Climate Funds Update

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Climate Finance Thematic Briefing: Mitigation Finance

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Climate Finance Fundamentals 4

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Progress in making ambitious emission reductions has been slow to date. Climate finance can play a crucial role in assisting developing countries to make the transition to more environmentally sustainable systems of energy production and use, while also addressing developmental priorities of energy security and energy poverty. Currently, the largest sources of international public finance for climate mitigation in developing countries are the World Bank-administered Clean Technology Fund (CTF), the Green Climate Fund (GCF) and the Global Environment Facility (GEF). Operational since 2015, the GCF has increasingly become a major source of mitigation finance; in 2020, alone, it approved the largest amount of mitigation finance at USD 1,022 million for 11 mitigation projects during the first year of its first replenishment period (GCF-1). Currently about 45% of the financing approved since 2003 flowing from the dedicated climate finance initiatives that Climate Funds Update (CFU) monitors is approved for mitigation activities (excluding REDD+ – reducing emissions from deforestation and forest degradation, plus the sustainable management of forests and the conservation and enhancement of forest carbon stocks). This is largely to support the development and deployment of renewable energy and energy efficiency technologies in fast growing countries. The cumulative amount of finance approved for mitigation from climate funds was USD 11.2 billion as of December 2020.

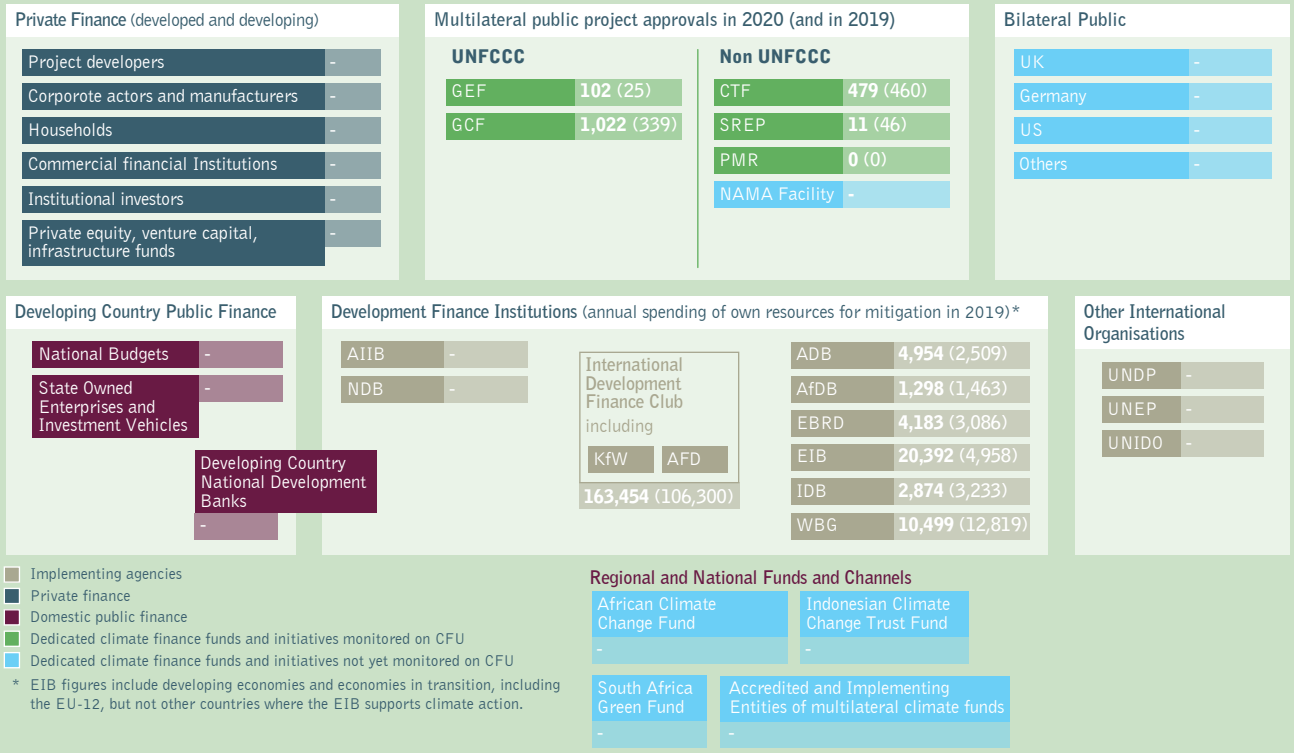
Introduction

There is a global consensus, confirmed by the 5th Assessment of the Intergovernmental Panel on Climate Change (IPCC), that the temperature rise due to climate change should be restricted to 2˚C if the most dangerous impacts are to be avoided (IPCC, 2014). The Paris Agreement raised the ambition to keep global warming closer to 1.5˚C, thus upping the ante even further (UNFCCC, 2015). The 2018 IPCC Special Report showed that climate change impacts at 1.5˚C of warming will be considerably lower than at 2˚C, a target that is possible through deep transitions in energy, land, urban, infrastructure and industrial systems, with the window of opportunity to act closing fast (IPCC, 2018). The bulk of the immediate burden for greenhouse gas (GHG) reductions rests on the shoulders of developed countries, but it is also essential that developing countries incorporate climate mitigation into their development plans by pursuing comprehensive low-carbon development strategies. International climate finance can assist developing countries in implementing priority mitigation actions including renewable energy and energy efficiency programmes, and more sustainable transport.

