

CLIMATE INVESTMENT FUNDS

August 6, 2009
(Revised document)

CLEAN TECHNOLOGY FUND GUIDELINES FOR INVESTMENT PLANS

Introduction

1. Among the functions of the Clean Technology Fund (CTF) Trust Fund Committee is “approving programming and pipeline priorities, operational criteria and financing modalities.” At its organizational meeting in October 2008, the Trust Fund Committee agreed to review and approve at its meeting in November 2008 a set of guidelines to be followed in elaborating CTF investment plans in eligible recipient countries.
2. During the design of the CTF, it was agreed that the first step in country programming is for the multilateral development banks (MDBs) to conduct a joint mission, involving other relevant development partners, to discuss with an interested government, private industry and other stakeholders how the CTF may help finance scaled-up low carbon activities. The outcome of the joint exercise is to be an investment plan, developed under the leadership of the recipient country, for the use of CTF resources in major sectors of the economy through a joint MDB program. The investment plan is critical to allowing potential activities and investments financed by the CTF to be structured to respond to each country’s existing strategies and plans and to take account of on-going MDB operations in key sectors or sub-sectors in a country.
3. The Trust Fund Committee approved these guidelines at its meeting in November 2008. This paper describes the steps to be followed in preparing the CTF Investment Plans. The guidelines serve as initial guidance to allow the MDBs to move forward in undertaking joint missions in interested eligible countries. It is proposed that these guidelines be kept under review by the Trust Fund Committee on the basis of actual experience in their application and that the MDBs prepare a report on the implementation of the guidelines for consideration by the Committee no later than its first meeting in 2010.

Principles

4. The proposed guidelines for the preparation of CTF Investment Plans take into account the principles agreed by representatives of governments participating in the final design meeting on the Climate Investment Funds (Potsdam, May 2008), and approved by the World Bank’s Board at the time of its consideration and approval of the establishment of the CIF in July 2008. These principles are:
 - (a) The core mission of the MDBs is sustainable economic growth and poverty reduction. Climate change mitigation and adaptation considerations need to be integrated into the sustainable development process as addressing these issues contributes to the basic human needs of the poorest who are disproportionately impacted by the negative effects of climate change;
 - (b) Multilateral development banks can and should play a role in ensuring access of developing countries to adequate financial resources and appropriate technology for climate actions;
 - (c) The MDBs should mobilize new and additional financing for adaptation and mitigation programs to address climate change that are country-led and designed

- to support sustainable development and poverty reduction. 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 Paris Declaration;
- (d) Achieving sustainable outcomes will require sustaining the total wealth -- produced, human, institutional and natural -- on which development depends;
 - (e) The UN is the appropriate body for broad policy setting on climate change, and the MDBs should not preempt the results of climate change negotiations. Actions to address climate change should be guided by the principles of the UNFCCC;
 - (f) The MDBs, in collaboration with other development partners, should assist developing countries to build country-level knowledge, capacity and development project experience;
 - (g) It is appropriate for the MDBs to build partnerships with each other and a wide range of institutions and stakeholders on climate change, including the private sector. In doing so, each MDB should remain accountable to its governing body;
 - (h) Complementarities between activities foreseen for the CTF and activities of the GEF and the UN, especially at the country level, should be identified, and effective cooperation established, to maximize synergies and avoid overlap; and,
 - (i) The CTF should provide for transparency and openness in its governance and financing operations.

Operational Procedures for the Preparation of CTF Investment Plans

5. The following procedures will apply to the preparation of CTF Investment Plans.
6. The country's designated focal point for the CTF should send a request to the World Bank Group and/or relevant RDB(s)¹ for a joint mission to initiate the preparation of the CTF investment plan.²
7. The CTF investment plan is the "business plan" of the MDBs, developed under the leadership of the government, to assist a county 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 would describe 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.³

¹ Contact information for each MDB is provided Annex A.

² The World Bank wrote to the Ministries of Finance for all IBRD/IDA member countries in July/August 2008 seeking their identification of a national focal point to facilitate communication with countries on the Climate Investment Funds. The letter suggested that the focal point should be familiar with MDB country assistance/partnership strategies. Countries are in the process of designating their focal points. The CIF Administrative Unit maintains a database of the designated focal points, which will also be available on the CIF website.

³ Investment Plans may be classified into three categories: (i) public and private sector operations; (ii) public sector operations only; or (iii) private sector operations only.

