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 in making 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) and the Global Environment Facility (GEF), while the EU's Global Energy Efficiency and Renewable Energy Fund (GEEREF) and the World Bank's Scaling up Renewable Energy Program (SREP) provide mitigation financing on a smaller scale. Operational since 2015, the Green Climate Fund (GCF) has increasingly become a major source of mitigation finance; in 2018, alone, it approved USD 897 million for mitigation projects. Currently about 51% of the financing approved since 2003 flowing from the dedicated climate finance initiatives that CFU monitors is approved for mitigation activities (excluding REDD+), largely to support the development and deployment of renewable energy and energy efficiency technologies in fast growing countries. The cumulative amount of total finance approved for mitigation from climate funds is USD 9.8 billion as of December 2018.

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 two degrees Celsius 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 degree Celsius, thus upping the ante even further. The 2018 IPCC Special Report showed that climate change impacts at 1.5 degrees Celsius of warming will be considerably lower than at two degrees, a target that is possible through deep systems' 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 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.

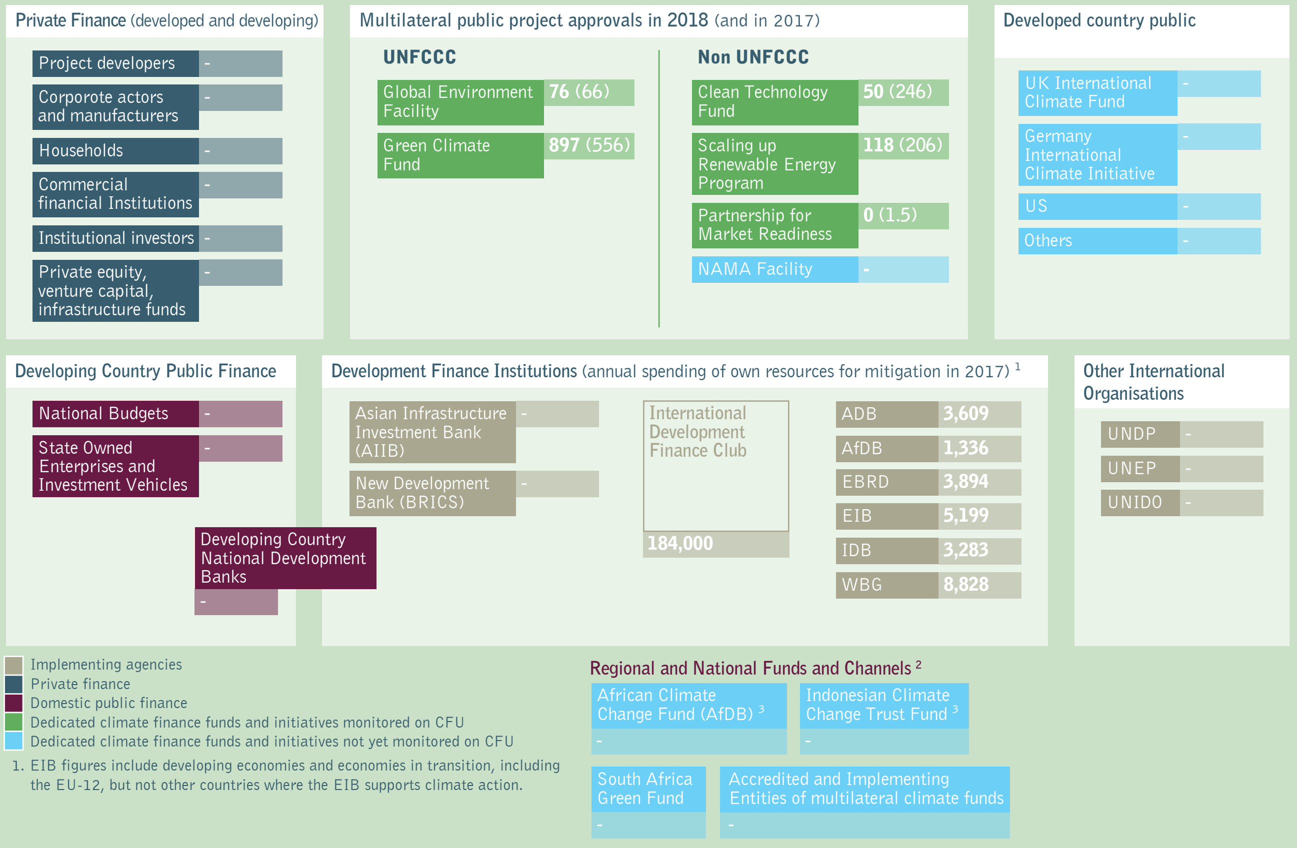
Which climate funds support mitigation?