Which climate funds support mitigation?

Figure 1 presents an overview of the global mitigation finance architecture, while Table 1 and Figure 2 present the main multilateral climate funds tracked by CFU that support mitigation actions in developing countries. Funds differ widely in the scale of mitigation projects and programmes they can accommodate and the number of developing countries they support. For example, the 148 approved projects under the CTF benefit a small number of emerging market economies to achieve scaled-up action. The CTF has approved USD 5.3 billion in largely programmatic, loan funding to these countries. In contrast, the 515 individual grant-financed projects supporting mitigation under GEF-4, 5, 6 and 7, which cover most developing countries, account for less than half of this amount. The GEF's System for Transparent Allocation of Resources (STAR) allows developing countries with low per capita income to access small-scale mitigation grant finance from the GEF.

Figure 1: Mitigation finance architecture (USD millions)



Multilateral Funds and Initiatives	
CTF	Clean Technology Fund (implemented through WB, ADB, AfDB, EBRD and IDB)
GCF	Green Climate Fund
GEF	Global Environment Facility
PMR	Partnership for Market Readiness
SREP	Scaling Up Renewable Energy Program in Low Income Countries (implemented through WB, ADB, AfDB, EBRD and IDB)
NAMA Facility	Nationally Appropriate Mitigation Action Facility (UK, Germany, Denmark and the EC)

Other International Organisations	
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization

Development Finance Institutions	
ADB	Asian Development Bank
AFD	Agence Française de Développement (French development agency)
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
IDB	Inter-American Development Bank
KfW	Kreditanstalt für Wiederaufbau (German development bank)
NDB	New Development Bank
WBG	World Bank Group

In five years, the GCF has approved USD 2.7 billion for projects that have a focus on mitigation, with over two-thirds of this amount as concessional loans. The GCF during that time has also approved 45 multi-foci projects worth USD 2.4 billion, the largest being USD 378 million for Sustainable Energy Financing Facilities (SEFF) in 10 countries.

Of the smaller funds, the Scaling up Renewable Energy Program in Low Income Countries (SREP) of the Climate Investment Funds (CIFs), which focuses on increasing renewable energy generation and improving energy access in poorer developing countries, approved 64 projects as of December 2020. The Partnership for Market Readiness (PMR), meanwhile, has 42 projects in middle-income countries to implement policies to promote private investment in mitigation activities through grant funding.

