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Strengthening Links Between Science and Governments for the Development of Public Policies in Latin America

POLICY BRIEF

FUNDING CHALLENGES OF CLIMATE CHANGE ADAPTING IN LATIN AMERICA AND THE CARIBBEAN

Virginia Scardamaglia

KEY MESSAGE

Multilateral and bilateral international funding is not enough to deal with adaptation actions in Latin America. Therefore, States must promote investments at national and sub-national levels through a national budget, but in particular by encouraging the participation of the private sector from early stages of adaptation planning.

Executive summary

Adaptation to climate change in Latin America requires numerous financial resources, but the existing flows, especially those from multilateral and bilateral international sources, are not enough to meet the countries' needs. There are many difficulties when it comes to accessing international funding: 1) barriers to accessing donations, as these countries are considered as having middle or upper-middle economies; 2) shortage of human resources to develop projects; 3) lack of accreditation of national direct access entities; 4) many countries have reached the financing limit available in the Adaptation Fund.

Likewise, sub national governments have other additional difficulties, including the need to have national or provincial guarantees to access international funding. Faced with this situation, national states must play a central role as the main planners and investors in resilience, being able to create adaptation funds or create appropriate regulatory frameworks and incentives for private sector participation, with instruments such a s micro credits, insurance and green bonds.

Resumen ejecutivo

La adaptación al cambio climático en América Latina requiere numerosos recursos financieros, pero los flujos existentes, sobre todo aquellos que provienen de fuentes internacionales tanto multilaterales como bilaterales, no alcanzan para cubrir las necesidades de los países en esta área. Los mismos se enfrentan a una serie de dificultades a la hora de acceder a financiamiento internacional: 1) barreras para acceder a donaciones, al ser considerados como países de renta media o media-alta; 2) escasez de recursos humanos para desarrollar proyectos; 3) falta de acreditación de entidades nacionales de acceso directo; 4) agotamiento del límite de financiamiento disponible en el Fondo de Adaptación.

Asimismo, los gobiernos subnacionales tienen otras dificultades adicionales, incluyendo la necesidad de tener avales nacionales o provinciales para acceder al financiamiento internacional. Ante esta situación, los estados nacionales deben jugar un rol central como principales planificadores e inversores en resiliencia, pudiendo crear fondos de adaptación o crear marcos regulatorios apropiados y crear incentivos para la participación del sector privado, con instrumentos como microcréditos, seguros y bonos verdes.

Introduction

Adaptation to climate change in Latin America and globally, in general requires numerous financial resources. The fact is that the existing financial flows are not enough to cover the adaptation needs of the countries. According to the *Adaptation Gap Report* (1), it is estimated that adaptation finance costs in 2030 are likely to be approximately 6 to 13 times greater than international public finance for adaptation today.

The report highlights that that adaptation finance costs in 2030 are likely to range from USD 140-300 billion per annum and in 2050 from USD 280-500 billion per annum.

In this context, internationally available funding gives priority to African countries, least developed countries (LDCs), and small developing islands (SIDs), for being considered highly vulnerable, which leaves Latin American countries relegated in terms of funding opportunities, with only a few exceptions, such as the Green Climate Fund where 50% of the fund is allocated to adaptation for the above mentioned groups of countries.

Despite efforts in recent years to increase allocations for mitigation, the difference in investments between the two items remains huge, both in terms of public and private funding. With regards to international public funding, in 2016 adaptation finance was only 27% of the bilateral public finance provided by the OECD; multilateral climate finance was 19%, and contributions from multilateral development banks (2) 23%.

International financing: barriers and lessons learned

Latin American countries have a variety of options in terms of access to climate funds: Adaptation Fund; Green Climate Fund (GCF); Global Environment Facility (GEF) and multilateral development banks, such as the Inter-American Development Bank (IDB); World Bank (WB); Development Bank of Latin America (CAF), and other bilateral or private sources which use this mechanism to finance their projects. to a greater or lesser extent.

However, countries have faced many barriers over time in terms of access and implementation of funds, especially climate funds.

Main barriers faced by national governments to accessing international funds

Barrier	Cause	Possible solutions found and/or suggested
Access to non-reimbursable funds	Be considered middle or medium-high income countries	Request for lower amounts when it comes to donations
Project development	Lack of sufficient human resources skilled in the areas of climate change and project development Lack of basic information to support the request for funds	Greater use of the Readiness window and the Green Climate Fund (GCF) project oreparation Open up to other institutions to strengthen their capabilities Request support from accredited regional or international organisations
Accreditation of direct access organisations	Complex processes in international organisations for government institutions	Accreditation of foundations or other non-state organisations Access to funds through already accredited regional or international entities
Exhaustion of funding in the Adaptation Fund	Funding limit of USD 10 million per country in accordance with the rules of the Fund	Presentation of regional joint projects Analyse an increase in the funding limit by the Adaptation Fund

Source: Prepared by the author.

