Mitigation Action Facility

Leading the way in transformative climate action

Mitigation Action Facility

On behalf of

Supported by:

Federal Ministry for Economic Affairs and Climate Action

on the basis of a decision by the German Bundestag

IKI INTERNATIONAL CLIMATE INITIATIVE

UK Government

Danish Ministry of Climate, Energy and Utilities

European Commission

CIFF CHILDREN'S INVESTMENT FUND FOUNDATION

Agenda

- At glance - Mitigation Action Facility (MAF)
- Understanding the MAF guarantee portfolio and the role of MAF guarantees
- Current status of the MAF guarantee portfolio
- Challenges and trends
- Project examples
- Conclusions and recommendations

At glance – Mitigation Action Facility

An agile, grant-based and multi-donor mitigation fund established in 2012 to support partner countries in achieving their NDC goals

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What MAF finances?

- ✓ Climate exclusive, climate change mitigation measures
- ✓ Aligned with NDC goals and embedded in national development strategies
- ✓ Key priority sectors – energy, transport, industry, cross-sectoral
- ✓ All ODA eligible countries
- ✓ Sector-wide transformational change (e.g. behavioral change, policy reforms)
- ✓ Leverage additional public and private investments
- ✓ Gender-responsive approach and social inclusion aspect, just transition

How MAF finances?

- Competition-based project selection (three stages –Concept, Outline, DPP)
- Funding (100% grant based) of up to EUR 25m per project, long term
- Blending finance and technical assistance
- Extensive advice at all phases of project cycle, incl. funding support

At glance – Key figures

Over a decade, addressing market barriers that hinder sector-wide carbon neutral development in ODA countries (as of end 2024)

