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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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). Operational since 2015, the Green Climate Fund (GCF) has increasingly become a major source of mitigation finances; in 2019, alone, it approved the largest amount of mitigation finance at USD 332 million for six mitigation projects. Currently about 49% 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 10.4 billion as of December 2019.

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.

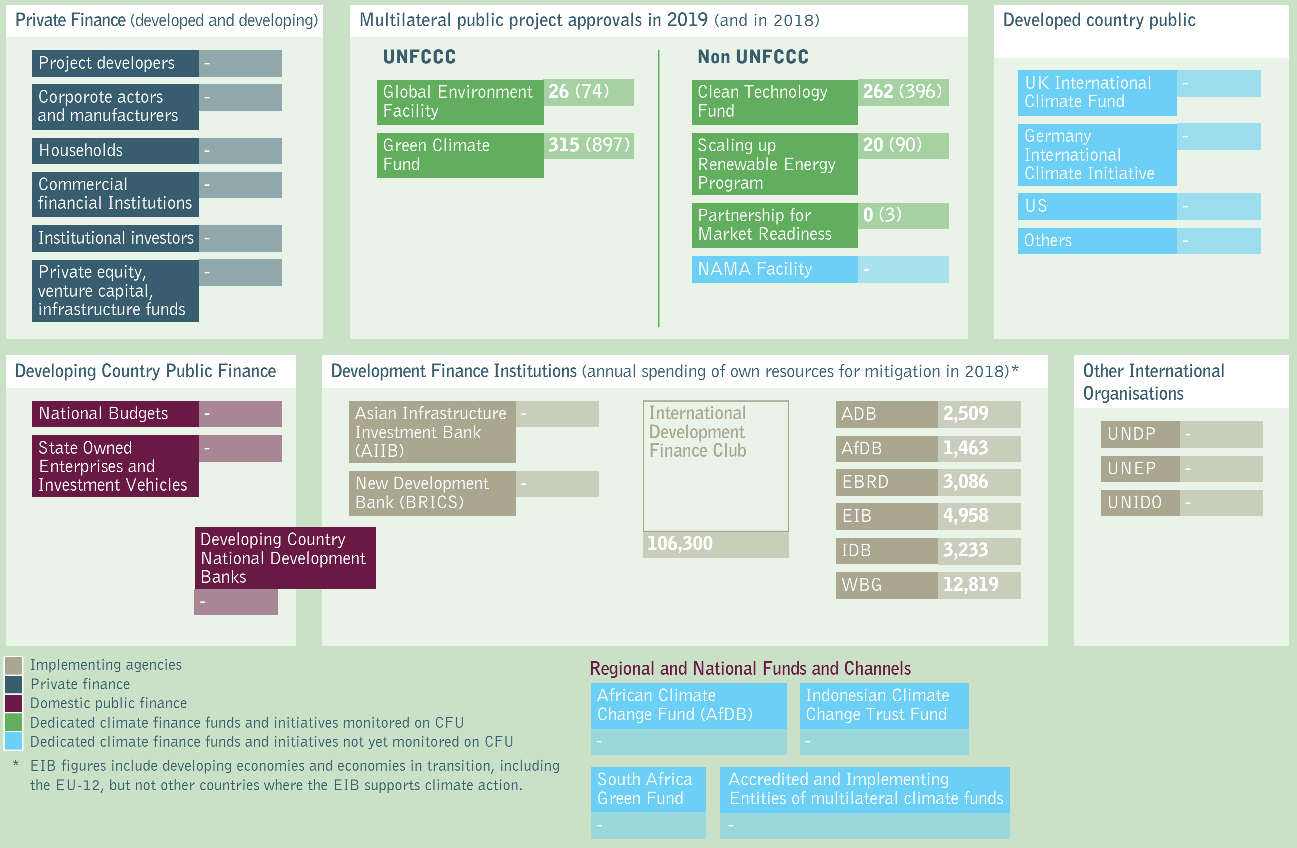
Which climate funds support mitigation?