The first difficulty for many national governments is to access non-reimbursable funds or donations because they are considered middle or middle-high income countries. In many cases, the purpose of the donations is to support technical research or planning processes, but not for the implementation of projects themselves, such as infrastructure projects. There are two recent cases of failed access to funds in the GCF in our region: Argentina and Paraguay, whose request for donations for adaptation for 22.1 and 44.5 million dollars respectively were vetoed by the United Kingdom at the Fund's 18th Board Meeting held on September 30 - October 2, 2017 (3). The UK questioned the "concessionality level" and "the rationale for GCF funds," given the "state of development and income" of both countries. This lack of consensus at the GCF Board Meeting was also due to the lack of clarity in the Fund's project presentation requirements. In the case of Paraguay, the project was presented again, and finally approved for USD 25.1 million at the 19th Fund Board Meeting, held on February 26 - March 1, 2018 (4).

Secondly, countries face obstacles when it comes to project development, mainly due to the lack of sufficient human resources skilled in the areas of climate change and project development, as well as basic information that can support the request for funds. One alternative would be to take full advantage of the Green Climate Fund (GCF) readiness windows, where countries have one million dollars annually available for different institutional strengthening and capacity building actions, and that are not fully being used.

Although some countries have presented numerous projects in this window, most do not exhaust resources and lose the annual amount if not used. One possible solution lies in strengthening the relationship between the actors working on site in adaptation with the National Designated Authority of the country. Governments could strengthen the capacities of other non-state organisations that can collaborate in the development or preparation of projects, and open up to government ministries or entities with the same objective. Also, other regional or international organisations already accredited with the Green Fund can be identified and contacted to ask for support.

Regarding other GCF windows, the countries of the region have access to a funding limit of USD 3 million per country to develop their National Adaptation Plans. This is a particular interest of the Fund. This window has already been used by several countries such as Ecuador, Argentina, Uruguay, Costa Rica, Colombia, the Dominican Republic and Haití[1], but there is still plenty of room for other countries to access the funds. Similarly, the Project Preparation Facility (PPF) is another financing facility that is not being utilized by the countries. Only countries such as Ecuador, Colombia, Belize or Paraguay have approved projects for these facilities, but it should be noted that all of them address cross-cutting issues involving mitigation and adaptation actions. This window supports the preparation of projects and programs to be presented to the GCF with funding of up to USD 1.5 million to carry out research or prepare documents, such as feasibility studies, environmental, social and gender studies, risk assessments, identification of project indicators, design of tender documents and financial structuring. One of the requirements is that the funding proposals developed with the PPF must be submitted to the GCF Board within two years after the approval of an application in that window.[2] The use of this instrument could help overcome the lack of human resources mentioned above.

On the other hand, only a few countries in the region have accredited national direct access entities with institutions such as the Adaptation Fund (seven

[1] https://www.greenclimate.fund/countries

[2] https://www.greenclimate.fund/documents/20182/574766/Guidelines_-_Project_Preparation_Facility_Guidelines.pdf/f8b62701-a9ca-4b1e-9e23-e67f1b88abd4

countries)[3] and the GCF (nine countries). This is largely due to the difficulties involved in the process and the many requirements to be considered an Accredited Entity, especially in the area of expertise in managing large amount of funds, as well as other bureaucratic issues. Some countries have managed to overcome these technical difficulties by crediting foundations or other non-state organisations, such as Fundecooperación in Costa Rica with the Adaptation Fund.

This in turn could be the solution to other difficulties that some countries have encountered with their accredited entities in the face of institutional changes. Such is the case of Argentina, that due to changes in the organisation of the State its had to request the reaccreditation of UCAR - its National Entity - and has now encountered difficulties in complying with some of the requirements that had previously been met. However, we must bear in mind that countries can access GCF funds through accredited regional and international entities, although in this way it is not the countries themselves that manage the projects and the funds received. On the other hand, Readiness projects do not require institutions to be accredited, which is an advantage for many countries.