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11.3 million $tCo2$ reduced

EUR 835 million commited

EUR 1.8 billion mobilized

28.1 million people benefitted directly

60 projects selected/
36 active

37 countries supported in meeting their NDC goals

35 low-carbon policies, regulations or standards adopted or amended

400 national and sub-national institutions received support

At glance – MAF project portfolio

Well-balanced portfolio, with a strong footprint in the energy sector

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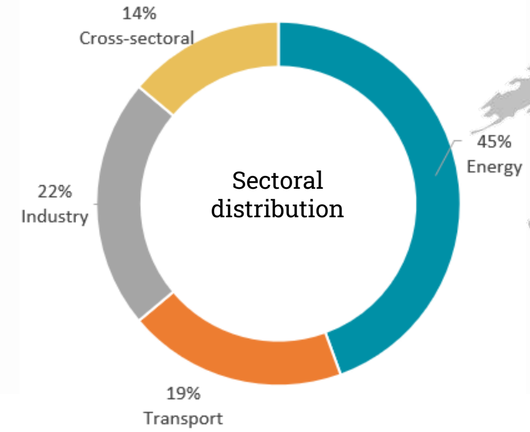
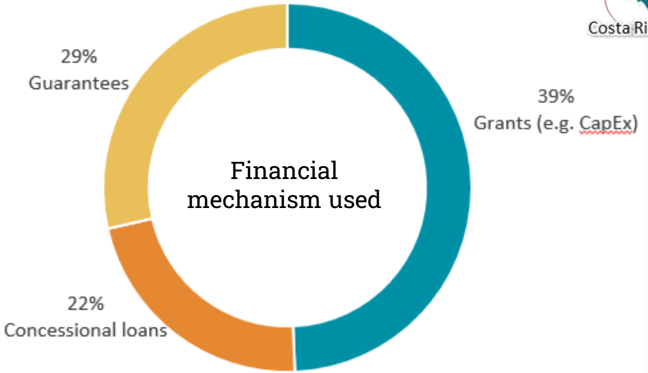
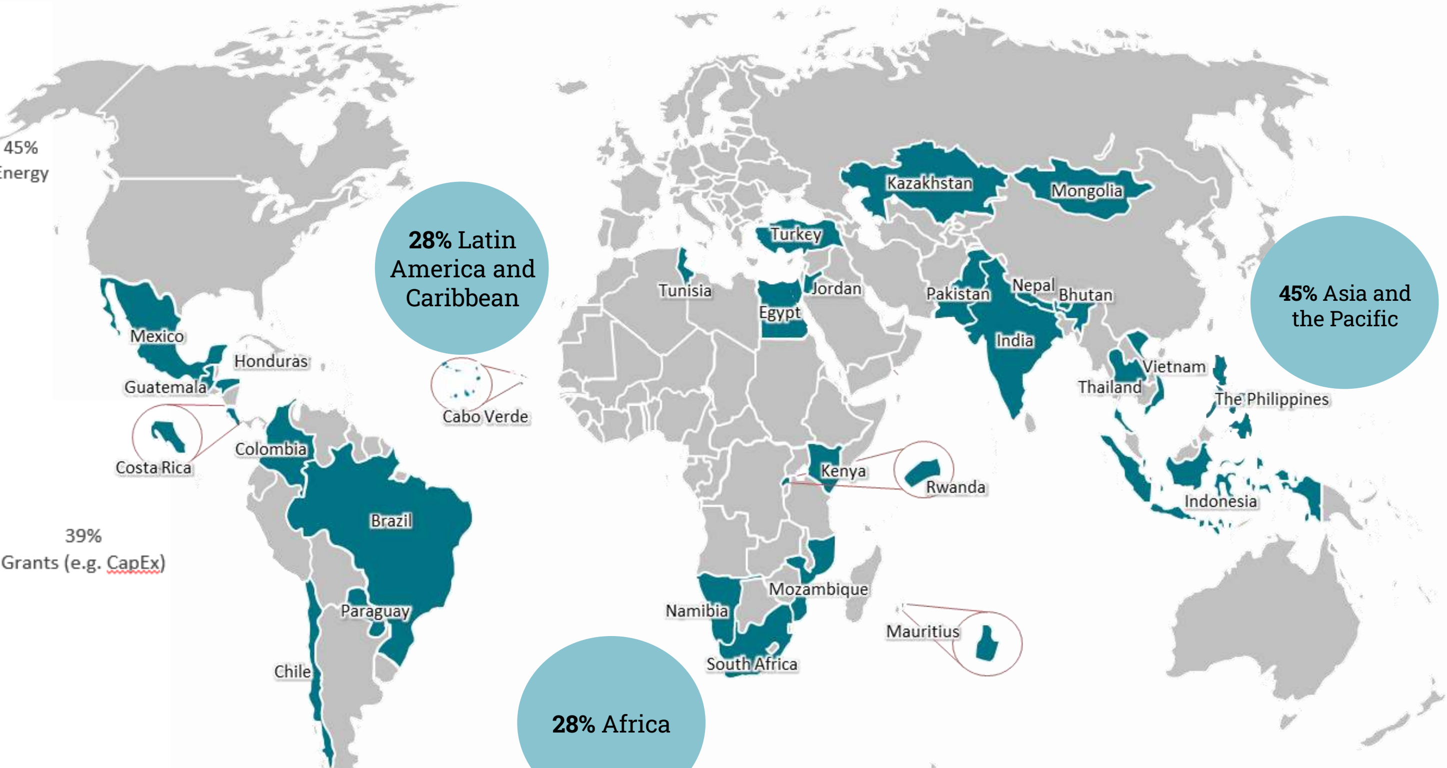