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 programmes they can accommodate and the number of developing countries they support. For example, the 137 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 over USD 5 billion in

Table 1: Main funds supporting mitigation (2003-2019, USD millions)[1]

Fund	Pledged	Deposited	Approved	Projects approved
Clean Technology Fund (CTF)	5,404.3	5,404.3	5,205.4	137
Global Environment Facility (GEF 4, 5, 6 & 7)	4,006.7	3,994.4	2,136.1	499
Green Climate Fund (GCF)	10,319.6	8,144.7[2]	2,114.3	32
Scaling-Up Renewable Energy Program (SREP)	744.4	744.4	574.1	54
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	281.5	275.5	223.6	19
Partnership for Market Readiness (PMR)	130.7	129.1	82.4	42

Figure 1: Mitigation finance architecture (USD millions)



largely programmatic, loan funding to these countries. By contrast, the close to 500 individual grant-financed projects supporting mitigation under GEF 4, 5, 6, and 7, 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 four years, the Green Climate Fund (GCF) has approved USD 2.1 billion for projects that have a focus on mitigation, with over half of this amount as concessional loans. Disbursements to projects have yet to gear up, being 16% of approved funding as of December 2019. The GCF during that time has also approved 37 multi-foci projects worth USD 2.0 billion, the largest being 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 54 projects as of December 2019. The Partnership for Market Readiness, meanwhile, has 42 projects in middle-income countries to implement policies to promote private investment in mitigation activities through grant funding.

Figure 2: Main funds supporting mitigation, (2003-2019)[1]

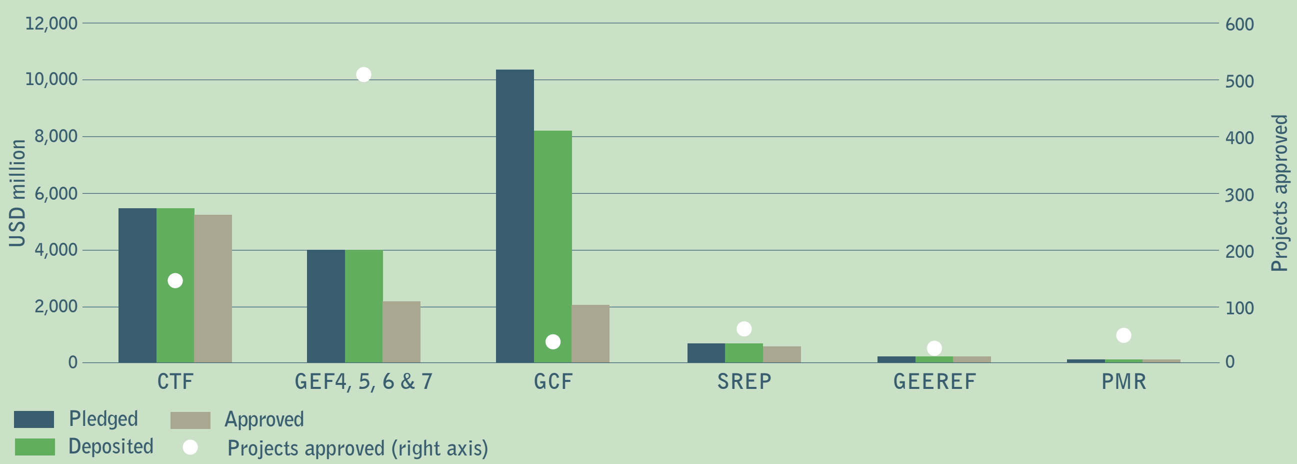
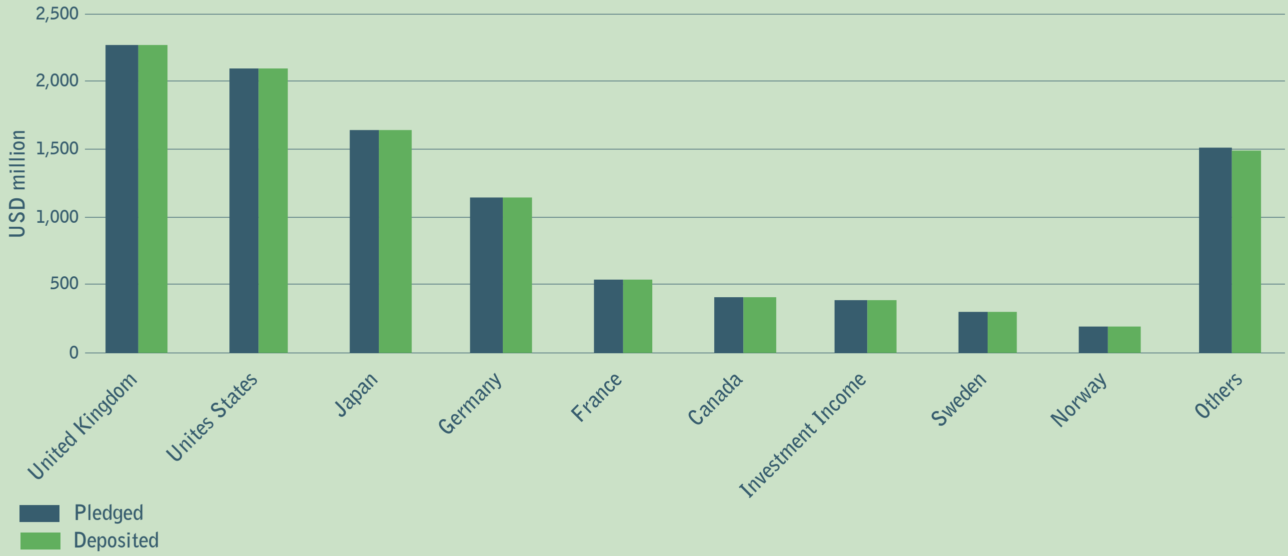