Table 1 presents 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 programs they can accommodate and the number of developing countries they support. For example, the 109 approved projects under the Clean Technology Fund (CTF) benefit a small number of emerging

Table 1: Main funds supporting mitigation (2003-2018, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	5,443.91	5,443.91	4,989.40	109
Global Environment Facility (GEF 4, 5 & 6)	3,326.45	3,314.25	2,715.73	726
Green Climate Fund (GCF)	10,302.30	7,234.24	1,793.20	26
Scaling-Up Renewable Energy Program (SREP)	744.54	744.54	591.62	47
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	281.50	275.50	223.60	19
Partnership for Market Readiness (PMR)	129.60	120.30	89.62	42

Figure 1: Mitigation finance architecture (USD millions)



1. EIB figures include developing economies and economies in transition, including the EU-12, but not other countries where the EIB supports climate action.

market economies to achieve scaled-up action. The CTF has approved close to USD 5 billion in largely programmatic loan funding to these countries. By contrast, the over 700 individual grant-financed projects under GEF 4, 5 and 6, which cover most developing countries, account for just over 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.

In three years, the Green Climate Fund (GCF) has approved USD 1.8 billion for projects that have a focus on mitigation, with half of this amount as concessional loans. Disbursements to projects have yet to gear up, being 11% of approved funding as of December 2018. The GCF during that time has also approved 42 cross-cutting projects worth USD 1.7 billion, such as the USD 378 million for Sustainable Energy Financing Facilities (SEFF) in 10 countries.

Of the smaller funds, the Scaling-Up Renewable Energy Program (SREP) of the CIFs, which focuses on increasing renewable energy generation and improving energy access in poorer developing countries, has approved 47 projects as of December 2018. The Partnership for Market Readiness, meanwhile, is working to help 23 middle-income countries implement policies to promote private investment in mitigation activities through grant funding.

Figure 2: Funds primarily supporting mitigation (2003-2018)

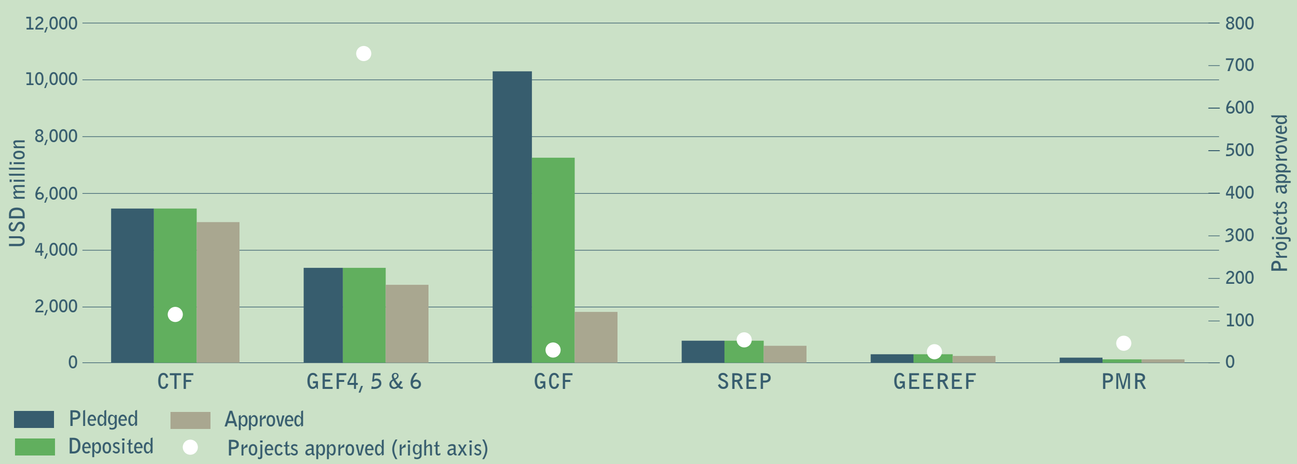
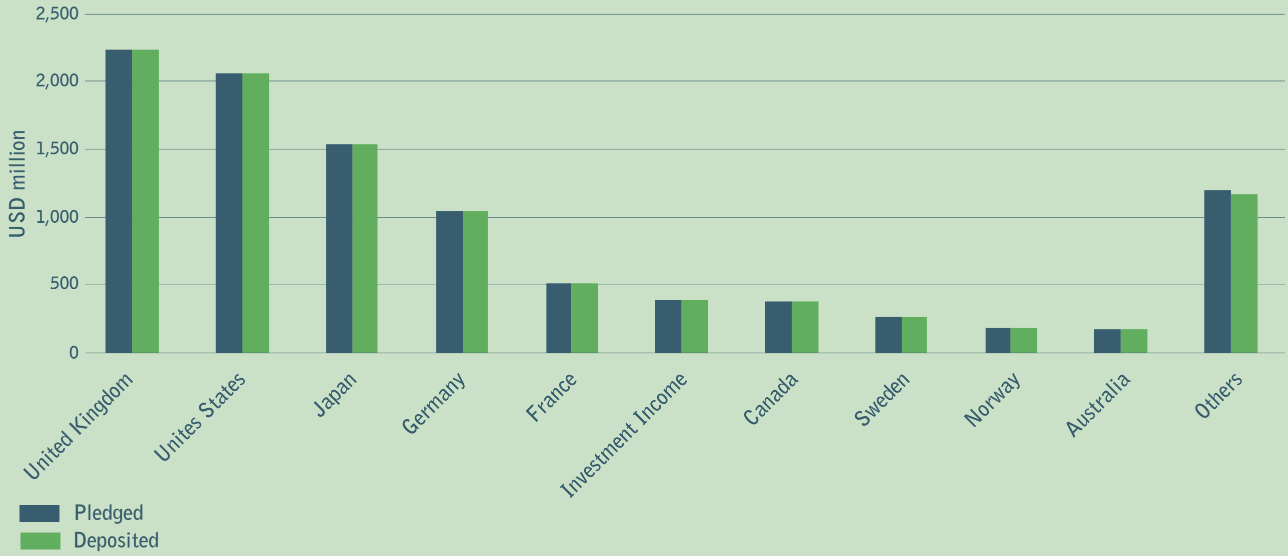


