Climate Funds Update

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Climate Finance Thematic Briefing: Mitigation Finance

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. Now operational, the Green Climate Fund (GCF), will increasingly become a major source of mitigation finance. Currently about 53% 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 amount of total finance approved for mitigation from climate funds is USD 9.1 billion as of December 2017.

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, with the window of opportunity to act closing fast. It is predicted that global greenhouse gas (GHG) emissions would have to decline by 40-70% by 2050 compared to 2010 levels in order to meet this goal (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 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.

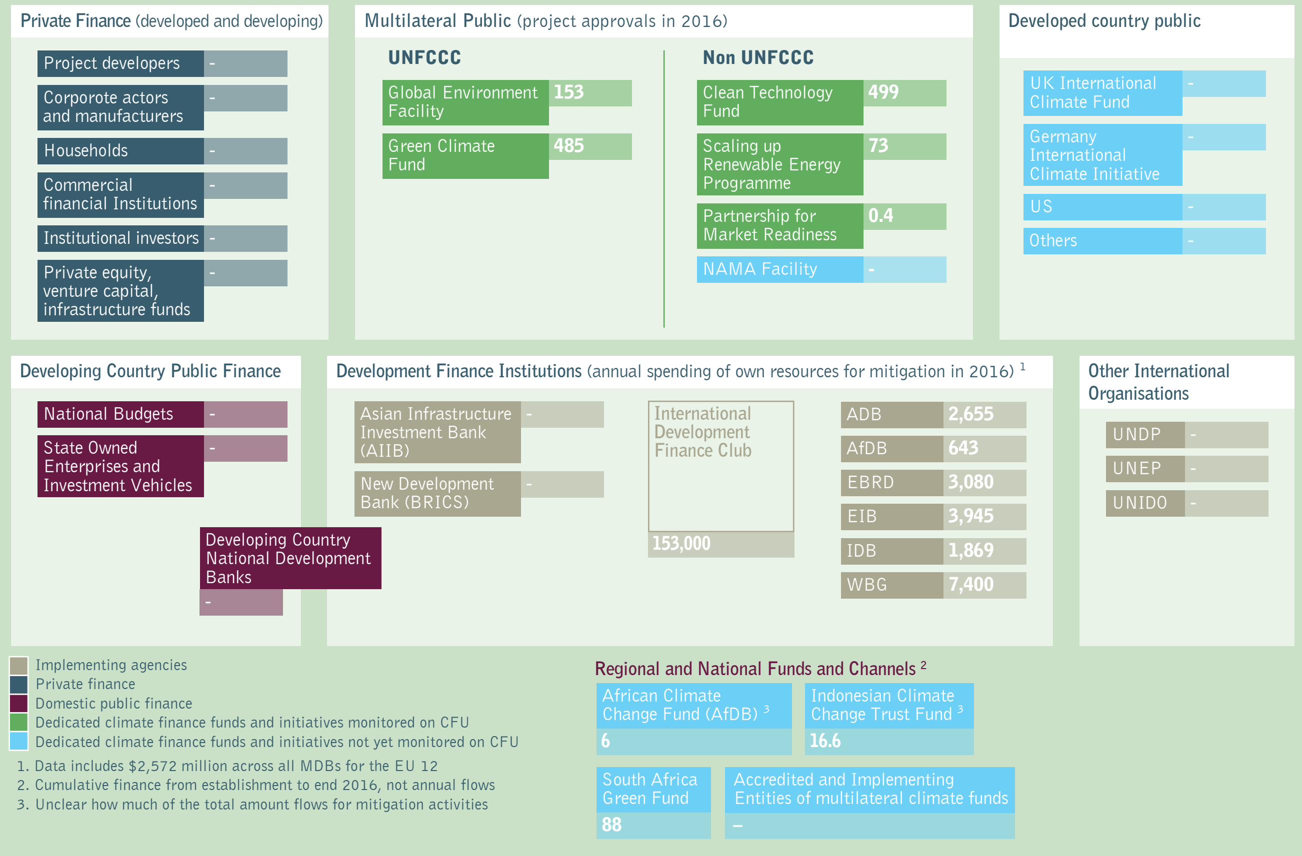
Which climate funds support mitigation?

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 114 approved projects under the Clean Technology Fund (CTF) benefit a small number of emerging market economies to achieve scaled-up action. The CTF has approved USD 5 billion in largely programmatic, loan funding to these countries. By contrast, the almost 500 individual grant-financed projects under GEF 4, 5

Table 1: Main funds supporting mitigation (2003-2017, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	5466.15	4774.15	5,153.5	114
Global Environment Facility (GEF 4, 5 & 6)	3352.55	3337.97	2,142.9	493
Green Climate Fund (GCF)	10,009.72	6412.60	1,063.0	16
Scaling-Up Renewable Energy Program (SREP)	719.66	422.76	479.9	41
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	281.50	275.50	223.6	19
Partnership for Market Readiness (PMR)	128.23	119.23	52.3	31

Figure 1: Mitigation finance architecture (USD millions)



and 6, 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.