Figure 3: Pledges and deposits to mitigation funds (2003-2019)[3]



Who pledges and deposits mitigation finance?

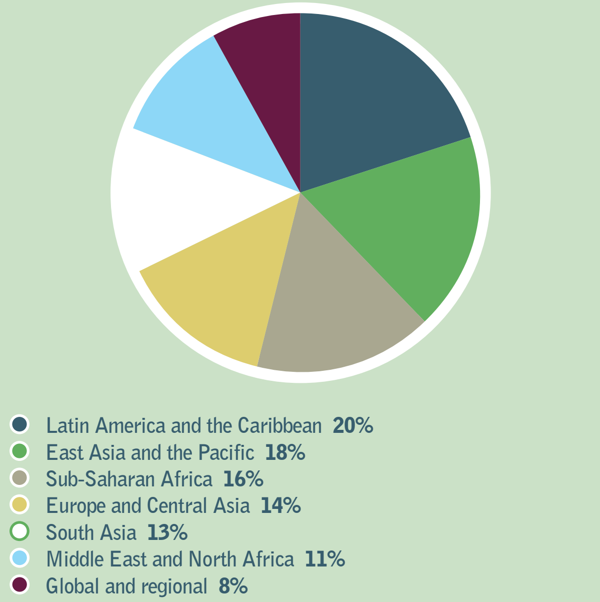
To date, the UK, USA, Japan, Germany and France's pledges to the funds in Table 1 (excluding the GCF[3]) account for 68% of the USD 10.6 billion committed in total (Figure 3).

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

Mitigation finance has been relatively evenly distributed across the various regions (Figure 4). However, the picture is different looking at country distribution. Ten countries have received 49% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as India (USD 1,129 million), Indonesia (USD 600 million), South Africa (USD 590 million), Mexico (USD 579 million), and Turkey (USD 464 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 (2018-2020) continues 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 (2003-2019)



For 2019, the prominence of the GCF as a major funding source for global mitigation action continued. The GCF approved USD 332 million for mitigation projects including two projects each with USD 100 million in concessional loans. In Nigeria, the project will catalyse delivery of renewable solar power, while in South Africa the project will support the implementation of both solar and wind renewable energy projects.

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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. This amount reflects countries' deposits using the official GCF initial resource mobilization exchange rate set in November 2014, not actual amounts received taking into account exchange rate fluctuations.
3. 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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