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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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. 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 finances. 52% of total climate finance since 2008 has been approved for mitigation activities (excluding REDD+), largely to support the development of renewable energy and energy efficiency technologies in fast growing countries. The amount of total finance approved for mitigation from climate funds has grown to USD 9.1 billion as of October 2016.

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.

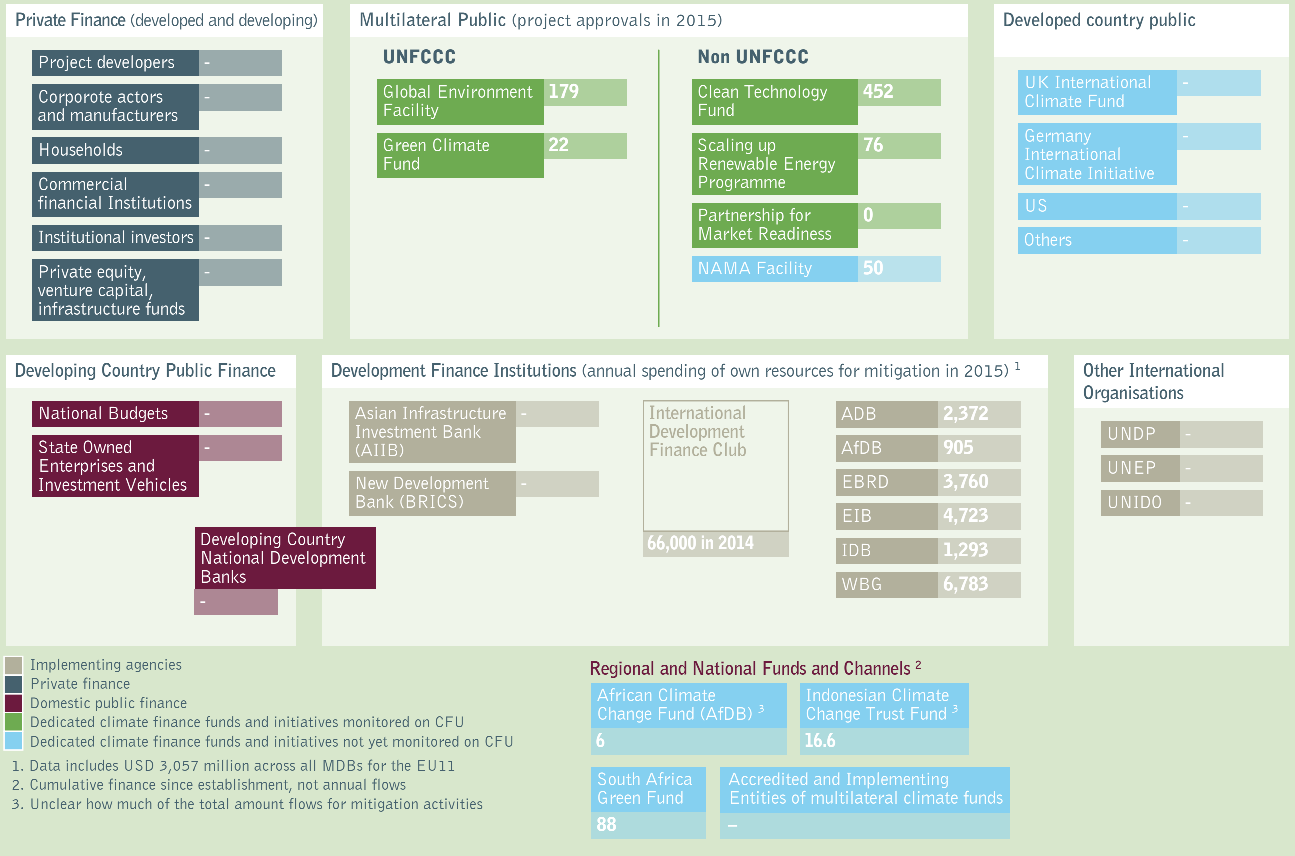
Which are the main climate funds that focus on mitigation?

Figure 1 shows the multiple sources of climate finance for mitigation activities. These have varying accessibility of data and Table 1 presents the main 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 (Figure 2). For example, the 101 approved projects under the

Table 1: Main funds supporting mitigation (2003-2016, USD millions)

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	547	5403.50	4959.31	101
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	169.5	163.5	89.07	11
Global Environment Facility (GEF4)	1082.98	1082.98	925.6	234
Global Environment Facility (GEF5)	1350	776.74	745.6	172
Global Environment Facility (GEF6)	1101.12	1078.05	349.4	76
Partnership for Market Readiness (PMR)	127.27	118.27	51.95	30
Green Climate Fund (GCF)	10,255.39	9896.38	313.9	7
Scaling-Up Renewable Energy Program (SREP)	744.65	742.29	236.41	29

Figure 1: Mitigation finance architecture (USD millions)



Clean Technology Fund (CTF) benefit just 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 over 600 individual grant-financed projects under GEF 4, 5 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) specifically allows developing countries with low per capita income to access small scale mitigation grant finance from the GEF.

