Climate Funds Update

HEINRICH BÖLL STIFTUNG
NORTH AMERICA

ODI

Climate Finance Thematic Briefing: Mitigation Finance

Sam Barnard, **Alice Caravani**, **Smita Nakhooda**, ODI
and **Liane Schalatek**, HBS

Climate Finance Fundamentals 4

DECEMBER 2015

The need to mitigate the effects of climate change grows more urgent by the year, particularly as progress in making ambitious emission reductions has been slow. 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. 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. 53% of total climate finance since 2008 has been approved for mitigation activities, largely to support the development of renewable energy and energy efficiency technologies in fast growing countries. The amount of cumulative finance approved for mitigation from climate funds tracked by CFU has grown in the last year from USD 6.63 billion in 2014 to USD 7.24 billion as of November 2015.

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 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.

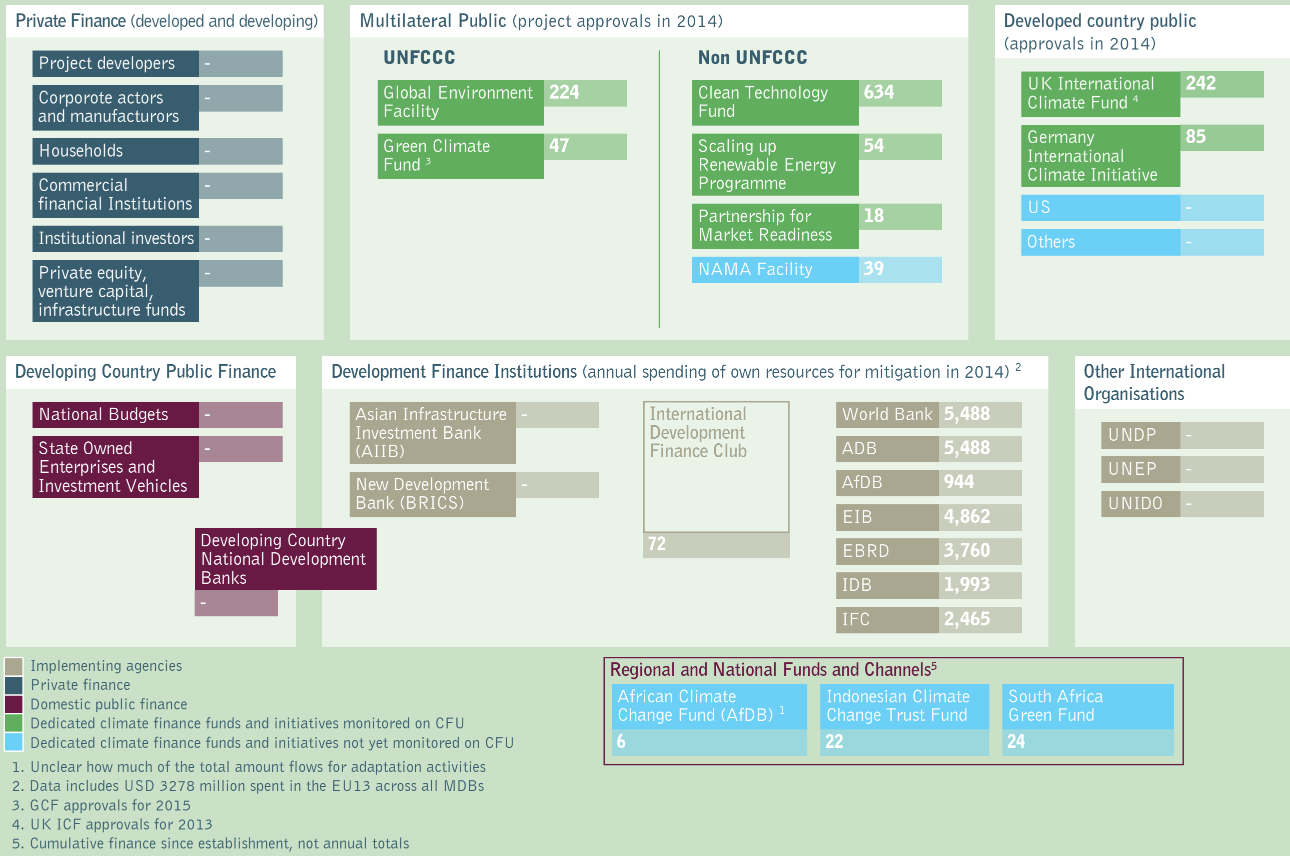
Which are the main climate funds that focus on mitigation?

