UNITED NATIONS DEVELOPMENT PROGRAMME

Strengthening climate finance architecture in Chile:

Achievements and lessons learned from the NDC Support Programme

2025

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Cover photo credit: UNDP Chile

Acknowledgements
The authors express sincere thanks for the invaluable support provided by UNDP global, regional and country teams. Special thanks to Gianluca Merlo, Paloma Toranzos and Fernando Cordova.

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About this publication
This product was developed under UNDP's Climate Promise by the NDC Support Programme, in contribution to the NDC Partnership, with generous funding from the Governments of Germany, Spain and the European Union.

NDC PARTNERSHIP

Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety

Co-funded by the European Union

Federal Ministry for Economic Cooperation and Development

aecid
Spanish Agency for International Development Cooperation

1. Introduction

The climate crisis poses a fundamental challenge to global development, with far-reaching consequences for economies, societies and ecosystems. Climate change impacts, including rising sea levels, extreme weather events, biodiversity loss and resource scarcity, disproportionately affect the most vulnerable populations. To address these challenges, the Paris Agreement, calls for countries to develop and implement Nationally Determined Contributions (NDCs). These NDCs serve as policy instruments for realizing climate action, integrating climate change mitigation and adaptation into national planning, and mobilizing the necessary investment to achieve low-carbon, climate-resilient development. This requires a whole-of-government and whole-of-society approach, ensuring inclusive governance, robust investment frameworks and strong institutional coordination.

In light of these challenges, in 2017, UNDP launched the US$74.7 million NDC Support Programme (NDC SP), funded by the European Union and the governments of Germany and Spain. The goal of the programme was to support governments to achieve transformational change by scaling up public and private investments in climate change actions to deliver long-term sustainable development and championing the benefits of low-carbon, climate-resilient development.

The programme focused on nationally driven priorities and initiatives, ensuring country ownership of climate action, and provided long-term support, recognizing that transformational change requires sustained investment, technical assistance, and institutional strengthening over multiple years. It supported interlinked topics such as governance, policy coherence, finance, private sector engagement, capacity-building and gender equality and inclusivity to create a cohesive and effective response to climate challenges.

Over its lifetime, the NDC SP supported 47 countries and territories. This case study explores the comprehensive work undertaken in Chile and illustrates the activities, outcomes, achievements and key lessons from the implementation of the NDC SP. In doing so, it highlights in-country successes, while also identifying insights gained during the programme's design and execution.

2. Country context and collaboration

Chile has positioned itself as a regional leader in climate action, leveraging its institutional strengths to advance ambitious policy commitments under the Paris Agreement. The country's NDC, first submitted in 2015 and updated in 2020, reflects a firm commitment to carbon neutrality by 2050, capping total emissions at 1,100 $MtCO_2eq$ between 2020 and 2030, with peak emissions expected no later than 2025. These goals were reinforced through the Framework Law on Climate Change (LMCC), enacted in 2022, which institutionalized a systematic approach to climate governance by mandating long-term emission reduction strategies, adaptation planning and financial transparency mechanisms. The NDC SP supported the participatory process for the preparation of the Draft Framework Law on Climate Change. This process anticipated and facilitated the debate on Chile's challenges in committing to climate action, ultimately established the goal of carbon neutrality by 2050. Support to this participatory process was central to the development of the first drafts of the law.

Enhancing Chile's climate finance architecture. Chile's geographical vulnerability to climate change — marked by extreme droughts, desertification and increased frequency of wildfires— has intensified the urgency for effective climate finance. In response, the NDC SP played a critical role in enhancing Chile's climate finance architecture, improving expenditure tracking and fostering public-private investment frameworks. The programme, implemented between 2018 and 2023, was in collaboration initially with the Ministry of Environment, and starting in 2020, with the Ministry of Finance. A key outcome of this collaboration was that it strengthened financial tools that can help ensure Chile's climate commitments were backed by sustainable investment strategies.