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 25 projects as of November 2016. The Partnership for Market Readiness, meanwhile is working to help 17 middle-income countries implement policies to promote private investment in mitigation activities.

This year the Green Climate Fund (GCF) has approved USD 292 million for mitigation objectives. There are also a number of cross-cutting projects (totaling USD 500 million), including USD 378 million for Sustainable Energy Financing Facilities (SEFF) in 10 countries.

Who pledges and deposits mitigation finance?

To date, the USA, UK, Japan, Germany and France's pledges to the funds in Table 1 (excluding the multi-foci

Figure 2: Funds primarily supporting mitigation (2003-2016) [1]

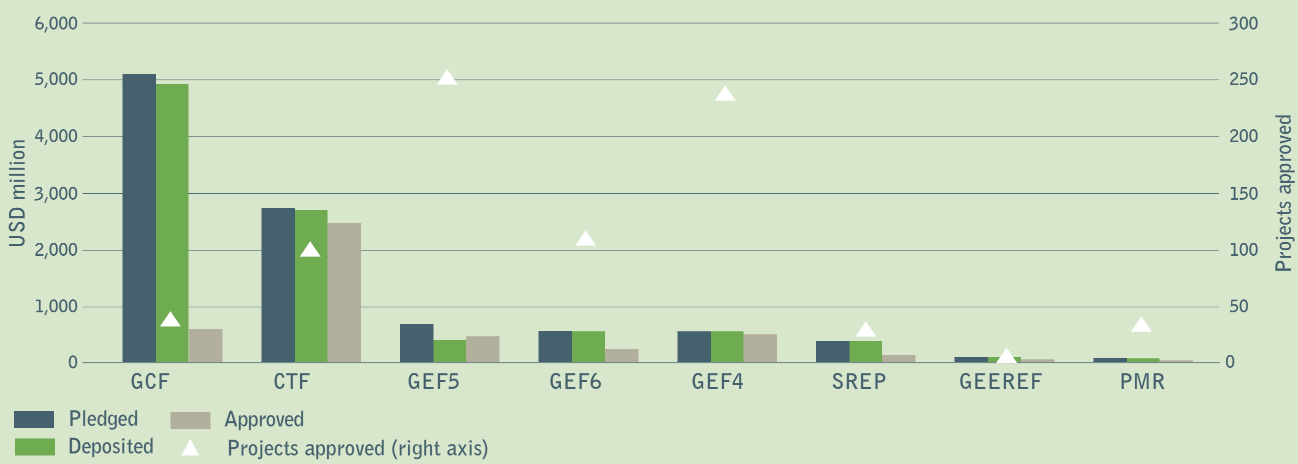
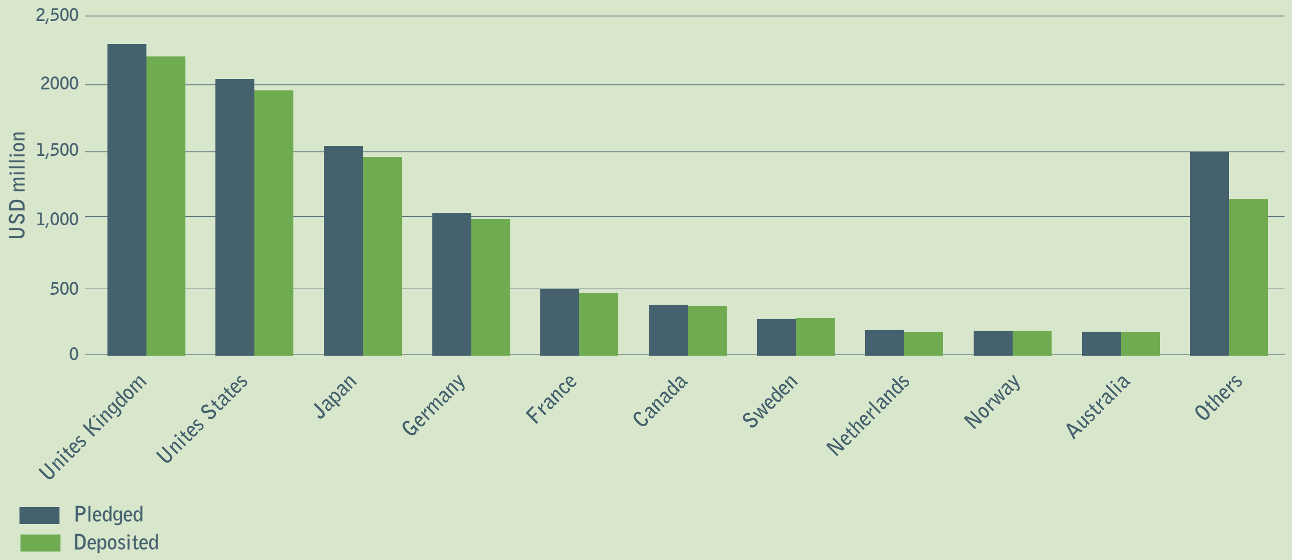


