Climate Funds Update

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ODI

Climate Finance Thematic Briefing: Mitigation Finance

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Climate Finance Fundamentals 4

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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. CFU data suggests that the largest sources of 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. Nearly 65% of total climate finance since 2008 has been approved in support of mitigation activities (USD 5.82 billion) in fast growing countries, primarily for the development of renewable energy technologies.

Overview

There is a global consensus that the temperature rise due to climate change should be restricted to two degrees Celsius if the most dangerous impacts of climate change are to be avoided. In order to meet this goal, global greenhouse gas (GHG) emissions must peak by 2020 and then decline by at least 50% relative to 1990 levels. The bulk of the 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 strategies. International climate finance can assist developing countries to implement mitigation actions including renewable energy and energy efficiency programmes, and more sustainable transport systems.

What are the main dedicated climate funds that focus on mitigation finance?

Table 1 and Figure 1 present the dedicated climate funds that primarily support mitigation actions in developing countries. The USD 4.8 billion Clean Technology Fund (CTF) of the World Bank-administered Climate Investment Funds (CIFs) and programmed in partnership with regional development banks is the largest fund supporting mitigation. USD 422 million was deposited to the CTF in 2012 and an additional USD 373 million was pledged to the fund. Its approved funding has increased by more than USD 1.55 billion in the last year, and the CTF has now approved 21 projects focused in emerging market economies with a larger mitigation potential. Disbursement of finance has been slow, however.

Figure 1: Funds primarily supporting mitigation

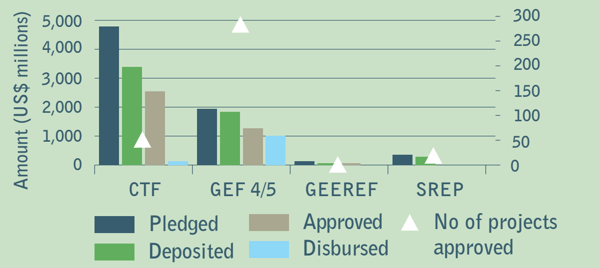


Table 1: Funds primarily supporting mitigation (USD millions)

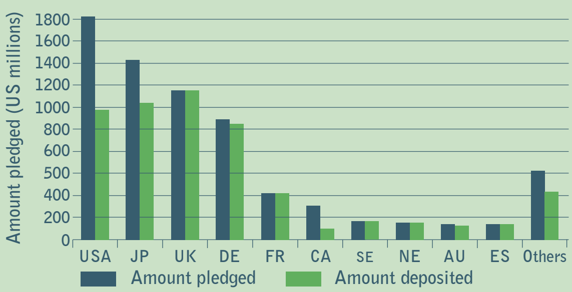
Fund	Pledged	Deposits	Approved	Disbursed	No of projects approved
Clean Technology Fund (CTF)	4,806	3,415	2,679	136	*51*
Global Environmental Facility Trust Fund (GEF 4/5)	1,894	1,802	1309	980	288
Global Energy Efficiency Renewable Energy Fund (GEEREF)	170	66	77	unknown	11
Scaling-Up Renewable Energy Program for Low Income Countries (SREP)	414	329	37	0.47	23

19 projects under the Scaling-up Renewable Energy Program (SREP) of the CIFs, which focuses on poorer developing countries and energy access and poverty dimensions, have been approved since 2011, whereas only 4 projects were approved previously.

The Global Environment Facility (GEF 4/5) has disbursed the largest amount of mitigation finance since 2006. Under both the fourth and fifth replenishments it has disbursed USD 980 million under the fourth and fifth replenishments, of which USD 150 million has been disbursed since September 2011.

Who pledges and deposits to mitigation funds?

Figure 2: Pledges and deposits to mitigation funds

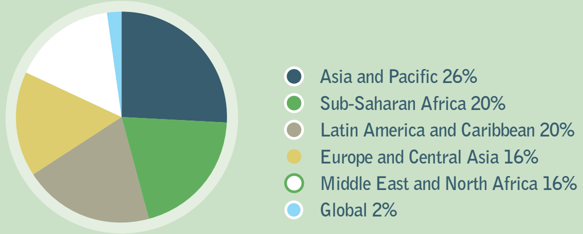


To date, the USA, Japan, the United Kingdom and Germany's pledges to mitigation funds account for 73% of the USD 7.28 billion committed (Figure 2). About USD 5.61 billion of this pledged amount has actually been deposited to the designated funds. USD 4.10 billion, or 73%, of this deposited amount has been approved for supporting projects or programmes. US deposits of pledged finance to the CTF have been particularly slow to materialize.

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

Mitigation finance has been distributed fairly evenly across developing country regions (see Figure 3). Funding has been less evenly distributed at the country level, however, with twenty countries (just 16.9% of the 118 recipient countries) receiving 85% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as South Africa (USD 524.65 million), Mexico (USD 517.53 million), Egypt (USD 508.25 million) and India (USD 447.88 million) are the top four recipients of approved mitigation finance. While China has been the largest recipient of GEF finance to date, it has not been a beneficiary of CTF finance and therefore now receives a relatively small share of approved international public climate finance. Nevertheless, the largest share of disbursed mitigation finance to date, however, has been directed to China (USD 130.78 million) and India (USD 114.54 million). Mitigation finance has tended to focus on fast growing economies where GHG emissions are increasing rapidly. There may be tensions, however, between realising large scale GHG mitigation opportunities and investing in smaller scale solutions that deliver low carbon energy solutions that meet the needs of the poor who are rarely large GHG emitters. Many GEF supported projects have sought to support rural electrification using renewable energy technologies to reach the poor, as does the Scaling Renewable Energy Program of the CIFs.

Figure 3: Regional distribution of mitigation finance



Excludes contributions to multiple countries but includes regional projects.

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, primarily electricity and industrial processes. Another emerging focus of mitigation finance is to support more sustainable low carbon transport solutions, specifically also urban transport infrastructure. The largest mitigation finance programme presently underway is the CTF supported USD 750 million regional concentrating solar thermal power programme in the Middle East and North Africa region, whose implementation is most advanced in Morocco. The largest single projects approved thus far include support for concentrating solar power in South Africa (USD 350 million) supported by the CTF, and a wind energy programme in Egypt supported by the government of Japan.

References

Climate Funds Update: www.climatefundsupdate.org (data accessed in October 2012)

End Notes

1. Fourth (Financial Years 2006-2010) and Fifth Replenishment (Financial Years 2010-2014)

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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