Finally, a large number of countries have reached the limit of USD 10 million per country that can be requested from the Adaptation Fund. In this situation are Chile, Uruguay, Argentina and Costa Rica (5). One of the strategies used to overcome this barrier has been the joint presentation of projects. Thus, countries that apply to a regional project can access an additional USD 14 million. This has been the case of Chile and Ecuador, with a project approved in 2018 to reduce the vulnerability and risk of flooding in coastal cities, and that of Argentina and Uruguay, which have obtained the approval of a project to reduce the vulnerability of coastal cities of the Uruguay River.

In addition to accessing resources that would not be possible to access individually, countries stressed that the Fund is more interested in regional projects and can help overcome some political logics or obstacles. However, there are some potential coordination barriers when involving two countries with their own bureaucratic logic. On the other hand, the Adaptation Fund has analysed the possibility of increasing the funding limit per country individually to USD 15 or 20 million, and even establishing a limit of three regional projects where each country can participate (6).

For sub national governments, at the provincial, state, regional or city levels, access to financing is even more difficult. The first obstacle is the need for national and / or provincial guarantees to obtain international funding. The second is as at the national level, the lack of trained human resources and the need for institutional strengthening. The third obstacle would be the characteristics or size of some cities, which alone cannot access such resources. The Argentine Network of Municipalities against Climate Change (RAMCC in Spanish) found a way to overcome this obstacle by joining efforts and creating a trust in December 2018. Through this mechanism, many cities have united and together now have the support and transparency necessary to enable investments that could not be available to a municipality individually. This is still an emerging experience that aims to obtain funds for adaptation and mitigation actions, which are included in the local climate change plans developed within the framework of the network.

[3] For more information on GCF accredited entities: https://www.greenclimate.fund/how-we-work/tools/entity-directory. For more information on Adaptation Fund accredited entities: https://www.adaptation-fund.org/apply-funding/implementing-entities/national-implementing-entity/.

The challenge of national and private sector funding

Since international funding is and will be insufficient to deal with the adaptation actions that Latin American countries must face, national states must play a central role as the main planners and investors in resilience.

One of the most outstanding experiences in the region is that of the Adaptation Fund of Colombia, initially created to address the areas affected by the "La Niña" phenomenon in 2010-2011, and which as of 2015 was empowered to execute comprehensive projects of risk management and adaptation to climate change with a multi sectoral and regional approach. The decree for the creation of the Fund requires that investments in new infrastructure must first carry out risk studies on mitigating the impacts of climate change. So far the Fund has obtained funding from the national budget, but in the last period international resources have been sought, among others, those of the GCF. This is possible through its creation decree, given that the Fund is entitled to receive international cooperation resources, donations from the private sector, or any sector that wishes to contribute.

In fact, the Adaptation Fund of Colombia is a unique experience in the region, and its creation was possible due to the great fiscal and social impact of the winter-time disasters of 2010-2011, with more than 3 million people affected in the whole country and losses of USD 6,052 million (7). Although the Fund was created for the purpose of reconstruction after a disaster, it will now focus on preventive actions for adaptation to climate change.

But states do not have sufficient resources to make the necessary investments, therefore, the private sector is also needed for funding adaptation actions. One of the problems of adaptation projects is that, in general, they are not attractive for private investment because although they reduce risks, the return or profitability is not as clear as that of mitigation projects. On the other hand, the private sector has its own barriers to implement and finance adaptation actions, such as the availability and accessibility of climate-related data and information, or regulations and policies conducive to addressing resilience efforts, among others (8).

Therefore, a state intervention is needed to establish incentives or a favourable regulatory framework for these investments, both for the productive and/or financial sector, and for households, where there is great potential to explore small residential solutions. One example is Ecuador that has begun the implementation of its Nationally Determined Contribution (NDC), through the design of an incentive scheme that could include tax exemptions, environmental recognition, licenses, among others.

Some of the instruments that are already being used, but that require an extension of funding or greater scale, are micro credits, insurance and green bonds.

Micro credits are used in several countries of the region to support small producers, among others, in the implementation of adaptation measures. These can include the implementation of irrigation systems or other technological solutions, or even provide small solutions in homes, such as housing reforms to prevent losses from flooding. There is no doubt that these small-scale instruments have a lot of potential, but support is needed to subsidise the credit lines.

When taking out an insurance policy, although there are several options in various sectors, especially agriculture, including the so-called indexed insurance, there is still much to be explored, especially at the residential level. Investments in resilience would result in fewer claims for insurers after extreme weather events, so it would be convenient to have a greater involvement of this sector, lowering the premiums in specific actions that users or producers can do to reduce risks.