8. In some cases, an alternative to taking a nationally-based approach to investment plans might present the option of focusing on a particular sub-national area, such as state, province or city, or a regional or multi-country approach. A group of countries may adopt a regional or multi-country approach through a single, common investment plan. In all such cases, endorsement by the central government would be required.

9. Country access to the CTF will be based on: (a) ODA-eligibility (according to OECD/DAC guidelines) and (b) an active MDB country program⁴. When an eligible country (or group of countries) expresses interest in accessing CTF financing, the MDBs' country operations teams will jointly assess the potential for investments in the country (or countries, in the case of regional approaches) to meet CTF criteria for significant greenhouse gas (GHG) emissions reductions, demonstration potential at scale, development impact and implementation potential, taking into account their country sector dialogue. The starting point for these assessments for many countries will be existing national strategies, policies and laws, such as for energy efficiency, energy security, renewable energy development, climate change, and/or sector development.

10. If the MDBs' assessment confirms a potential fit with CTF investment criteria, a mission will be arranged, with the Government's consent, to include the World Bank, IFC and relevant RDB public and private sector operations, keeping bilateral and other multilateral development agencies informed.

11. The MDB Committee will allocate budgetary resources to the concerned MDBs from the Investment Plan budget pool approved by the Trust Fund Committee, on the basis of a jointly-prepared proposal that outlines the scope, nature and timing of the joint mission.

12. The CIF Administrative Unit will inform the CTF Trust Fund Committee of country expressions of interest and all planned joint missions.

13. The host country (or countries) and the MDBs will conduct a "desk" review of GHG emissions and emission reduction potential, which will be used to identify the skills needed from the Government and MDB team for the joint mission.

14. The Government, in collaboration with the MDBs, should take the lead in coordinating the preparation of the investment across sectors. A key feature of the joint missions will be engagement at the country level with UN and bilateral and other multilateral development and investment agencies, particularly with a view to mobilizing co-financing for CTF programs/projects, ensuring harmonized policy support, and promoting complementarily with activities of other development partners

15. The Investment Plan should contain an annex with a summary of the proposed projects for CTF co-financing, including a notional CTF allocation for each public sector

⁴ An "active" program is where an MDB has a lending program and/or an on-going policy dialogue with the country.

project, as well as an indication of the priority sectors and scope of investments for private sector projects and programs⁵.

16. Ordinarily, this exercise will take place during one mission and will be agreed by representatives from the country (or countries) and the MDBs as their Aide Memoire, in the same manner in which Aide-Memoires are agreed for regular MDB missions.

17. The Investment Plan should be considered a dynamic document, with the flexibility to consider changing circumstances and new opportunities. It would require re-submission to the Trust Fund Committee in the event of changes in the sector or sub-sectors selected for CTF support, or requested increases in the resource envelope.

18. The Trust Fund Committee will be requested to review the investment plan with a view to endorsing a CTF resource envelope for programs/projects in the plan and authorizing the designated MDB to proceed with development and preparation of individual investment operations for CTF co-financing.

19. Subsequently, a proposed program or project, developed pursuant to the investment plan, will be submitted by the relevant MDB, prior to appraisal, to the Trust Fund Committee for approval of trust fund financing. The further processing of a program or project in an investment plan will follow the MDB's policies and procedures for appraisal, MDB Board approval, and supervision.

20. Investment Plans will be subject to public disclosure at the time the proposal is submitted to the Trust Fund Committee, which should be (a) after it has been disclosed in country and (b) at least 3 weeks prior to the scheduled deliberation/endorsement date.⁶

Annotated Outline for CTF Investment Plans (targeted to be 10-15 pages)

Section 1 Description of the country and sector context (2 pages)

21. Investment plans will be developed on a country-specific basis to achieve nationally-defined objectives. They may be single country investment plans or joint investment plans for countries adopting a multi-country or regional approach. Therefore, a brief summary of the Government's existing development plans or programs that include low carbon objectives should be prepared, drawing on Government strategies, country economic memoranda, and similar documents where available. A description of the major sources of GHG emissions, distribution in emissions-intensity and sector trends should be provided. Assumptions on drivers for GHG emissions such as population growth, economic growth and the policy framework should be addressed.

⁵ Note that specific private sector projects and programs may be identified and designed after the initial design of the Investment Plan in consultation with the host government.

⁶ Paragraph 20 was revised based on the CIF Disclosure Policy approved by the CTF and SCF Committees (*Note on Disclosure of Documents prepared for purposes of the CIF*, May 12, 2009).