Figure 3: Pledges and deposits to mitigation funds (2003-2016) [2]



GCF[2]) account for 73.4% of the USD 10 billion committed in total. About USD 9.4 billion of this total amount has actually been deposited to the funds. USD 7.7 billion, or 82%, of the amount deposited by donors to these five funds has been approved for supporting projects or programmes

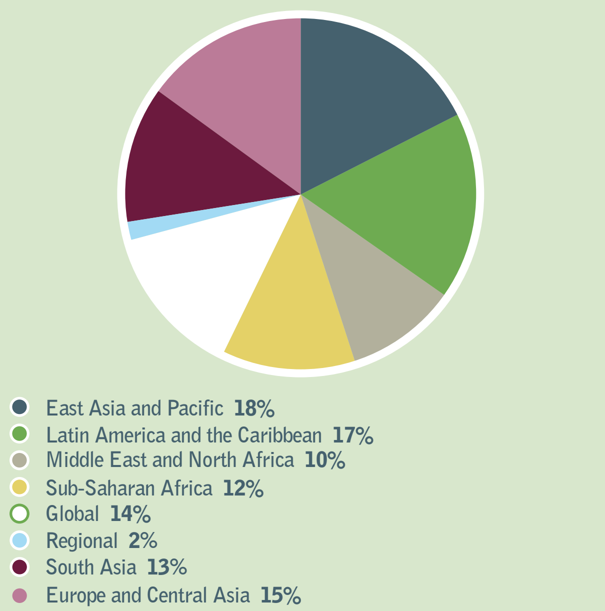
Who receives the money and what kinds of mitigation projects are funded?

East Asia and the Pacific has received the greatest amount of mitigation finance, however the distribution of finance has been relatively even among the regions (Figure 4). Funding is, however, not evenly distributed at the country level, with twenty countries receiving 69% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as India (USD 1029 million), Morocco (USD 623 million), Mexico (USD 600 million), South Africa (USD 565 million), and Indonesia (USD 456 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).

The GEF recently 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 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



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

- **Adaptation finance and the infrastructure agenda**. Smita Nakhooda and Charlene Watson review international efforts to support adaptation and their linkages with efforts to mobilise new finance for infrastructure. Available at: **http://bit.ly/2dMu8P3**
- **The AIIB and investment in action on climate change**. Darius Nassiry and Smita Nakhooda explore how the AIIB can expand markets for solar, wind and grid technologies, and extend China's leadership in the region in a manner consistent with the commitments to take ambitious action on climate change made by its member countries and prospective member countries as signatories to the Paris Agreement. Available at: http://bit.ly/2fk5Exe
- **Financing sustainable development: The critical role of risk and resilience**. Charlene Watson and Jan Kellett make the case that better risk management and the building of resilience are imperative for sustainable development. Available at: **http://bit.ly/2efIUtX**
- **Mutually Reinforcing: Climate Justice, Equitable Climate Finance and the Right to Development**. Liane Schalatek explores the ramifications of the right to development as an inalienable human right for the global challenge of climate change more broadly and more specifically for the concept of climate justice and its application to climate finance provision. Available at: **http://bit.ly/2eWfuRw**
- **In Search of Policy Coherence: Aligning OECD Infrastructure Advice with Sustainable Development.** Motoko Aizawa and Waleria Schuele discuss the privileged relationship of the OECD with the G20 in acting as a powerful voice on policy related to infrastructure investment and development globally and call for the OECD to use its political clout to demonstrate full policy coherence for investment in sustainable development. Available at: **http://bit.ly/1YeHkeE**

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

References and useful links

Climate Funds Update: www.climatefundsupdate.org (data accessed in October 2016)

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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 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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