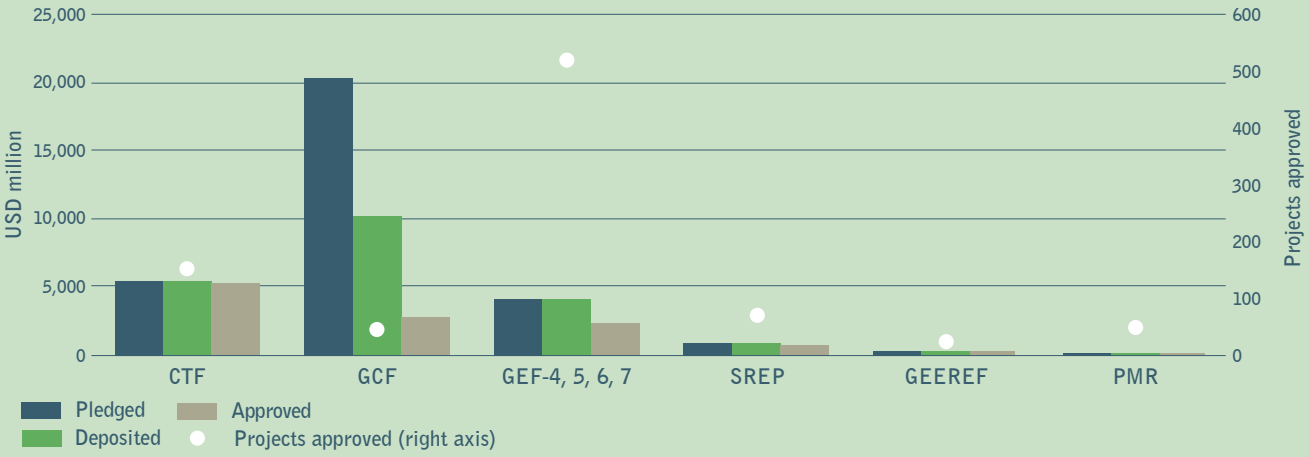
Who pledges and deposits mitigation finance?

To date, pledges to the funds in Table 1 (excluding the GCF)[3] from the United Kingdom, United States, Japan, Germany and France account for 73% of the USD 10.6 billion committed in total (Figure 3).

Table 1: Main funds supporting mitigation (2003-2020, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	5,404.3	5,404.3	5,315.5	148
Green Climate Fund (GCF-IRM, GCF-1)	20,320.3	10,179.0	2,684.3	41
Global Environment Facility (GEF-4, 5, 6, 7)	4,053.0	4,040.7[2]	2,244.8	515
Scaling Up Renewable Energy Program in Low Income Countries (SREP)	765.6	765.6	601.0	64
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	281.5	275.5	223.6	19
Partnership for Market Readiness (PMR)	131.5	129.8	82.4	42

Figure 2: Main funds supporting mitigation (2003–2020)[2]



Who receives the money and what kinds of mitigation projects are funded?

Mitigation finance has been relatively evenly distributed across the various regions (Figure 4). However, the picture is different when looking at country distribution. Ten countries have received 45% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as India (USD 1.2 billion), Indonesia (USD 618 million), South Africa (USD 585 million), and Turkey (USD 474 million) Mexico (USD 435 million) are the top recipients of approved mitigation finance. There may be tensions between realising large-scale GHG mitigation opportunities in fewer countries and investing in smaller-scale solutions from which all developing countries can benefit. Many GEF- and SREP-supported projects have sought to improve energy access for the poor by supporting rural electrification using renewable energy technologies.

With GEF-6 in 2014, the GEF began shifting its programming strategy away from project-level investments in specific technologies towards a holistic programmatic approach to cut across different impact areas (GEF, 2014). GEF-7 (2018–2020) has continued to pursue integrated programming, where climate impact has been delivered from programming in other focal areas and plans to expand its non-grant instrument approach further will continue. For this reason, and in light of the operationalisation of the GCF, the climate change focal area was reduced in GEF-7 (GEF, 2018).