22. For example, in the power sector, the Investment Plan could outline the mix of generation assets in place and the network loss levels as well as the expected investment programs over the longer-term under current policies.

Section 2 Identification of priority sectors for GHG abatement measures (2 pages)

23. The report will identify GHG abatement measures at the country (or regional) level, although not necessarily limited to interventions to be financed by the CTF. The purpose is to provide the overall strategic context of CTF co-financed programs and projects and describe how CTF resources may enable implementation of national priorities. For example, the “Socolow Wedge” approach⁷ (see www.carbontax.org/wp-content/uploads/2007/01/socolow--wedges--oct-2004.pdf) is one possible approach that may be used to help identify potential interventions, drawing on specific country (or regional) circumstances in terms of resource base and price. The interventions should be sufficiently flexible to include a wide range of possible public and private sector activities.

Section 3 Rationale for selected sector or sub-sector for CTF co-financing (4 pages)

24. From the identified priority sectors in existing national or sectoral analyses and programs, identify sector or sub-sector interventions for CTF co-financing. For each intervention area, the investment plan should:

- (a) Prioritize activities that: (i) would enable scaling-up technologies, solutions and business models that are not in routine use, and/or (ii) would help generate working examples of low carbon development that might be applied at scale to a specific country, geographic region or economic sector.
- (b) Assess the cumulative emissions savings, explaining how investments: (i) would explore new opportunities previously unrealized at scale, and/or (ii) are linked to policy and regulatory change that will stimulate much wider action by creating new opportunities and removing barriers.
- (c) Estimate the replication and scalability potential for technology adoption in the sector, including cost reductions that could occur due to technological progress and scale effects at a global level, or through organizational learning and scale effects at the country or sector level.

⁷ For example, a wedge could consist of renewable energy options. Wind power could be considered in a country that is considering building, say, 5,000 MW of base-loaded coal-fired plants as part of their BAU scenario and have 3,000 MW of unrealized wind power potential that could meet part of the future generating needs. The energy, and CO₂ emission reduction, coming as a result of building the wind power plants may be one “wedge”. Other possible wedges could come from energy efficiency improvements or modal shifts for transport.

- (d) Provide evidence of poverty reduction and environmental and social co-benefits, by prioritizing activities that: (i) help reduce poverty, by enhancing economic growth or by improving services to the poor, and/or (ii) provide local or regional environmental benefits, such as improved air or water quality, or biodiversity benefits.
- (e) Take into account the framework of the MDBs' Country Assistance/Partnership Strategies, other relevant national planning exercises, and activities of other international programs, including the United Nations and the GEF.
- (f) Establish 2-3 program results indicators, along with timeline for achievement of results: e.g., annual GHG emissions reduction; \$/ton of GHG emissions reduced; share of low carbon technology in electricity production increased from x% to y%; per cent of trips using low carbon mode of transport increased from x% to y%.⁸

Section 4 Enabling Policy and Regulatory Environment (1-2 pages)

25. The Investment Plan should describe pricing policies, market and regulatory structure, and medium-term expenditure framework in the sector(s) to support the operations envisaged in the plan. It should describe the types of barriers that exist in each sector and what the potential impacts of public and private sector interventions could be if these barriers are addressed.

Section 5 Implementation Potential, including risk assessment (1-2 pages)

26. An assessment of the implementation potential of alternative GHG emission reduction options should be considered. This would include an analysis of the technical capacity of executing agencies or project sponsor/entities as well as their financial health. If there are bottlenecks in related infrastructure, the ability of executing agencies or project entities to debottleneck these problems should also be addressed.

27. The Plan should include an initial description of potential risk factors that might affect the implementation of proposed investments: country and sub-national level risks; sector policies and institutions; technology, environmental and social risks.

Section 6 Financing Plan and Instruments (half page)

28. A projected amount of CTF co-financing and total financing for the interventions, potential sources of public and private financing (including carbon finance, bilateral development banks and agencies, as well as non-traditional financiers) should be provided. The plan should identify CTF leverage ratios and proposed financial instruments.

