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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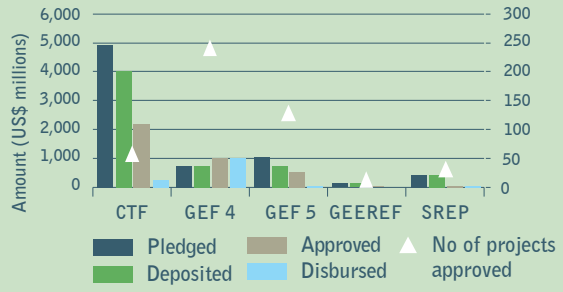
The need to mitigate the effects of climate change grows more urgent by the year, particularly as progress in making ambitious emission reductions has been slow. Climate finance can play a crucial role in assisting developing countries in making the transition to more environmentally sustainable systems of energy production and use, while also addressing developmental priorities of energy security and energy poverty. CFU data through October 2013 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. 58% of total climate finance since 2008 has been approved in support of mitigation activities in fast growing countries, primarily for the development of renewable energy technologies. The amount of finance approved for mitigating global emissions has grown in the last year from USD 4.5 billion in 2012 to USD 5.82 billion until October 2013.

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 would have to 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 in implementing mitigation actions including renewable energy and energy efficiency programmes, and more sustainable transport.

Figure 1:Funds primarily supporting mitigation[1]



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

Table 1 presents the dedicated climate funds 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. For example, the 57 approved projects benefitting just a small number of

Table 1: Funds primarily supporting mitigation (USD millions)

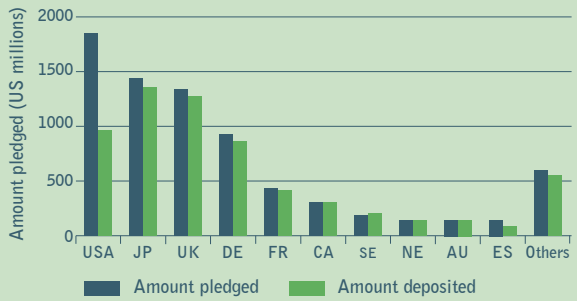
Fund[2]	Pledged	Deposited	Approved	Disbursed[3]	No of projects approved
Clean Technology Fund (CTF)	4,936	4,073	2,198	266	57
Global Environmental Facility Trust Fund (GEF 4)	754	754	982	957	240
Global Environmental Facility Trust Fund (GEF 5)	1,077	777	583	31	127
Global Energy Efficiency Renewable Energy Fund (GEEREF)	170	164	77	unknown	10
Scaling-Up Renewable Energy Program for Low Income Countries (SREP)	480	450	60	0	28

emerging market economies under the Clean Technology Fund (CTF) comprise USD 4.9 billion in largely programmatic funding. By contrast, the 240 individual GEF4 projects covering most developing countries account for less than 20% of this amount. The GEF-5 System for Transparent Allocation of Resources (STAR) triples the number of eligible countries from 50 to 144 allowing developing countries with low per capita income to access small scale mitigation finance from the GEF (GEF, 2011). On the other hand, the CTF has a larger sum of funding at its disposal, which it spends in a smaller number of countries.

The Scaling-Up Renewable Energy Program (SREP) of the CIFs, which focuses on poorer developing countries and energy access and poverty dimensions, has approved 28 projects up to October 2013 but has not yet started disbursing project funds.

Who pledges and deposits to mitigation funds?

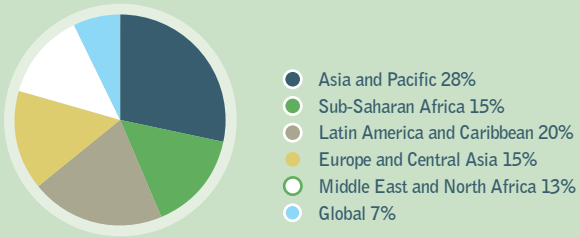
Figure 2: Pledges and deposits to mitigation funds



To date, the USA, Japan, UK, Germany and France's pledges to the five designated funds in Table 1 account for 80% of the USD 7.4 billion committed in total. About USD 4.8 billion of the amount pledged by these countries has actually been deposited in the funds. USD 3.9 billion, or 63%, of the amount deposited by all donors has been approved for supporting projects or programmes.

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

Figure 3: Regional distribution of mitigation finance



Excludes contributions to multiple countries but includes regional projects.

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 receiving 89% of total mitigation funding. Rapidly developing countries with substantial mitigation need and potential such as Mexico (USD 535.75 million), South Africa (USD 437.77 million), Morocco (USD 350.34 million), and Turkey (282.67 million) are the top recipients of approved mitigation finance. Historically China and India have received large amounts of mitigation finance, but in 2013 modest additional finance was approved for these countries.[4] 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 supported projects have sought to support rural electrification using renewable energy technologies, while the Scaling-up Renewable Energy Program of the CIFs is also focussed on extending energy access for the poor.

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. Another emerging focus of mitigation finance is to support more sustainable low carbon transport solutions, specifically urban transport infrastructure.

References

CIF. (2009) Clean Technology Fund Investment Criteria for Public Sector Operation.

GEF (2011). *System for Transparent Allocation of Resources* (STAR) FAQ. GEF Policy Paper.

Climate Funds Update: www.climatefundsupdate.org (data accessed in October 2013)

End Notes

1. Japan's bilateral FSF is excluded here as what it counts as climate finance is not comparable with other bilateral contributors of climate finance. For a detailed analysis of Japan's FSF and other top contributors of climate finance see: http://www.climatefundsupdate.org/global-trends/fast-start-finance
2. The Climate Investment Fund (CIF) figures only include projects approved by both the Trust Fund Committees and the implementing Multilateral Development Banks.
3. The CTF releases accurate aggregate disbursal figures but has not done so consistently at the project level: the figure here is likely to be underestimated. Detailed project level disbursal data for the GEF 4 and 5 are limited: the figures here may be overestimates.
4. Japan has provided substantial support to Asian countries through its Fast Start Finance Program.

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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