There are experiences such as Costa Rica's «Adapta2» program, which through financial instruments offer a discount of up to 35% in agricultural insurance when certain adaptation actions are conducted. Another example is that of InsuResilience Global Partnership, created in 2017 with the objective of providing climate risk insurance for poor and vulnerable people in developing countries. In Paraguay a project is being conducted in cooperation with a micro finance institution to develop a climate index insurance based on satellite data covering extreme events such as drought or excessive rainfall.[4]

Finally, another instrument that is growing rapidly is green bonds, although mostly used for mitigation and not so much for adaptation. A recent case that included both categories was Chile with its USD 1,418 million sovereign green bond, the first ever issued in the Americas.

This instrument will finance several mitigation actions, such as public electric transport and renewable energy, but also adaptation actions, such as promoting the conservation of biodiversity, marine resources and water management (9). Latin American countries still have a long way to go but there are great potential advantages to be gained.

Recommendations

Adaptation funding in Latin American countries should focus on tripartite planning, involving: 1) access to international funding; 2) investments at national and sub-national levels through a national budget; 3) private sector investments, including residential homes.

In terms of international funding, Latin American countries have to work on institutional strengthening to access and effectively execute the funds received. Some GCF funding windows aimed at these developments are not being fully exploited and could work together with different actors and / or with accredited entities to achieve this objective.
In the area of national public funding, the creation of instruments such as the Colombian Adaptation Fund, could be used to make the necessary investments in infrastructure and also at an economic and social level, in an effort to anticipate disasters and avoid millionaire losses. Likewise, a cross-cutting and resilient view should be fostered in all investments, especially those of infrastructure in the countries.

For the private sector, the GCF has established several recommendations to involve these actors in adaptation planning, highlighting first of all the need to include them from an early stage in the process. Among other good practices, the GCF suggests focusing on risk transfer instruments, supporting the production of climate information and forecasts and / or developing funding proposals that target specific gaps in the private sector. Some solutions promote working with banks, national banking associations, and microfinance associations to develop needs assessments that allow promoting investments in adaptation, resulting in a policy proposal to improve the investment environment in adaptation.

Thus, the sum of the three areas, international funding, national public funding, and private sector funding -especially national but also international- could be the best combination to achieve the necessary funding for climate change adaptation in Latin American countries.

[4] https://www.insuresilience.org/projects/

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Annex // Interviews Conducted

- Ignacio Lorenzo, Director of Climate Change, Ministry of Housing, Territorial Planning and Environment (Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente), Uruguay.
- Carolina Reyes, Coordinator of the Adaptation Fund, Fundecooperación, Costa Rica.
- Soledad Moreiras, Unit for Rural Change (Unidad para el Cambio Rural -UCAR), Argentina.
- Andrés Araya Montezuma, Costa Rica Integra, Costa Rica.
- Luis Fierro, Consultant and former Financial Advisor of the Independent Association of Latin America and the Caribbean (Asociación Independiente de América Latina y el Caribe - AILAC).
- Jacinto Buenfil, Microfinance Coordinator for Ecosystem-Based Adaptation Project, MEBA, UN Environment Program UNEP (Microfinanzas para la Adaptación Basada en Ecosistemas (MEBA), PNUMA.
- Mayté González, Latin America Regional Advisor, Green Climate Fund.
- Alejandro Cejas, Argentine Municipal Network and Climate Change (Red Argentina de Municipios frente al Cambio Climático RAMCC), Argentina
- Alejandra López, Financial Advisor for AILAC.
- Nora Paez, Head of the Adaptation Department, Climate Change Division, Ministry of the Environment and Sustainable Development, Paraguay.
- Daniel Tomasini, Advisor for the Government of Entre Rios, Argentina.
- Dr. Edgar Ortiz Pabón, Manage, Adaptation Fund, Colombia.
- Anibal José Pérez, Assistant Manager Risk Management, Adaptation Fund, Colombia.

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AUTHOR
Virginia Scardamaglia
Mg. International Relations and Negotiations,
FLACSO Argentina Researcher.
vscardamaglia@flacso.org.ar

RESEARCH ASSISTANT
Mariana Micozzi

REVIEWERS
Pilar Bueno
Paula Ellinger

GENERAL EDITOR
Paula Bianchi

PROOFREADER
Gerardo Ferreira

TRANSLATOR
Patricia Wild

GRAPHIC DESIGN

Hola

hola@estudiocreativo.com

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