⁸ The Committee will review proposals for a results measurement system at its meeting in January 2009, which will also include guidelines for calculating GHG emissions savings from CTF investments

Annex

29. A Summary of proposed project pipeline in the investment plan and notional CTF resource allocation (maximum 2 pages each) should be included. For each project concept, the following should be outlined

- (a) Problem Statement (1-2 paragraphs)
- (b) Proposed Transformation (1-2 paragraphs)
- (c) Implementation Readiness (1-2 paragraphs)
- (d) Rationale for CTF Financing (1-2 paragraphs)
- (e) Financing Plan
- (f) Project Preparation Timetable

Annex A
MDB Contact Information

Correspondence regarding CTF Investment Plans may be directed to the MDB contact persons listed below, copied to the respective MDB country offices:

African Development Bank: Mr. Yogesh Vyas, Lead Environmentalist, Regional Integration and Private Sector Vice Presidency. [Email: y.vyas@afdb.org]

Asian Development Bank: Mr. Woochung Um, Director, Energy, Transport, and Water Division. [Email: wcum@adb.org]

European Bank for Reconstruction and Development: Mr. Terry McCallion, Sustainable Energy Initiative. [Email: mccallit@ebrd.com]

Inter-American Development Bank: Mr. Juan Pablo Bonilla, Coordinator, Sustainable Energy and Climate Change Initiative. [Email: Jbonilla@iadb.org]

International Bank for Reconstruction and Development: Mr. Rohit Khanna, Senior Operations Officer, Sustainable Development Network. [Email: rkhanna2@worldbank.org]

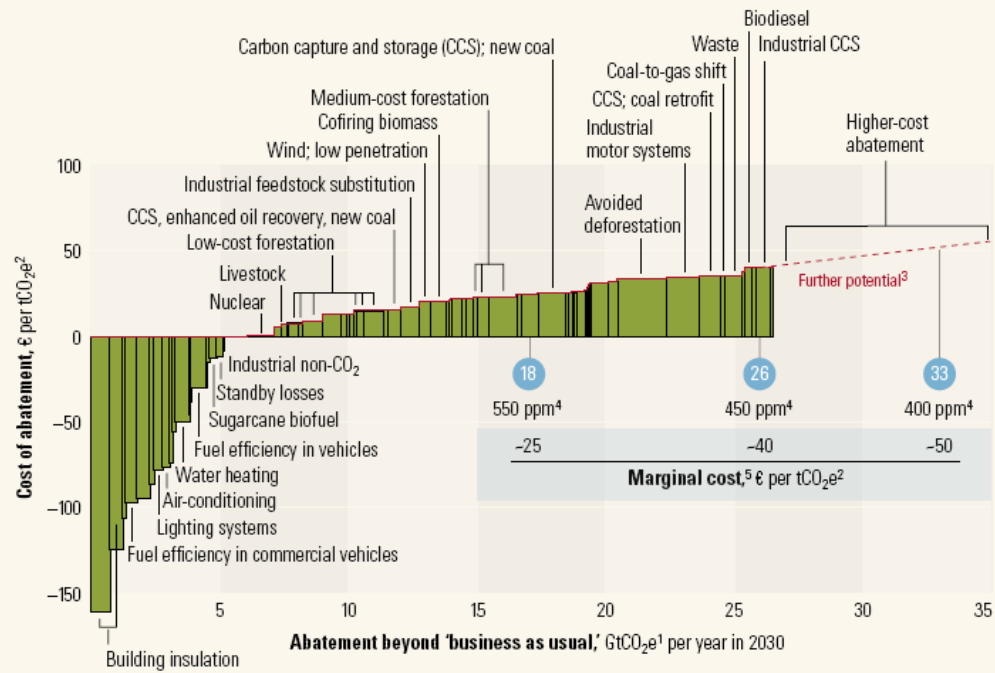
International Finance Corporation: Ms. Lisa da Silva, Senior Investment Officer, Sustainable Business Innovator, [Email: lsilva@ifc.org]

Annex B. Global Marginal Cost Abatement Curve (from McKinsey)

What might it cost?

Global cost curve for greenhouse gas abatement measures beyond 'business as usual'; greenhouse gases measured in GtCO₂e¹

- Approximate abatement required beyond 'business as usual,' 2030



¹GtCO₂e = gigaton of carbon dioxide equivalent; "business as usual" based on emissions growth driven mainly by increasing demand for energy and transport around the world and by tropical deforestation.

²tCO₂e = ton of carbon dioxide equivalent.

³Measures costing more than €40 a ton were not the focus of this study.

⁴Atmospheric concentration of all greenhouse gases recalculated into CO₂ equivalents; ppm = parts per million.

⁵Marginal cost of avoiding emissions of 1 ton of CO₂ equivalents in each abatement demand scenario.

From Enkvist, Per-Andres, Tomas Naucler, and Jerker Rosander, *A Cost Curve for Greenhouse Gas Reduction* (The McKinsey Quarterly, February 2007).