For 2020, the prominence of the GCF as a major funding source for global mitigation action continued. The GCF approved USD 1,022 million for mitigation projects including two projects each with over USD 250 million in concessional loans. In Bangladesh, this concessional loan will promote private sector investment in energy saving technology in the textile and garment industry, while the second large concessional loan supports the uptake of low-carbon technology in the industrial sector across Kazakhstan, Jordan, Tunisia, Armenia, Uzbekistan, Morocco and Serbia.

Figure 3: Pledges and deposits to mitigation funds[3] (2003–2020)

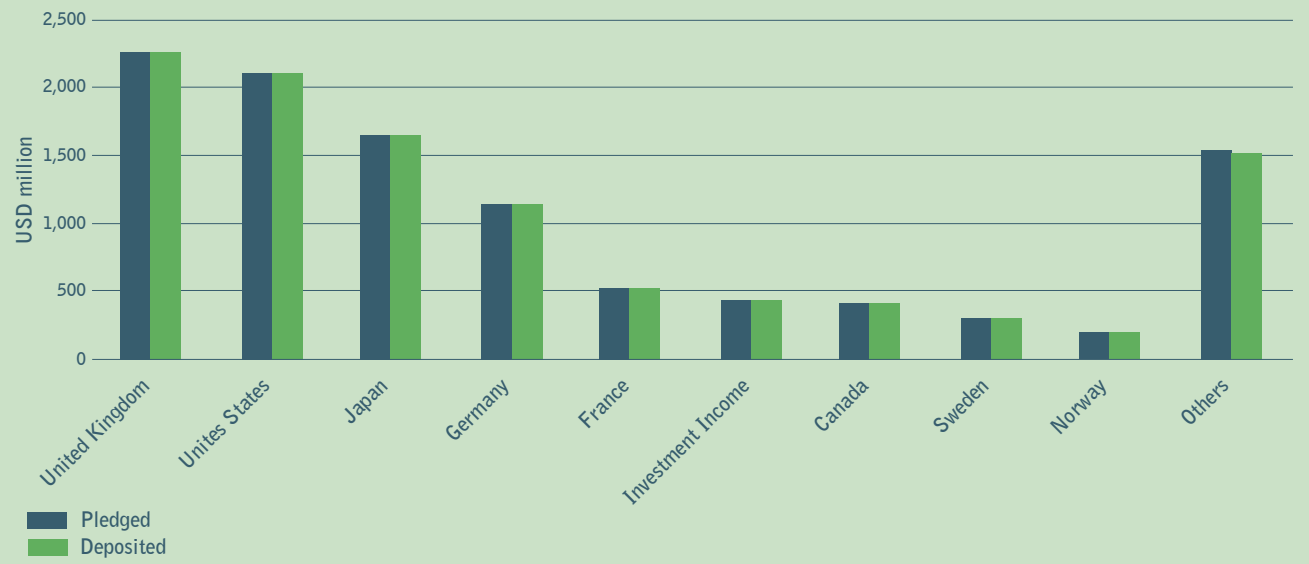


Figure 4: Regional distribution of mitigation finance (2003–2020)

- Sub-Saharan Africa **18%**
- Latin America & Caribbean **16%**
- East Asia & Pacific **17%**
- South Asia **16%**
- Europe & Central Asia **12%**
- Global and regional **11%**
- Middle East & North Africa **11%**

References and further reading

Climate Funds Update: www.climatefundsupdate.org

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Endnotes

1. Multi-foci funds, the GEF and GCF full-pledge and deposit amounts are included, while approvals and projects represent dedicated mitigation projects.
2. This amount reflects countries' deposits using the official GCF initial resource mobilisation exchange rate set in November 2014 for GCF-IRM contributions and the official exchange rate set for the first replenishment in October 2019 for GCF-1 contributions, not actual amounts received taking into account exchange rate fluctuations.
3. It is not possible to determine the share of pledges arising from particular countries for the GCF and so these are excluded from the Figure (see CFF11 for more pledge information).

The Climate Finance Fundamentals are based on Climate Funds Update data and available in English, French and Spanish at **www.climatefundsupdate.org**

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