

# CLIMATE INVESTMENT FUNDS

April 28, 2009

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**CLEAN TECHNOLOGY FUND:  
REPORTING BY BILATERAL DEVELOPMENT AGENCIES/BANKS TO THE  
CLEAN TECHNOLOGY FUND TRUST FUND COMMITTEE**



## Introduction

1. During the design of the Clean Technology Fund<sup>1</sup>, it was agreed that: “bilateral development agencies/banks, are encouraged to contribute to the achievement of the objectives of the Trust Fund through bilateral projects or co-financing of projects funded by the Trust Fund. *Donors may report on this bilateral financing to the Trust Funds Committee (TFC) for its review and confirmation that such bilateral financing conforms to the objectives of the Trust Fund. Activities confirmed by the Trust Funds will be included in the annual report of the Funds.*” (Emphasis added)

2. The purpose of this note is to discuss how bilateral projects can contribute to the achievement of the objectives of the CTF, consistent with its principles, through support for the demonstration, deployment and transfer of low carbon technologies, and how such projects could be included in the annual report of the CTF.

3. This note covers three issues:

- (a) modalities for alignment of projects and programs financed by bilateral donor agencies/banks with CTF programming;
- (b) process for CTF Trust Fund Committee’s review of such bilateral projects and programs and confirmation that such activities conform to the objectives and criteria of the CTF; and
- (c) content of reporting on bilateral projects and programs to the Trust Fund Committee.

## Modalities for Joint Programming

4. A key principle of the CTF is that activities financed by the fund should be based on a country-led approach and should be integrated into country-owned development strategies, consistent with the Accra Agenda for Action and the Paris Declaration<sup>2</sup>. The CTF Investment Plan, developed under the leadership of the partner country, provides the common programming framework for a joint MDB program. The investment plan is the “business plan” of the MDBs, developed under the leadership of the government, to assist a country with CTF co-financing in implementing its national development strategies or programs that include low carbon objectives. The investment plan is agreed between, and owned by, the Government and the MDBs. It should be a clearly articulated multi-year proposal that describes the proposed uses of CTF resources, identifying the “slice(s)” of the country’s existing strategies and plans that could be co-financed by the CTF.<sup>3</sup>

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<sup>1</sup> The Clean Technology Fund, World Bank, June 9, 2008

<sup>2</sup> The five Paris Principles are: Ownership--Partner countries exercise effective leadership over their development policies, and strategies and coordinate development actions; Alignment--Donors base their overall support on partner countries national development strategies, institutions, and procedures; Harmonization--Donors’ actions are more harmonized, transparent and collectively effective; Managing for Results--Managing resources and improving decision-making for results; Mutual accountability--donors and partners are accountable for development results.

<sup>3</sup> *Clean Technology Fund: Guidelines for Investment Plans*, December 2008.

5. Bilateral agencies/banks may choose to co-finance an MDB project. Regardless of whether the co-financing is parallel or joint, the conformity of the project with CTF criteria would not be in question. In this case, there is no need for separate reporting, since the co-financing will be included in the reporting by the MDB to the CTF Trust Fund Committee. However, bilateral agencies may wish to agree on how best such support can be reflected in the annual reporting of the funds.

6. It can be foreseen that there will be cases where bilateral donors provide financing to activities not linked to those of the MDBs but within the context of the CTF investment plans as well as cases where bilateral donors plan to fund, or are funding, activities with low carbon objectives that support the same national development strategies as the investment plan, but that are not specifically linked to the investment plan. The issues and implications that arise under such additional funding are discussed below under three scenarios.

*Scenario 1: Inclusion of bilateral programs and projects upstream in CTF Investment Plans*

7. Under this scenario, the planning of the joint MDB mission, under the leadership of the country, would include close consultation and collaboration with interested bilateral donors to ascertain parallel financing opportunities.<sup>4</sup> Such bilateral donors would be fully engaged in the development and joint programming of the investment plan. The programs/projects supported by the bilateral donors would be within the sectors or sub-sectors selected for CTF co-financing in the investment. The shared objective would be to ensure that the planned bilateral financed projects, while relying on the operational policies and procedures of the bilateral funding agencies, are nevertheless consistent with the investment plan aims and objectives, aligned with country priorities, harmonized with MDB programming, and contribute to its overall implementation. Where this alignment and harmonization is done effectively and in a timely fashion, the bilateral parallel project would be identified upstream and integrated into the investment plan itself. When the plan is presented to the Trust Fund Committee for endorsement, the bilateral donor representative could be invited to be represented alongside the recipient country representative and MDBs during the committee's deliberations.

*Scenario 2: Bilateral financing for projects downstream in CTF Investment Plans*

8. Under this scenario, a bilateral donor identifies a project or program for support within the sectors or sub-sectors selected for CTF co-financing after the investment plan has been endorsed by the Trust Fund Committee. Such situations are inevitable, given the different programming cycles of bilateral donors. Just as in scenario 1, the preparation of a CTF investment plan would have the positive effect of building new partnerships and mobilizing resources for country-led programs.