In three years, the Green Climate Fund (GCF) has approved just over USD 1 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 9% of approved funding as of December 2017. The GCF during that time has also approved 11 cross-cutting projects worth USD 731 million, 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 41 projects as of December 2017. The Partnership for Market Readiness, meanwhile, is working to help 17 middle-income countries implement policies to promote private investment in mitigation activities through grant funding.

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 multi-foci GCF[2]) account for 74% of the USD 10 billion committed in total (Figure 2). About USD 8.9 billion of this total amount has actually been deposited to the funds.

Figure 2: Main funds supporting mitigation (2003-2017) [1]

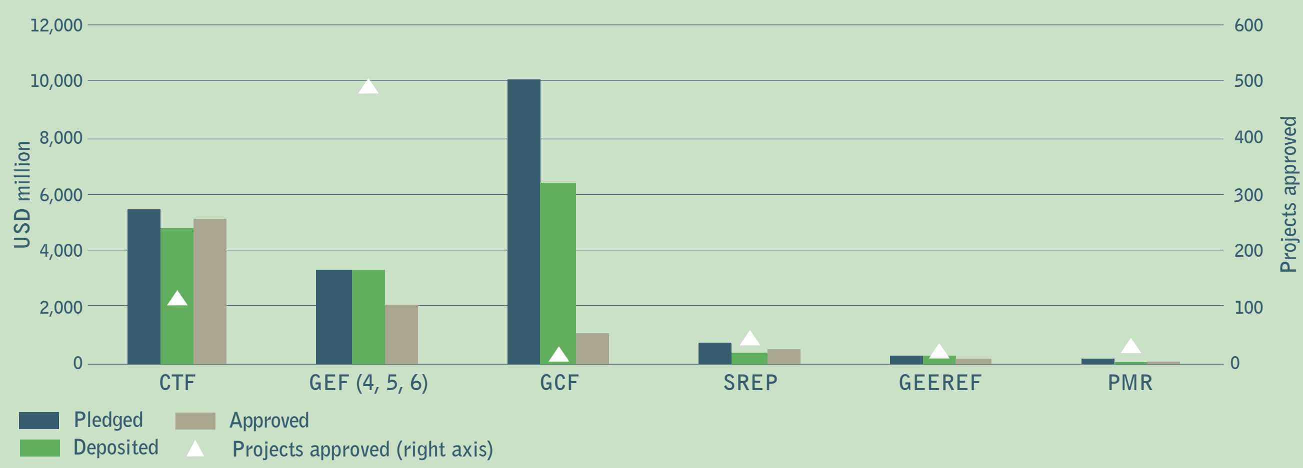
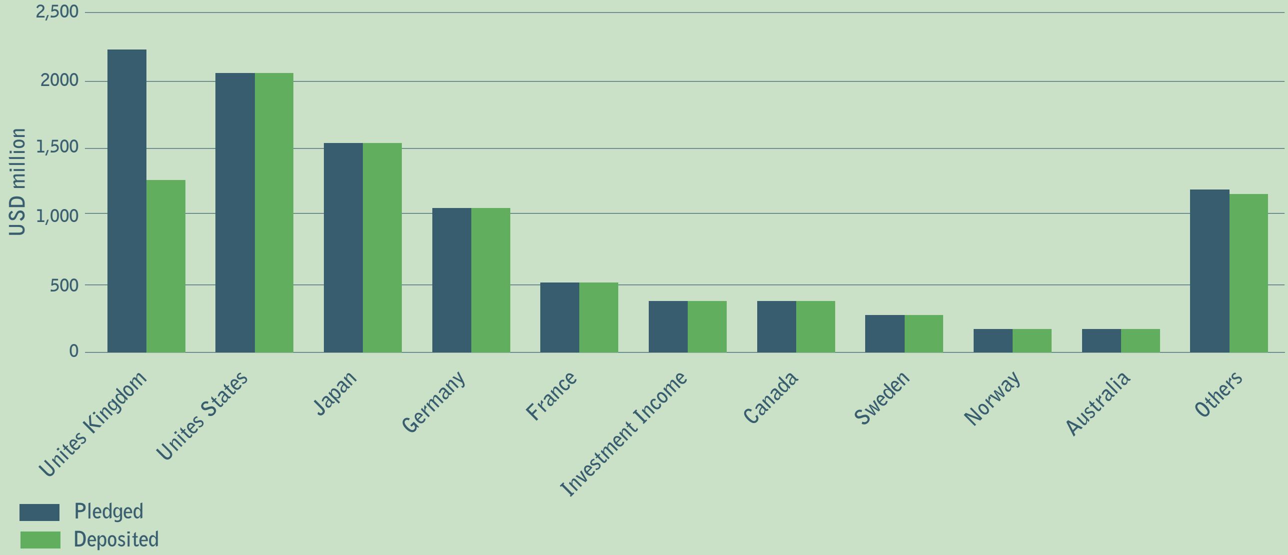