Figure 1 shows the multiple sources of climate finance for mitigation activities. These have varying accessibility of data and Table 1 presents the dedicated climate funds tracked by CFU that primarily 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 (Figure 2). For example, the 76 approved projects under the Clean Technology Fund (CTF), benefit just a small number of emerging market economies to achieve scaled-up action. The CTF has approved USD 4.1 billion in largely programmatic, loan funding to these countries. By contrast, the over 500 individual grant-financed projects under GEF 4, 5 and 6, which cover most developing countries, account for less than half of this amount.

Table 1: Funds primarily supporting mitigation (2003-2015)

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	5299	5128	4101.32	76
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	169.5	163.5	89.07	11
Global Environment Facility (GEF4)	1082.98	1082.98	953.03	235
Global Environment Facility (GEF5)	1350	776.74	865.1	239
Global Environment Facility (GEF6)	1101.12	1078.05	196.87	47
Partnership for Market Readiness (PMR)	126.5	106.5	51.95	30
Scaling-Up Renewable Energy Program (SREP)	528	528	168.08	29

Figure 1: Mitigation finance architecture (USD millions)



The GEF's System for Transparent Allocation of Resources (STAR) specifically allows developing countries with low per capita income to access small scale mitigation grant finance from the Fund.

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 29 projects as of October 2015. The Partnership for Market Readiness, meanwhile, is a relatively recent initiative, currently working to help 17 middle-income countries implement policies to promote private investment in mitigation activities.

The past month has also seen the first projects, including two private sector mitigation projects, approved by the Green Climate Fund (GCF), a new financing body under the UNFCCC that is set to be a major player in the mitigation space.

Who pledges and deposits mitigation finance?

To date, the USA, UK, Japan, Germany and France's pledges to the five designated funds in Table 1 account for 72% of the USD 9.6 billion committed in total. About USD 8.9 billion of this total amount has actually been deposited to the funds. USD 6.4 billion, or 72%, of the amount deposited by donors to these five funds has been approved for supporting projects or programmes. The new GCF has so far received pledges of USD 10.2 billion, with USD 5.8 billion deposited. Half of this amount will go

Figure 2: Funds primarily supporting mitigation (2003-2015)

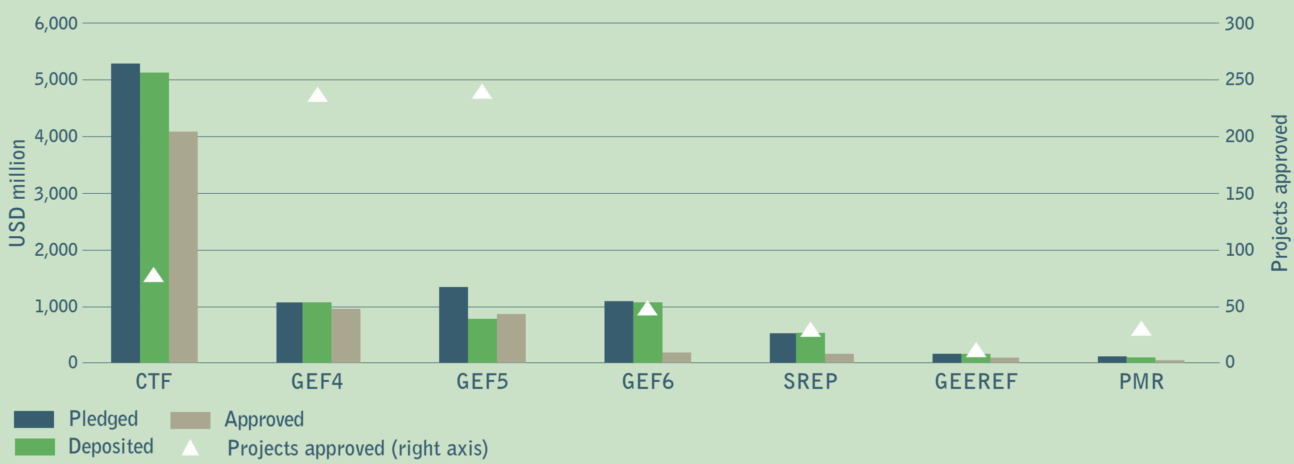


Figure 3: Pledges and deposits to mitigation funds (2003-2015)

toward future mitigation projects and programmes.