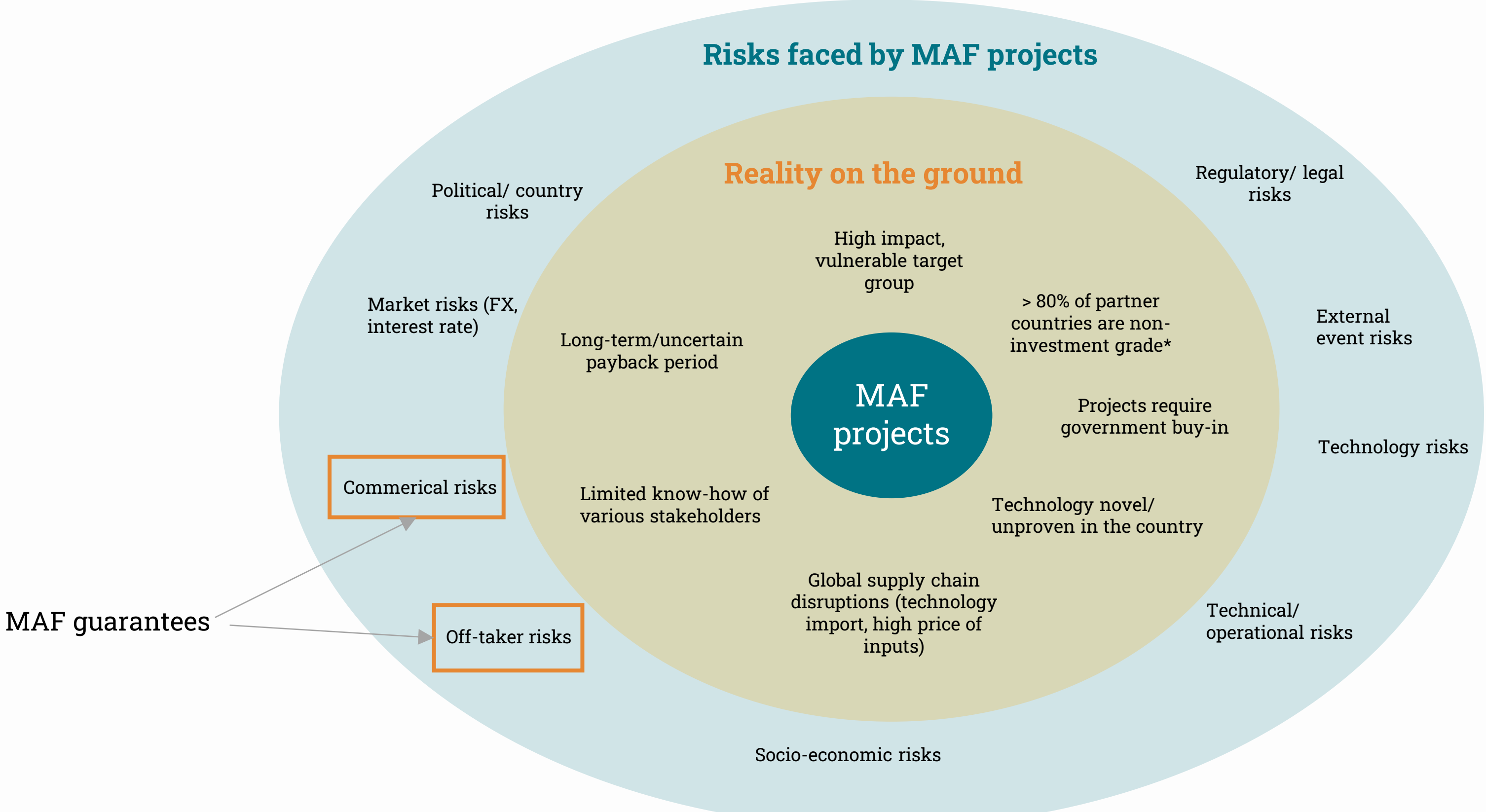




Information on projects and types of financial mechanisms used as of December 2024

