

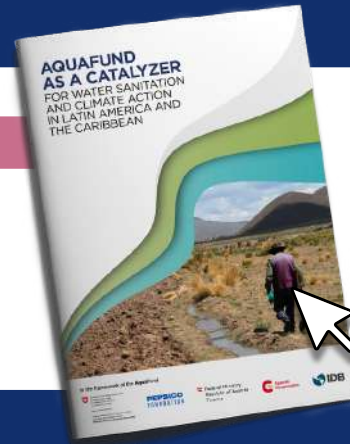
AQUAFUND AS A CATALYZER FOR CLIMATE ACTION IN THE LAC REGION

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**AQUAFUND
AS A CATALYZER**
FOR WATER SANITATION AND
CLIMATE ACTION IN LATIN AMERICA
AND THE CARIBBEAN



CONTEXT



Water is fundamental to the Region's economic growth, with essential exports relying entirely on it.



Over **70%** of agricultural output in Latin America and the Caribbean (LAC) relies on rainwater (Villalobos et al., 2017).



Approximately **60%** of its electricity is generated from hydroelectric sources (Villalobos et al., 2017).

CRUCIAL ISSUES IN THE REGION

The combination of extreme events and water scarcity could jeopardize economic growth and security in Latin America in the near future. The main concerns include:

1 Water Availability

A study conducted by the Inter-American Development Bank (IDB) on water resource availability, considering climate scenarios and socioeconomic development trends, reveals that in a hundred years, the Region's water scarcity issues will stem from population growth and economic expansion, leading to higher consumption and demand for water and biodiversity services.

2 Droughts and Floods

These events are becoming increasingly frequent and severe. Reduced water availability in certain regions leads to a higher concentration of minerals and pollutants, posing a risk to public health when water levels drop.

3 Costs Related to Extreme Events

A warming planet intensifies weather patterns, leading to more destructive natural disasters in the Region, which result in significant costs:



Around **90%** of all natural disasters are water-related, with floods accounting for **43%** of all recorded natural disasters since 1995 (UNDRR, 2017).



By 2050, the economic impact of climate change in the Region could reach **\$100 billion** per year (Martinez, 2017).



The International Labor Organization (ILO) projects that heat stress alone could result in the loss of **2.5 million** jobs in LAC by 2030 (Hirsch, 2019).

WHAT WE DO

In this context, AquaFund (AQF) has taken a prominent role in financing and offering technical expertise for water management, as well as adaptation and mitigation policies, to foster more resilient economies in the Region. This report focuses on the period from 2018 to 2021 as a key capitalization period for AquaFund.

1 Climate Finance Tracking at the IDB

The IDB Group's Climate Change Action Plan (CCAP) for 2021-2025. This plan acknowledges the necessity for all countries to fulfill their commitments to achieving net-zero emissions by 2050, by uniting public, private and innovative efforts.

The Tool

The IDB Group is dedicated to implementing climate change mitigation and adaptation actions in the development projects they finance, and have agreed to monitor this through the Multilateral Development Banks (MDB) Climate Finance Tracking Methodology:

It measures the financial flows from MDBs that support activities related to climate change mitigation and adaptation.

It categorizes mitigation finance as the number of resources allocated to projects or activities aimed at reducing, limiting or sequestering greenhouse gas (GHG) emissions.

Adaptation Finance

It refers to the number of resources allocated to projects or activities designed to reduce current or future risks and vulnerabilities associated with climate change.

The methodology for tracking adaptation finance is based on an analysis of the local vulnerability context and the characteristics of the proposed adaptation measures. Consequently, the climate finance estimates are not the result of precise mathematical calculations but stem from an evaluation that involves a certain level of subjectivity.

2 The AquaFund's Contribution to Climate Finance (2018-2022)

Climate Change Financing Target



AquaFund (AQF) set a climate change financing target of **30%** in its Result Framework for 2018-2021 to enhance the funding of climate change-related projects, which would be monitored using the MDB's Climate Finance Methodology.

The percentage of climate financing in relation to the total funding of projects supported by AquaFund from 2018 to 2022, as per the MDB methodology, is particularly notable, especially when compared to the prior period of 2009 to 2015, when assessed using the Climate Finance Methodology:

18%

was the annual average of the portion of climate finance in operations financed by the AquaFund.

12%

was the annual average over the 2016-2018 period, which showed a significant rate drop.

The AQF team focused on adjusting and enhancing the outcomes, resulting in a notable and swift rise in climate finance, reaching 41% of the resources allocated for climate change activities in the 2019 approved portfolio.

The proportion of climate financing has shown a consistent increase since 2018:

It represents a

6%

of the total funding of AquaFund.

63%

was its highest point (2021).

23%

was its most significant drop (2022).