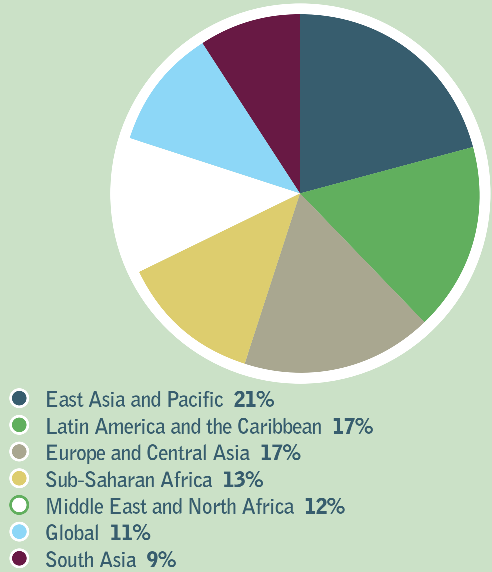
Who receives the money and what kinds of mitigation projects are funded?

Mitigation finance has been distributed fairly evenly across developing country regions (Figure 4). Funding has been less evenly distributed at the country level, however, with twenty countries receiving 76% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as Morocco (USD 614 million), Mexico (USD 596 million), India (USD 565 million), South Africa (USD 504 million), and Ukraine (USD 408 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.

The majority of mitigation projects receiving finance promote renewable energy projects or energy efficiency measures, given that more than 40% of GHG emissions result from energy production and use. Several of the largest climate finance investments have supported concentrated solar power projects in Morocco, South Africa and India. These investments are beginning to demonstrate the impact that targeted climate finance can have in making innovative technologies viable (CPI, 2014).

Of note this year, the GEF is 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 example, the fund has approved a USD 134 million program that will work to promote low carbon and environmentally sensitive urban development in 23 cities around the world.

Figure 4: Regional distribution of mitigation finance (2003-2015)



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

- **Financing Intended Nationally Determined Contributions (INDCs): Enabling Implementation**. Meryln Hedger and Smita Nakhooda analyse the current and potential role for finance in INDCs published to date (October 2015).
  Available at: **http://bit.ly/1PzzKqc**
- **Climate Finance for Cities: How can climate funds best support low-carbon and climate resilient urban development?** Sam Barnard reviews the approaches taken by multilateral climate funds to support climate action in cities (June 2015).
  Available at: **http://bit.ly/1eTq23L**
- **What counts: tools to help define and understand progress towards the $100 billion climate finance commitment.** With Paul Bodnar, Jessica Brown, ODI's Smita Nakhooda, layout five simple tools to consider what should count to the 2020 target (August 2015).
  Available at: **http://bit.ly/1PzzQ0Y**
- **10 things to know about climate change and financing for development.** Smita Nakhooda and Charlene Watson highlight what you need to know about climate change and development finance (July 2015).
  Available at: **http://bit.ly/1RuUVgr**
- **From Innovative Mandate to Meaningful Implementation: Ensuring Gender-Responsive Green Climate Fund Projects and Programmes.** Liane Schalatek looks at the potential for the GCF to support gender responsive climate action (November 2015).
  Available at: **http://bit.ly/1HtEyMB**

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

References and useful links

Climate Funds Update: www.climatefundsupdate.org (data accessed in November 2015)

CPI (2014). The Role of Public Finance in CSP: Lessons Learned. Venice, Italy: Climate Policy Initiative.

GEF (2014). GEF-6 Programming Directions. Washington, DC: GEF.

IPCC (2014). Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change. Geneva, Switzerland: IPCC.

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

Overseas Development Institute
203 Blackfriars Road | London | SE1 8NJ | UK
Tel:+44 (0)20 7922 0300

Heinrich Böll Stiftung North America
1432 K Street | NW | Suite 500 Washington | DC 20005 | USA
Tel:+1 202 462 7512