Figure 3: Pledges and deposits to mitigation funds (2003-2017) [2]



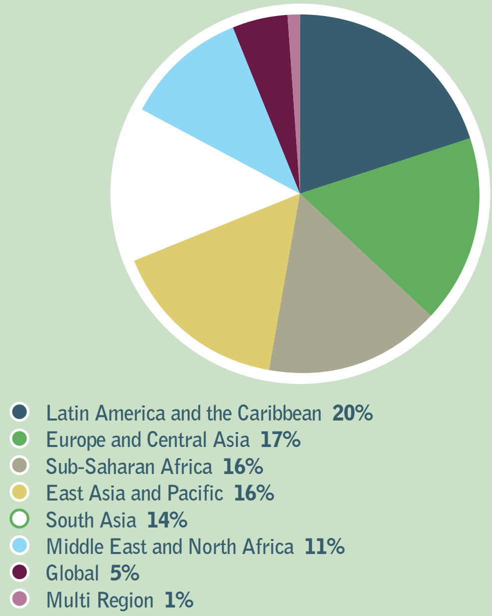
Who receives the money and what kinds of mitigation projects are funded?

Mitigation finance has been relatively evenly distributed by region (Figure 4). However, ten countries have received 57% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as India (USD 1,056 million), Morocco (USD 651 million), Mexico (USD 600 million), South Africa (USD 564 million), and Indonesia (USD 484 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, the GEF in 2014 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). For GEF-7 (2018-2020), it plans to expand its non-grant instrument pilot approach in its climate focus area further (GEF, 2017).

For 2017, the prominence of the GCF as the major funding source for global mitigation action was evident. The GCF approved over half a billion dollars for five projects in energy generation and sustainable infrastructure. The CTF (USD 254 million) and the GEF (USD 206 million) also continued to provide finance at scale this year.

Figure 4: Regional distribution of approved mitigation finance (2003-2017)



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

- **Six development finance proposals to expand climate investment**. Ilmi Granoff, Darius Nassiry, Neil Bird, Chris Humphrey, Paddy Carter, Alberto Lemma and Annalisa Prizzon describe six promising finance proposals to support greater ambition for low-carbon development. Available at: **http://bit.ly/2n4VLm8**
- **Budgeting for NDC action: initial lessons from four climate-vulnerable countries**. Neil Bird examines the evidence of resourcing NDC policies and actions in four sub-Saharan African countries; Ethiopia, Ghana, Kenya and Uganda. Available at: **http://bit.ly/2EtPkWC**
- **Resource Guide for NDC Finance**. James Rawlins with Matthew Halstead and Charlene Watson present a selection of resources on financing nationally determined contributions (NDCs). Available at: **http://bit.ly/2EbuPKU**
- **Financing our shared future: navigating the humanitarian, development and climate finance agendas**. Charlene Watson outlines what we know about the financing targets and needs, where there is agreement between the agendas on financing issues and where tensions may emerge. Available at: **http://bit.ly/2FTADcD**
- **Promoting Rights-Based Climate Finance for People and the Planet.** A joint discussion paper by hbs and the OHCHR's Right to Development Division outline how existing climate financing mechanisms, including the GCF as a case study, can strengthen their integration of human rights considerations. Available at: **http://bit.ly/2nQPsFq**
- **Financing Loss and Damage: A Look at Governance and Implementation Options.** Julie-Anne Richards and Liane Schalatek discuss categorizations of loss and damage approaches, financing options and whether existing climate funds could channel loss and damage financing. Available at: **http://bit.ly/2nT55wa**
- **Contracts for Sustainable Infrastructure.** In this joint publication by hbs and IISD, Martin Dietrich Brauch outlines how public private partnership (PPP) contracts need to be constructed to ensure the economic, social and environmental and climate co-benefits of infrastructure investments. Available at: **http://bit.ly/2nQNBjQ**

Contact us for more information at **info@climatefundsupdate.org**

References and useful links

Climate Funds Update: www.climatefundsupdate.org (data accessed in December 2017)

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End Notes

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 (see CFF11 for more pledge information). The divergence of pledges and deposits for the UK is explained by that country's use of Promissory Notes.

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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