Initiatives

In addition to tracking climate finance, climate change is fully integrated into the IDB Water and Sanitation Division Sector Framework, as well as in AquaFund's strategic and operational efforts, including both routine projects and specific initiatives such as:

1

Optimal
Sanitation

2

HydroBID

3

Water
Security

4

Transboundary
Waters

5

Too Good
To Waste

6

Circular
Economy

International Funds

AquaFund has been instrumental in attracting international funding for water projects and their connection to climate change. Its ability to mobilize climate finance from both internal and external sources has achieved co-financing amounts exceeding \$3 million annually from climate funds within the Bank's active portfolio. This financing is sourced from the Bank's internal climate funds, including:

1

The Ordinary Capital
Strategic Development
Program for Sustainability
(SUS)

2

The Accelerator
Multi-Donor Trust Fund
(ACL)

3

The Sustainable
Energy and Climate
Change IDB Special
Program (SCI)

4

The Emerging and
Sustainable Cities
Program (ESC)

Furthermore, AQF has facilitated the mobilization of international climate funds, including financing from the Global Environment Facility (GEF), to expand initiatives such as CREW, Water Funds and the Pantanal special initiatives. Additionally, AQF's assistance to the Water Funds has been crucial in securing funding from the International Climate Initiative (IKI), which is the largest source of climate financing from the German Government.

3 The AquaFund Actions in Climate Change

The impacts of extreme events and climate change can be tackled through two primary policy approaches:



Adaptation

Climate change adaptation policies and interventions seek to modify systems and practices, aiming at minimizing harm or capitalizing on opportunities arising from changing climate conditions. It emphasizes resilience and vulnerability reduction.



Mitigation

It seeks to decrease or prevent greenhouse gas (GHG) emissions, addressing the underlying causes of climate change.

Thematic Areas

AquaFund seeks to integrate climate change issues throughout its portfolio across all thematic areas, including initiatives that assist client countries regarding:



Water security



Solid waste
management



Wastewater
management



Climate-related disaster
risk management

Moreover, its support encompasses various levels of government, including national adaptation plans for vulnerability assessments and the development of adaptive capacity or targeted local policies aimed at reducing greenhouse gas (GHG) emissions from solid waste and wastewater management.

AquaFund's Adaptation Interventions in the Region

Water Security

In 2019, AquaFund financed the Water Security Strategy for Latin America and the Caribbean to:



Assist countries in adopting an integrated approach to water and ecosystems to mitigate climate change.



Aid countries in adapting to the unavoidable impacts of climate change.



Ensure the sustainable provision of water services for all social and economic activities in an environmentally responsible way.

Currently, the Water Security Strategy serves as the foundation for the Bank's interventions to adapt to climate change and has evolved into an "umbrella program" that encompasses numerous significant initiatives, such as:

Water Funds

Transboundary Waters

HydroBID

Multi-Sector Investment Plans

AQF's support for this umbrella Water Security program has involved creating multi-sector investment plans at the basin, national and transboundary levels. To date, AQF has secured over **\$9.5 million** from external partners to fund the development of investment programs in ten national watersheds within the Region and three transboundary watersheds:

1 Pilcomayo



2 The Pantanal



3 The Amazon



HydroBID Tools

HydroBID is a key initiative centered on data and science to tackle Water Security.

It offers a consistent regional tool for analyzing water resources throughout Latin America.

Currently, it assists 26 member countries in improving the Sustainable Management of Water Resources by pinpointing potential new loans for sustainable infrastructure in the Region.

AquaFund backs HydroBID tools and their Support Center (CeSH) in LAC, which has established itself as a reference center for Water Security and Climate Resilience in the Region.

Technical Studies and Interventions

As part of the Bank's Transboundary Water initiative, AQF has funded technical studies aimed at preserving water-dependent ecosystems in the two largest and most significant biodiversity hotspots in the Region:

1. THE PANTANAL



It is **one of the largest wetlands** in the world, which produces ecosystem services valued at up to **\$112 million** year.

It covers an area of **158,000km²** within the territories of **Bolivia, Brazil and Paraguay** (Alpizar, et al., 2020).



Wetlands have been shown to provide a local **cooling effect of at least 1-3°C** (Filho et al., 2017).



The National Water Agency of Brazil (ANA, by its Portuguese acronym) developed an **Investment Plan for the Pantanal** estimated at **\$500 million**.

Over **\$8.4 million** unlocked from external donors like:



The Global Environment Facility (GEF): to develop the first transboundary diagnosis and strategic plan in the Pantanal.



The Latin America Investment Facility (LAIF, by its Spanish acronym): to develop the water balance of the Pantanal basin.

2. THE AMAZON

The world's largest tropical forest is facing unprecedented development pressures:

-  Dam construction
-  Mining
-  Oil and gas exploration and extraction
-  Pollution
-  Changes in land use that lead to large-scale deforestation



The Amazon Cooperation Treaty (ACT) gave rise to the Amazon Cooperation Treaty Organization (ACTO) to help the region improve the integrated management of water resources and reduce the structural inequality gaps, with emphasis on water quality through strategic planning in the provision of:



Drinking water services



Basic sanitation



Solid waste management



ACTO leveraged additional resources from key climate partners like the GEF and the Green Climate Fund (GCF).