At glance – MAF project ecosystem

Multiple and simultaneous risks in MAF climate mitigation investments



*S&P rating

Understanding the MAF guarantee portfolio

Highest demand for credit risks guarantees observed

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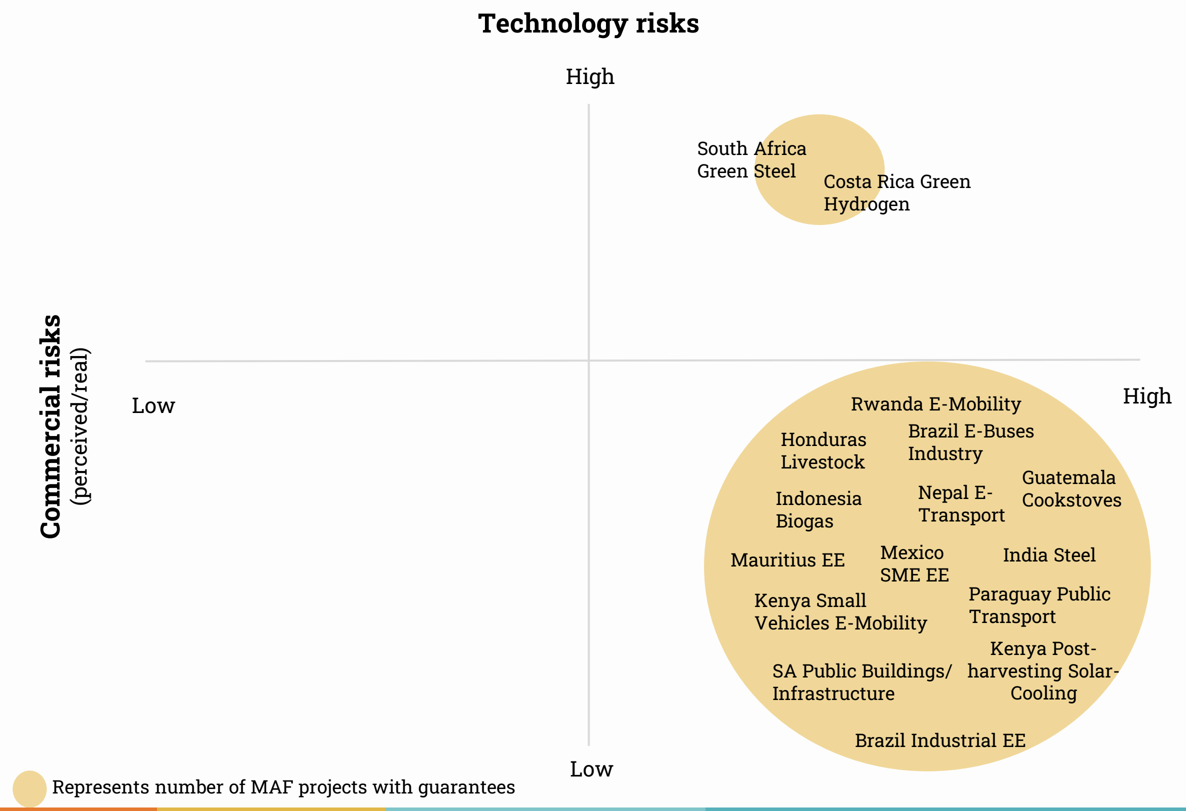

MAF guarantees primarily address perceived/real **commercial risks**, stemming from vulnerable target group, unproven business models in the country context and uncertain uptake of green technologies

The role of MAF guarantees

MAF credit risk guarantees aim at long term catalytic effect in the local markets

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Impact

Transformational change, outreach, additionality and financial sustainability for net-zero pathway development

What guarantees induce

Change in the market dynamics and behavior locally towards green technology adoption

How guaranrees enable change

- Facilitate uptake of untested green technologies locally
- Unclock LT and more affordable financing for the target group
- Reduce uncertainty of untested business models locally

Role of guarantees

- Enable demonstration effect & raising awareness
- Provide comfort to local financial providers
- Reduce cost of capital to stimulate demand for mitigation solutions

MAF Credit Risk Guarantees

Current status of MAF guarantee portfolio

Growing guarantee portfolio to enable sustainable financing

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- EUR 140m volume of guarantees approved
- 16 projects (majority early stage)
- 74% Energy sector
- Type: Credit risks and off-taker guarantees
- Debt investments
- Private sector coverage (ca 50%-90%), step-down coverage approach (in some cases)
- First-loss/Pari passu
- Always combined with other financial instruments and TA