Integration of climate-related financial components to achieve climate objectives. One of the defining features of Chile's climate finance governance is the protection of climate-related financial components from political cycles and administrative shifts. The LMCC spearheaded the development of a Climate Change Financial Strategy, which contains the main guidelines to guide the contribution of the public and private sectors toward consolidating greenhouse gas emissions and climate-resilient development. This institutional safeguard will provide long-term financial stability, allowing Chile to plan, implement investments, and sustain climate action regardless of political transitions.

3. Key outcomes and achievements

The NDC SP significantly strengthened Chile's climate finance governance, institutional transparency and private sector engagement. Box 1 describes the main features of Chile's climate finance institutionalization.

Institutionalization of a climate budget tagging (CBT) system. A cornerstone of the programme was the institutionalization of a climate budget tagging (CBT) system, enabling the government to identify, track and report public climate-related expenditures during the budget law elaboration process. This tool helps to ensure that public expenditure in climate action is transparent, accountable and aligned with national policy objectives.

Integration of climate finance tracking and report mechanisms. One of the most impactful outcomes was the integration of climate finance tracking mechanisms into climate reporting methodologies, making Chile a pioneer in systematic expenditure monitoring and reporting for climate action. The programme led to the institutionalization of the Climate Public Expenditure and Institutional Review (CPEIR) framework, ensuring climate-related expenditure reporting that takes into account national priorities, climate change management instruments and adapted to the national climate reality and risks.

Creation of the Climate Investment Report. Complementing CBT and CPEIR efforts and in support of mainstreaming climate considerations into fiscal planning and policy formulation, the NDC SP supported the establishment of the annual Climate Investment Report (2022, 2023) under Article 38 of the LMCC. The annual report details public investments in climate action, providing transparency surrounding climate finance and facilitating data-driven decision-making for future financial planning and investment allocation. The Ministry of Finance, with UNDP support, led efforts to consolidate cross-sectoral climate expenditure data, reinforcing Chile's position as a regional model for climate finance reporting.

Box 1

Box 1. Institutionalizing climate finance through budgeting and transparency

Objective

To integrate climate finance into national fiscal planning through systematic expenditure tracking, ensuring that climate-related investments were transparent, data-driven and aligned with Chile's NDC commitments.

Key activities

- Implemented a climate budget tagging (CBT) system, enabling the classification and tracking of climate-related expenditures across government ministries.
- Established and implemented the Climate Investment Report methodology, ensuring a standardized mechanism for monitoring and reporting on climate expenditure, assuring capacity building in government officials.
- Developed technical guidance for ministries to incorporate climate considerations into budgetary planning.

Key outputs

- Climate budget tagging institutionalized in the 2022 Budget Law, ensuring that climate expenditure was systematically monitored.
- Annual publication of the Climate Investment Report, providing a transparent record of public sector climate spending.
- Trained over 100 government officials in climate finance methodologies, improving institutional capacity and technical expertise.

Key outcomes

The institutionalization of climate finance tracking and reporting mechanisms significantly enhanced Chile's capacity to mobilize and allocate climate resources effectively. The establishment of the Climate Investment Report created a long-term accountability framework, ensuring that financial decisions remained aligned with national climate goals and decision-making on climate-related matters is informed by appropriate financial information.

Evaluating the costs and financial requirements of carbon neutrality. Chile established in its 2021 Long-Term Climate Strategy the commitment to achieve carbon neutrality by 2050. This commitment was reaffirmed by the Climate Change Framework Law in 2022. However, achieving this goal requires an understanding of the costs involved in the transition to a low-emission economy, where the energy sector is responsible for 78 percent of the country's greenhouse gas (GHG) emissions. Box 2 describes the NDC SP's support for determining the costs and financial requirements for achieving carbon neutrality in the energy sector using UNDP's Investment and Financial Flows (I&FF) methodology.