In parallel, the IDB is leading the first institutional fund for the Amazon.

Other key interventions are:



Management of Water Resources in the Pilcomayo River Watershed, **Argentina**



The Master Plan for the Integrated Management and Sustainable Use of the Magdalena River Basin, **Colombia**



The Water Resources Management Plan for the Paraguay River Hydrographic Region, **Paraguay**



The Project of Water Security for the Coastal Area of the Department of Canelones, **Uruguay**

Extreme Events: Droughts and Floods

AquaFund has been instrumental in addressing the impacts of water-related extreme events and climate change in the Region. An essential component of flood control is the implementation of drainage systems, and AquaFund has contributed to this area through Technical Cooperations, such as Urban Water Management and Sustainable Urban Drainage Systems, which have helped countries with:



More efficient management of urban waters



Designing green infrastructure projects for flood mitigation



Enhancing their capacities in sustainable drainage

Additionally, AquaFund supported a Technical Cooperation that developed Water Security and Drought Management plans for LAC countries by customizing a drought management plan to enhance resilience in the project area.

AquaFund's Mitigation Interventions in the Region

AquaFund also provides a comprehensive strategy for climate change mitigation, emphasizing the reduction of environmental impacts through the management of:



Food loss and waste



Solid waste



The promotion of circular economy practices throughout Latin America and the Caribbean

AQF has funded projects aimed at municipal solid waste management by promoting the adoption of circular economy policies and creating digital platforms for improved waste data management.

4 AquaFund's Contribution to Governance and Finance

AquaFund not only offers Technical Cooperation support for climate change mitigation and adaptation but also adopts a long-term approach by enhancing governance capabilities in the Region. For instance, in 2017, AQF co-financed a Technical Cooperation aimed at promoting the design and monitoring of Water Funds (WFs). These organizations create and advocate for financial and governance mechanisms that bring together public, private and civil society stakeholders to contribute to:



Water Security, through the Integrated Water Resources Management (IWRM) at the watershed level



The implementation of Nature-Based Solutions (NBS)

By uniting public, private and civil society organizations, the WFs facilitate the establishment of agreements and a shared understanding of the key issues affecting the watershed or area of influence defined by the Fund (UN, 2021). Additionally, the Water Funds initiative encompasses the development of:



Hydrological and environmental studies



Socioeconomic and legal analysis



Demonstrative projects (NBS on on-site)

To date, these resources have mobilized over **\$16 million** from partners such as the FEMSA Foundation (by its Spanish acronym), The Nature Conservancy, the Global Environmental Facility (GEF) and the International Climate Initiative (IKI). These funds have led to remarkable achievements in terms of:

Implementing conservation activities across more than
305,000
hectares



Engaging over
200
public and private organizations



Benefiting more than
97 million
families through resources provided by the watersheds involved in the initiative



5 AquaFund's Future Opportunities

AquaFund will persist in mobilizing resources for adaptation and mitigation activities in the Region by:

Enhancing public policies

Building capacity

Supporting the integration of climate change considerations into master plans and the design of sustainable infrastructure

Utilizing Nature-Based Solutions as a cost-effective approach for adapting to climate change

The Fund will remain a vital resource to assist our client countries in:

Developing more resilient infrastructure and services

Unlocking the sector's potential to contribute to carbon mitigation

Fostering more sustainable development in the Region

AquaFund aims to continue aiding mitigation and adaptation efforts to:



Mitigate the impacts of extreme events exacerbated by climate change in the Region.



Provide financial support for initiatives aimed at achieving water security.



Emphasize the efficient and effective use of water resources and their role in sustainable development.



Support GHG mitigation and sector decarbonization.



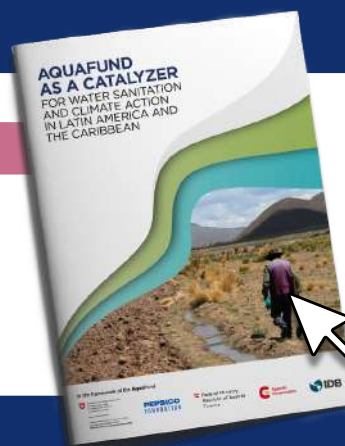
AQF supports the execution of the sector's Water Security Strategy.



Future interventions will focus on enhancing Innovation and Science for Water Security.

READ MORE HERE:

AQUAFUND AS A CATALYZER FOR WATER SANITATION AND CLIMATE ACTION IN LATIN AMERICA AND THE CARIBBEAN



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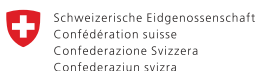
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