- 2 national guarantee funds established and are operational
- 1 Project has been scaled from a regional to a national level
- Established partnerships with national development or commercial FIs
- Goal to mobilize with active projects - private EUR 747m and public EUR 350m
- Approx. 6x total leverage of MAF total funding for the projects with guarantees

Challenges and trends observed

Constantly evolving

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Challenges	Trends
▪ Limited guarantee infrastructure for climate mitigation projects ▪ „Mood“ for a national guarantee mechanism and leverage potential relies on the political agenda ▪ Complexity and long-time for establishing a guarantee fund ▪ Competitive and more appealing financial instruments, complexity of guarantees over loans/grants/subsidies ▪ Complex application process and the increased difficulty of coordinating multiple international providers ▪ Regulatory considerations for financial institutions ▪ Lack of institutional and financial incentives	▪ Shift to less sophisticated financial instruments that allow for swifter implementation while offering similar leverage opportunities ▪ Interest on guarantee mechanism varies over time – relation to costs of financing and liquidity in the market ▪ Guarantee mechanisms used to back up either larger projects (PPA) or smaller investors with „uncertain“ payback capacities (Liquidity funds) ▪ Changing political landscapes could add additional stress to changing „mood“ for guarantee mechanisms.

Brazil Industrial EE

In Implementation

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Transformative Investments for Industrial Energy Efficiency

- **Implementation Organisations: GIZ**
- **Project Gov Partners:** Min. of Mines and Energy; Min. of Dev. Indus. and Foreign Trade
- Funding: EUR 24.3m (FC EUR 16.6m + TC EUR 7.6m)
- Implementation year: 2019-2027, extended

Project aims to promote industrial energy efficiency investments in Brazil and deliver a transformative push to Brazil's EE market.

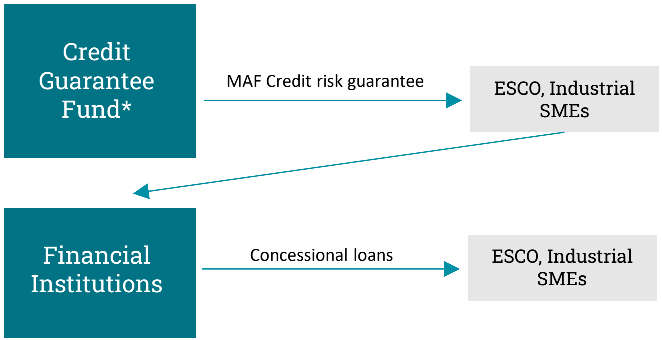
Overview: Industry is responsible for one third of Brazil's final energy consumption and eight percent of the country's greenhouse gas (GHG) emissions, amounting to 183 million tonnes of CO_2e per year. Until now, Brazil's energy efficiency (EE) market has been negligible, and the vast potential for energy savings remains untapped, despite the existence of federal regulations and programmes, financial mechanisms and a limited degree of technical assistance initiatives.

Solution:

- Develops local banks' capacities and enhances their familiarity with assessing and investing in energy efficiency projects
- Enable energy efficiency service companies and technology providers to develop a pipeline of EE projects
- TA for private and public sector

Expected outcome: more than EUR 48m to be mobilized, with financial leverage of 4X for the piloting.

Realised outcomes: 120 investment projects with own resources, 5 investment projects financed with concessional terms



*Pooled resources from Desenvolve SP, National Energy Conservation Fund (PROCEL) and the National Micro and Small Business Support Service (SEBRAE))

Kenya Solar Powered Cold Chain

Starting Implementation

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Kenya – Post-Harvesting Solar-Cooling