Figure 3: Pledges and deposits to mitigation funds (2003-2018)



Who pledges and deposits mitigation finance?

To date, the UK, USA, Japan, Germany and France's pledges to the funds in Table 1 (excluding the GCF[2]) account for 74% of the USD 10 billion committed in total (Figure 3). About USD 9.9 billion of this total amount has actually been deposited to the funds.

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

Mitigation finance has been relatively evenly distributed globally (Figure 4). Ten countries have received 52% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as India (USD 1,120 million), Morocco (USD 653 million), Mexico (USD 600 million), South Africa (USD 490 million), and Indonesia (USD 555 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 that cuts across different impact areas (GEF, 2014). GEF-7 (2019-2022) will continue to pursue integrated programming, where climate impact is 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 has been reduced in GEF-7 (GEF, 2018).

Figure 4: Regional distribution of mitigation finance (2003-2018)

- Latin America and the Caribbean **21%**
- East Asia and the Pacific **18%**
- Sub-Saharan Africa **16%**
- Europe and Central Asia **15%**
- South Asia **13%**
- Middle East and North Africa **10%**
- Global and regional **7%**

For 2018, the prominence of the GCF as the major funding source for global mitigation action was evident. The GCF approved USD 897 million for mitigation projects including five projects with funding of USD 100 million or more, such as a project in Brazil to increase energy efficiency in cities and a blended finance facility ("Climate Investor One") working across a number of countries to deliver affordable renewable energy.

In addition to the series of 12 Climate Finance Fundamentals, these recent ODI and HBS publications may be of interest:

- **Clean energy project preparation facilities: mapping the global landscape.** Darius Nassiry, Sam Pickard, Shelagh Whitely and Andrew Scott from ODI provide a comprehensive mapping of the project preparation facility global landscape. The results cover 150 project preparation facilities and form the most comprehensive study of its kind to date. Available at: **https://bit.ly/2RcGuQc**
- **"Back to the Future" for GCF After Recent Bahrain Board Meeting**. Liane Schalatek from Heinrich Böll Stiftung North America goes "Back to the Future" reporting on the October 2018 Green Climate Fund board meeting and its implications. Available at: **https://bit.ly/2r5dTkj**
- **Local actors ready to act: Six proposals to improve their access to the Green Climate Fund**. Menno Bosma, Maaike de Hon, Annelieke Douma, Daan Robben, Raju Pandit Chhetri, Titi Soentoro and Liane Schalatek, bring together Both ENDS; Heinrich Böll Sitftung North America; Aksi! for gender, social and ecological justice; and the Prakriti Resources Centre to describe six specific proposals to stimulate more and deeper debate on the crucial role local actors play in the transformative change needed to deal with global climate change. Available at: **https://bit.ly/2SdV2PH**
- **Not a Silver Bullet**. Julie-Anne Richards and Liane Schalatek look at whether insurance is fulfilling its promise and argue that in many instances it can serve as a distraction from alternative financing solutions for loss and damage. A Heinrich Böll Stiftung North America product. Available at: **https://bit.ly/2PW3aYr**
- **Financing Loss and Damage: A Look at Governance and Implementation Options**. Julie-Anne Richards and Liane Schalatek discuss categorisations of loss and damage approaches, financing options and whether existing climate funds could channel loss and damage financing. A Heinrich Böll Stiftung North America product. Available at: **https://bit.ly/2nT55wa**
- **Radical Realism for Climate Justice**. A Civil Society Response to the Challenge of Limiting Global Warming to 1.5°C. Heinrich Böll Stiftung Berlin. Available at: **https://bit.ly/2PYfGqs**

Visit our website for more information and to contact us: **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. 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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