9. Under these two scenarios, in which bilateral projects would be closely associated with the CTF investment plan, the bilateral projects would clearly be well aligned with CTF criteria. Such collaboration will be dependent upon open communication and close coordination among the government, MDBs, and the interested bilateral donor throughout the process of developing

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<sup>4</sup> The CTF design already explicitly calls for this

and refining the investment plan. Recognizing the additional transaction costs of coordination and the primacy of country interests, the process of alignment of the bilateral project with the investment plan should seek to maximize the benefits for the country and to minimize delays to the implementation timetable. It is also possible to envisage the engagement of bilateral agencies through a combination of Scenarios 1 and 2.

*Scenario 3: Bilateral projects consistent with priority sectors for emissions abatement measures, but outside sectors or sub-sector selected for CTF co-financing in the Investment Plans*

10. In this scenario, a bilateral donor would finance low carbon activities outside the sectors or sub-sectors selection for CTF co-financing in the investment plan, but which are consistent with national programs and strategies that have low carbon objectives and are within priority sectors for greenhouse gas emissions savings as presented in the investment plan.

11. This scenario raises some issues requiring further consideration. Since the CTF-funded projects under the investment plan will be reviewed by the Trust Fund Committee for their compliance with the CTF criteria, consideration needs to be given as to what would be the equivalent review process by which bilateral donor funded projects which are not linked to the investment plan would be reviewed for consistency with the CTF criteria if they are to be included in the annual report of the CTF Trust Fund.

#### **Illustrative Examples of Bilateral Financing for Projects that Conform to the Objectives of the CTF**

Priority sectors in the country's CTF Investment Plan (Section 2 of CTF Investment Plan):

- a. Industrial Energy Efficiency
- b. Geothermal Energy
- c. Urban transport
- d. Rehabilitation of coal-fired power plants
- e. Reduction in Transmission and Distribution Losses

Sectors or sub-sectors selected for CTF co-financing (Section 3 of CTF Investment Plan)

- a. Geothermal Energy
- b. Urban Transport

Scenario 1: Bilateral donor's project/program to support geothermal energy development is included in Section 3 of CTF investment plan.

Scenario 2: Bilateral donor identifies a project for geothermal energy development after endorsement of the investment plan by the CTF Trust Fund Committee.

Scenario 3: Bilateral donor supports project for industrial energy efficiency.

In addition, bilateral donor co-finances MDB project for urban transport in CTF investment plan

12. It is proposed that bilateral projects and programs proposed for inclusion in the CTF annual report be submitted to the Trust Fund Committee jointly by the concerned recipient country and the bilateral donor. The Trust Fund Committee would be expected to review the request, and agree to the inclusion of the project or program in the CTF annual report, if the activity is supportive of the objectives and aims of the CTF. The joint submission would provide an opportunity for the recipient government to describe how the bilateral project contributes to its national strategy and conforms to the CTF criteria. It is also expected that a joint presentation would contribute to strengthening government leadership and the incentive for mutual accountability during the implementation phase.

### **CTF Trust Fund Committee's review and confirmation of scenario 3 projects**

13. The distinctive characteristic of the bilateral projects under scenario 3 is that, unlike those aligned upstream with the investment plan (scenario 1) or explicitly aligned with the investment plan after its endorsement (scenario 2), scenario 3 projects would not have had the benefit of consultation and coordination with the MDB projects. Also, they would not have been reviewed by the Trust Fund Committee. Therefore, the Trust Fund Committee should review the project or program, before their inclusion in the CTF annual report, to assure that:

- (a) it is aligned with the country strategy to which the CTF investment plan is contributing.
- (b) the principal objective of the project or program is to scale up the demonstration, deployment and transfer of low carbon technologies.
- (c) the project or program is consistent with the analytical work undertaken in the course of preparing the investment plan.
- (d) the project or program is consistent with the CTF investment criteria.
- (e) the project's financial instruments, terms and conditions, operating procedures (procurement, financial management, environment assessment, safeguards), and monitoring and evaluation are coordinated with the MDBs implementing the investment plan., while relying on the bilateral agency's policies and procedures.

14. Agreement by the Trust Fund Committee would be a necessary condition before the project or program is included in the TFC annual report.

### **Reporting to the Trust Fund Committee**

15. In proposing projects to be included in the CTF annual report, the proposal should report on how the project or program meets the six CTF investment criteria:

- (a) potential for long-term greenhouse gas emissions savings
- (b) cost effectiveness
- (c) demonstration potential
- (d) development impact
- (e) implementation potential
- (f) additional costs/risk premium.

16. The detail with which these criteria are reported should take into account their relevance for the financing provided and the scale of the project funding. The report should also include information on financial instruments used and terms and conditions.

17. The Trust Fund Committee may also wish to invite the government and bilateral agency to report on the implementation and results achieved by the project or program. If there are changes in the terms under which financing is being provided or in the design of the project, additional and timely reporting to the TFC would be warranted.