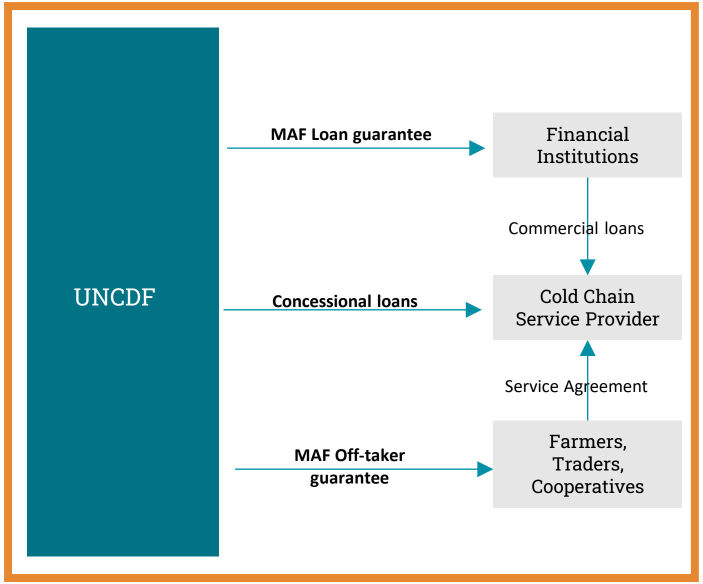
- **Implementation Organisations: UNDP, UNCDF**
- **Project Gov Partners:** Ministry of Environment and Forestry, Ministry of Agriculture
- Funding: EUR 25.1m (FC EUR 16.6m + TC EUR 6.6m)
- Implementation year: 2025 - 2030

Project aims to enable a market driven expansion of harvest-to-market solar-powered cold-storage services, and thus reduce post-harvest losses.

Overview: While post-harvest loss in Kenya, estimated at more than 40%, is predominantly seen as a food security and livelihoods issue, it is also a substantial GHG emissions issue. This is largely due to poor harvest and handling techniques, inadequate cold-storage facilities, unawareness about cold-chain services, a lack of financing, well-trained workforce, and a poor enabling environment..

Solution:

- Deploy 1,000 solar-powered cold stores using natural refrigerants of low GWP in rural and peri-urban areas
- Financial Structuring: Concessional loans deployed directly to technology Providers and Operators, Commercial Loan Guarantee for loans provided by banks and financial institutions and a tariff support facility to de-risk uncertain operational cash-flow.
- TA for private and public sector



South Africa – Accelerating Steel Decarbonization

In Preparation

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South Africa – Accelerating Steel Decarbonization

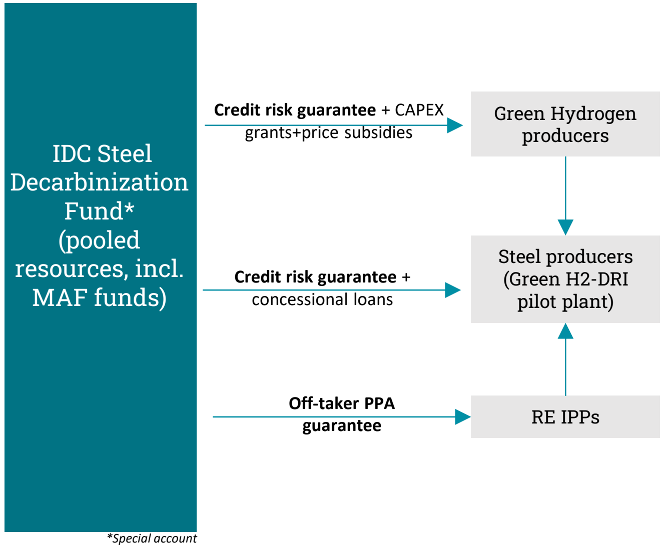
- **Implementation Organisations** (UNIDO, Guidehouse, IDC)
- **Project Gov Partners:** Department of Trade, Industry and Competition (dtic)
- Funding: EUR 25m (FC EUR 17m + TC EUR 8m)
- Implementation year: 2026 - 2032, expected

Project aims at addressing critical barriers to adoption of green steel technology in the country through a comprehensive. multi-stakeholder approach.

Overview: SA lacks targeted incentives to support steel decarbonization, which is capital intensive. The steel industry is in a survival mode, focusing on optimizing costs, pressured by excess capacity globally, fierce competition and increasing trade measures. On the other side, greening steel sector in SA presents growth opportunities for the industry being able to leverage SA competitive advantages to develop domestic and export markets for green steel.