Box 2 Evaluating the costs and financial requirements of carbon neutrality

Objective

Estimate the additional capital required to implement each of the GHG mitigation measures to achieve carbon neutrality by 2050 in the energy sector in Chile.

Key activities

- Determine the cost differential required to move from the current emissions scenario to the carbon neutrality scenario by 2050.
- Quantify the investment (CAPEX) and operation and maintenance (OPEX) costs required for each measure.
- Identify and classify by economic sector and entity (businesses, households or the state) that should be part of these financial flows.

Key outputs

- The additional CAPEX required to achieve carbon neutrality amounts to US$260.587 billion. The transportation sector will account for 60 percent of this investment, followed by the industrial and mining sector with 26 percent.
- This investment will result in OPEX savings of $528.237 billion, representing a total of $267.649 billion. The main savings are concentrated in the transportation sector (41 percent), residential sector (39 percent), and industrial and mining sector (15 percent).
- Households will be the main beneficiaries of these measures, taking advantage of 81 percent of the net savings.

Key outcomes

Proper financial management of the climate objectives and commitments established by Chile requires determining the costs necessary to achieve them, accompanied by quantifying the potential savings from implementing such measures. The application of the I&FF methodology has demonstrated the economic benefits of implementing the path to carbon neutrality in Chile. This has represented a first step toward the recurring costing of the country's goals and the identification of financial needs and the alignment of flows not only in climate matters, but also toward achieving other objectives in areas such as biodiversity, a just socio-ecological transition, and circular economy.

4. Lessons learned

Chile's implementation of the NDC SP provided critical insights into the governance, financial and institutional mechanisms required to sustain long-term climate action. While the programme successfully introduced climate finance tracking, green bond issuance and public-private cooperation frameworks, several challenges emerged that shape key lessons for future implementation. Issues such as multi-level coordination, equitable financial distribution and private sector engagement underscored the complexity of aligning national climate commitments with financial and institutional realities.

Multi-ministerial coordination is essential but must be strategically aligned. A central lesson from Chile's experience was that interministerial coordination is necessary but must be structured to align with the functional responsibilities of different ministries. The Ministry of Environment played a pivotal role in early policy formulation, yet the success of climate finance mechanisms depended heavily on the engagement and leadership of the Ministry of Finance. For sector-specific interventions, collaboration with line ministries such as energy, transport and agriculture is crucial in ensuring climate policies are operationalized effectively.

Subnational governments need financial and technical capacity to implement climate action. Chile's decentralized governance structure created disparities in technical capacity and financial access at the regional and municipal levels. While the national government successfully integrated CBT and CPEIR into fiscal planning, local governments often struggled to access, manage and allocate climate finance effectively. Many lacked the institutional expertise to align regional development priorities with national climate objectives, leading to uneven implementation across different territories. This demonstrated that decentralization alone is not enough; it must be accompanied by targeted financial support and capacity-building efforts for subnational actors.

Institutionalizing climate finance strengthens policy continuity but requires legislative backing. Chile's experience illustrated that embedding climate finance into national budgetary systems is one of the most effective ways to ensure long-term policy continuity. By integrating climate expenditure tracking within national budget laws and mandating annual Climate Investment Reports, Chile established mechanisms that reduced the vulnerability of climate finance to shifting political priorities. However, while these institutional measures provided transparency and stability, their full effectiveness depended on legislative backing. Ensuring that climate finance mechanisms are legally protected strengthens their resilience against changes in administration and shifting fiscal priorities.

Private sector engagement requires consistency and long-term policy signals. One of the main challenges identified in Chile's experience was maintaining continuous engagement with the private sector. While climate finance incentives successfully attracted initial investments, regulatory uncertainty and shifting incentive structures discouraged long-term commitments from businesses. The absence of stable, long-term policy frameworks creates hesitancy among investors who want predictability before committing to climate-related projects. This underscores the importance of providing clear and stable investment signals to maintain private sector confidence in national climate strategies.

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