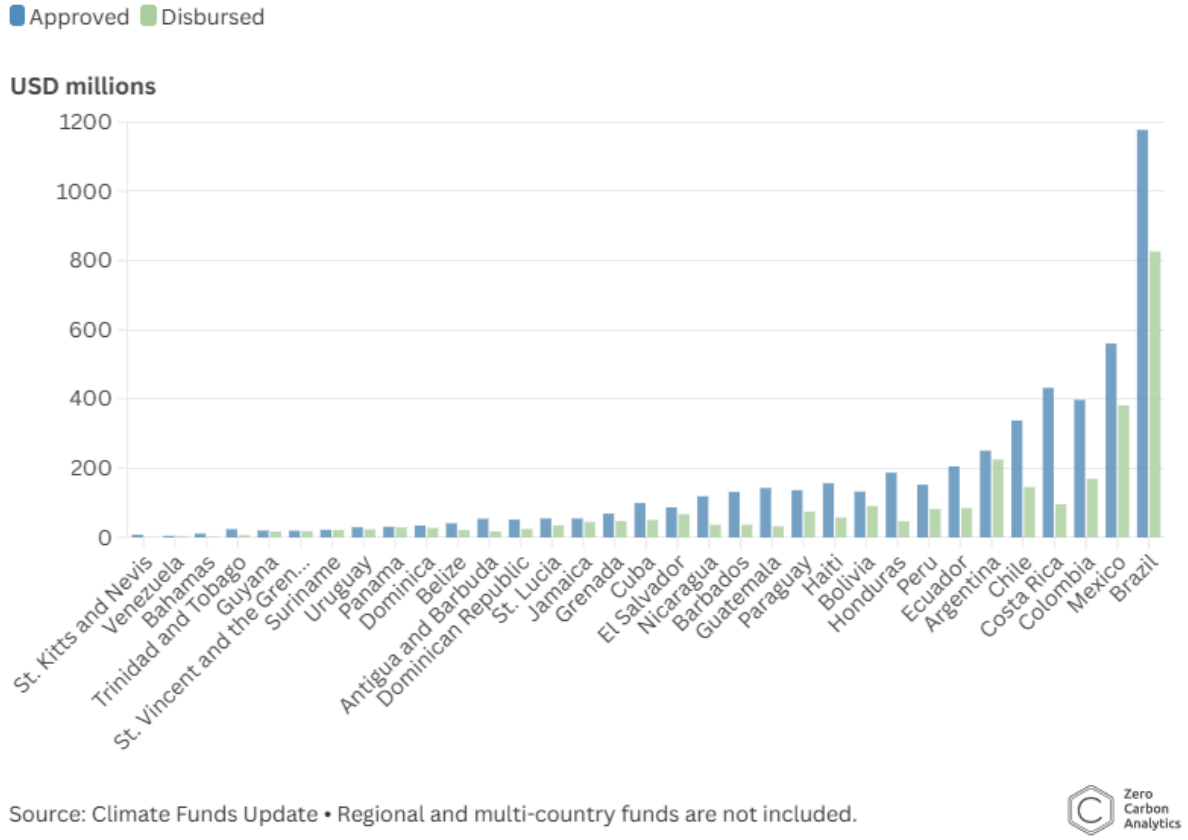
The approval-to-disbursed ratio is notably higher during the first years of the analysis, largely tracking approvals through 2014 before falling off through 2017. Recorded disbursements rise in 2018 before tapering off again to very low levels by 2023. However, it should be noted that as well as a delay in disbursement, either as a result of slow contributor disbursal or slow recipient uptake, this may indicate a lack of information on the status of funds after approval.

Figure 3: Multilateral climate change funds for LAC per year



On a national level, climate finance in LAC is heavily concentrated in four countries – Brazil, Mexico, Costa Rica, and Colombia – that receive nearly half of the region's funding. Mitigation activities – such as forest protection and reforestation – receive over five times the amount allocated to adaptation efforts from multilateral climate funds. Nearly all of this finance has been issued as concessional loans.

Figure 4: Multilateral climate change funds per country between 2003 and 2023



Source: Climate Funds Update • Regional and multi-country funds are not included.

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