Solution:

- Developing a pipeline of investment-ready projects with strong TA and policy reforms
- Support multiple stakeholders along the value chain
- Structuring: use robust & existing IDC governance structure, simplified
- Close engagement at the design phase with the private sector/other co-financers, DFIs
- TA for private and public sector



Conclusions and recommendations

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Structuring

- Setting up a national guarantee fund should be aligned with the government priorities for the sector to secure swift implementation and sustainability
- Leverage on existing guarantee structures; they require less time for operationalization and hence avoid lengthy protocolary procedures
- Do not underestimate the time required for establishment and operationalization of the guarantee
- Previous experiences with guarantees are a good indicator of market appetite for this mechanism
- Simplification of the procedures to access guarantees is the key to drive interest of FIs to participate

Delivery partners

- Look for alternative, less regulated FIs but with proven good governance and strong risk management (e.g. MFIs, NBFIs) instead focusing only on banks; they have less regulatory restrictions, higher demand for guarantees and serve the target group perceived as riskier
- Coordinate with other local financial providers for the pipeline development, not to overlap but create a complementary offer
- Align criteria for the guarantee facility with FIs (DFIs, development banks, etc), to leverage and increase co-financing potential

Financing

- Combine guarantee with other incentives to create market demand – facilitate support along the value chain
- Closely engage with the private sector at the early (design) stage to create an attractive credit offer for the target group and ensure a new guarantee mechanism addresses market needs e.g. adequate guarantee by technology providers, subsidies (if applicable)
- The revolving nature and potential to support upscaling of initiatives make guarantee funds attractive for public sector investment (capitalization)
- Use step-down approach of the guarantee coverage not to over-subsidize (if applicable)

MAF Network of partners – 400 insitutions received support

Multi-stakeholders engagement and partnerships required to address global challanges

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Funding partners

- Supported by: Federal Ministry for Economic Affairs and Climate Action on the basis of a decision by the German Bundestag
- IKI International Climate Initiative
- Funded by UK Government
- European Commission
- Danish Ministry of Climate, Energy and Utilities
- CIFF Children's Investment Fund Foundation

Delivery partners

National organisations & FIs

- BANOBRAS Banco Nacional de Obras y Servicios Públicos S.N.C
- Nabil Bank
- hudco
- BANCOLDEX Promueve el Desarrollo Empresarial
- DAMU
- BNDES
- IDC Industrial Development Corporation
- Banco Nacional
- nacional financiera
- AFD Agencia Financiera de Desarrollo
- BANHPROVI Gobierno de la República
- Development Bank of Rwanda BRD We empower you
- FENOGE
- Rwanda Green Fund – Investing in a green and climate resilient Rwanda
- LUMS A Not-for-Profit University
- COFIDE El Banco de Desarrollo del Perú
- FNDS
- Desenvolve SP
- Findeter Banca de Desarrollo Territorial
- ICCTF
- SHF Sociedad Hipotecaria Federal
- CORFO

International organisations & IFIs

- CATIE Solutions for Inclusive Green Development / Soluciones para el Desarrollo Verde Inclusivo
- Friedrichsdorfer Institut zur Nachhaltigkeit (IzN) e.V.
- UNCDF Microfinance • Capital Development
- CCAP
- NDC Partnership
- GGGI
- ICLEI Local Governments for Sustainability
- UNDP
- KfW
- World Resources Institute
- FAO Fiat Panis
- IDB Inter-American Development Bank
- UNIDO
- Frankfurt School of Finance & Management – German Excellence. Global Relevance.
- WWF
- Carbon Trust
- European Bank for Reconstruction and Development
- The World Bank
- World Agroforestry
- UNEP

Bilateral development agencies

- AFD Agence Française de Développement
- giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
- Helvetas Swiss Intercooperation
- SNV

Contact

Mitigation Action Facility
Köthener str. 2-3
10963 Berlin

www.mitigation-action.org
Contact@mitigation-action.org

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