

How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean?



Meeting the climate change challenge requires structural transformations in infrastructure, health and social protection, and financial institutions.



Climate action calls for a redirection of existing financial flows. An adequate response requires redirecting financial flows to achieve annual spending of 2 to 8 percent of GDP on the provision of infrastructure services and 5 to 11 percent of GDP on social programs.



Specific financing sources, such as green taxes and sustainable bonds, can finance part of climate efforts. However, to redirect public and private spending and foreign investment into solutions consistent with climate goals, governments will also need to reform policies and regulations in all sectors.

CONTEXT

Latin America and the Caribbean must meet the challenge of climate change while achieving other sustainable development goals. Climate change already has significant effects on agricultural and industrial activities, labor productivity, infrastructure, population health, social conflicts, migration, forests, and ecosystems, and the impacts of climate change will intensify over the next century. Of the few studies that estimate the total monetary costs of climate change, some suggest that inaction could have costs of up to 16% of global GDP, with the highest costs in emerging economies with warmer climates.

PROJECT

This study examines the region's costs of meeting Paris Agreement goals and the sources of finance available to do so, finding that climate action does not consist primarily of additional spending, but instead requires a massive redirection of existing financial flows. Furthermore, climate action is closely linked to social spending, since poverty, inequality, and lack of access to basic health services exacerbate vulnerability to climate change. Responding to the climate crisis requires redirecting financial flows to achieve annual spending of 2 to 8 percent of GDP on the provision of infrastructure services and annual spending of 5 to 11 percent to address a variety of social challenges.

RESULTS

Building the infrastructure needed to provide basic services and meet climate goals requires annual investments of about 5 percent of GDP, with a range between 2 and 8 percent of GDP, until 2030. These investments represent about US\$280 billion in 2019. In contrast, current annual investment in infrastructure is slightly less than 3 percent of GDP (about US\$170 billion in 2019). Making this infrastructure resilient represents a modest additional cost of 3 to 10 percent of its cost (0.15 to 0.5 percent of GDP, or US\$8 billion to US\$28 billion in 2019). The benefits of resilience in terms of avoided costs of natural disasters and incentives to attract investment are four times higher than the cost involved. Decarbonization does not add a significant cost to infrastructure spending since, for example, renewable energy and electromobility are already competitive with or cheaper than their fossil fuel-based counterparts during their life cycle.

The social investment required to build the resilience of the population and promote a just transition involves spending of between 5 and 11 percent of GDP (US\$337 to US\$741 billion in 2030). For example, offering a universal cash income to over-65s and under-18s would cost around 5 percent of GDP. Addressing the challenge of extreme poverty requires about 6 percent of GDP, while simultaneously addressing the challenge of extreme poverty, infant mortality and high school completion requires investments of about 11 percent of GDP by 2030.

In total, the infrastructure and social spending needed to meet climate change goals in the region is between 7 and 19 percent of GDP by 2030 (US\$470 billion to US\$1.3 trillion in 2030) depending on initial conditions and proposed economic and social targets.

POLICY IMPLICATIONS

This work has several policy implications. First, climate goals cannot be achieved without addressing other sustainable development goals involving infrastructure and poverty that are intrinsically related to climate, such as those related to energy, transportation, water, agriculture, and ecosystem conservation. Therefore, it is imperative that all infrastructure investment and planning take sustainability objectives into account. Furthermore, since vulnerability to climate change is exacerbated by inequality, poverty, and poor health, spending on social programs is essential to meeting climate goals.

Second, financing climate action primarily requires a massive redirection of existing, primarily domestic, financial flows instead of additional spending. Furthermore, the benefits of this redirection will be far greater than their costs because it will avoid the worst impacts of climate change and generates economic, social, fiscal, and environmental benefits. One of these benefits is that these changes can create 15 million net new jobs and add 1 percent of economic growth in the region by 2030.

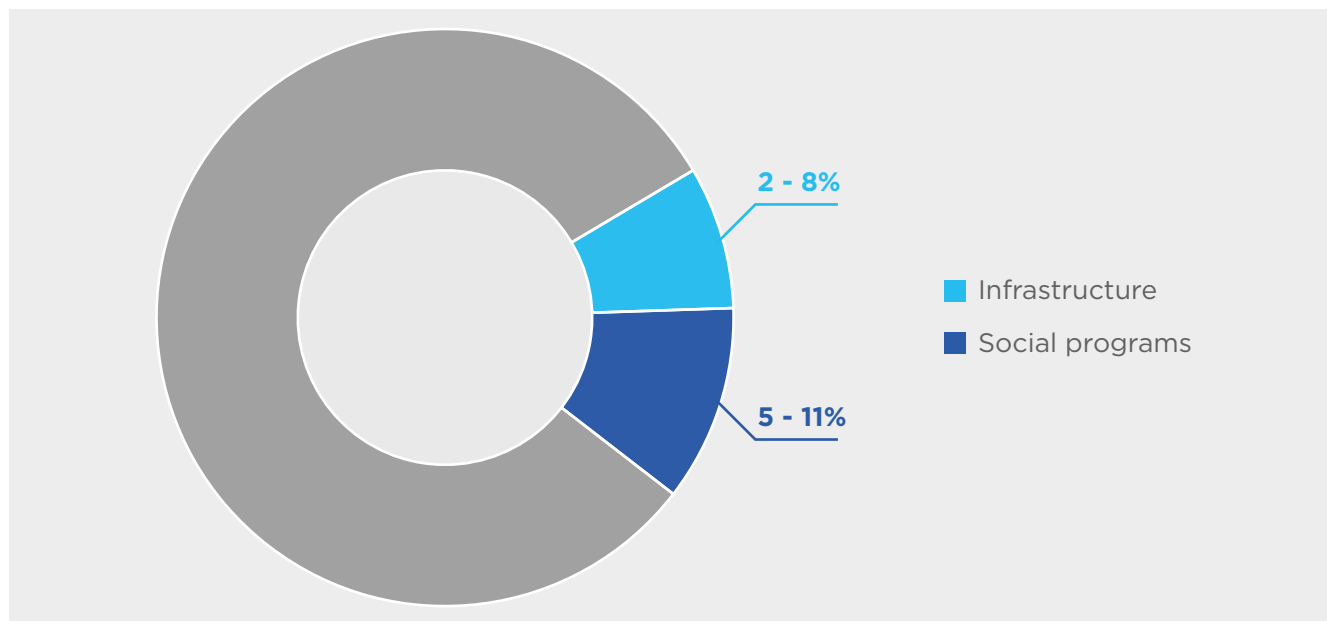
Key Concept



PARIS AGREEMENT

An international treaty on climate change adopted by 196 parties at COP 21 in Paris on December 12, 2015 with the goal to limit global warming below 2 degrees Celsius.

Figure 1. Investments Needed to Achieve Climate Goals under Paris Agreement in Latin America and the Caribbean (% of GDP)



FULL STUDY

[Galindo Paliza, L.M., B. Hoffmann, and A. Vogt-Schilb. 2022. "How Much Will It Cost to Achieve the Climate Goals in Latin America and the Caribbean?"](#)

DEPARTMENT OF RESEARCH AND CHIEF ECONOMIST

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