EMPOWERING FINANCIAL PARTNERS

THE INVESTMENT NEEDS FOR LOW CARBON, CLIMATE-RESILIENT GROWTH ARE SUBSTANTIAL. PUBLIC RESOURCES CAN BRIDGE VIABILITY GAPS AND COVER RISKS THAT PRIVATE ACTORS ARE UNABLE OR UNWILLING TO BEAR, WHILE THE PRIVATE SECTOR CAN BRING THE FINANCIAL FLOWS AND INNOVATION REQUIRED TO SUSTAIN PROGRESS.

The CIF was designed to provide concessional financing that would stimulate climate action and motivate others to provide additional funding. In particular, the CIF's partnerships with the MDBs, national development banks and local financial intermediaries, and the private sector are realizing and demonstrating the potential of scaled-up, climate financing to stimulate transformational change.

MULTILATERAL DEVELOPMENT BANKS

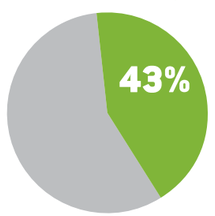
A key feature of CIF programming is the role of the MDBs, which offer grants, highly concessional financing, and extensive technical knowledge and experience in project design and implementation. The CIF represents the first time the MDBs have come together on such a scale with such a high level of ambition to tackle climate change. The MDBs disburse CIF resources to support effective and flexible implementation of country-led programs and investments. MDB involvement not only helps mitigate risk, it also encourages other actors to participate, thereby facilitating the mobilization of co-financing and harmonization of policy support.

The CIF is currently the largest active source of concessional financing available globally for the mitigation and adaptation investments of partner MDBs. The CIF represented 43 percent of the total external concessional resources that MDBs had available to them to support climate-relevant investments in 2012 and 2013 ($1.8 billion out of $4.2 billion). Without these concessional resources, most of the projects being supported would not have happened at the time or in the way that they did. In turn, the CIF $1.8 billion expects $15 billion in co-financing from the MDBs.

NATIONAL DEVELOPMENT BANKS AND LOCAL FINANCIAL INTERMEDIARIES

Public and private financial institutions, such as national development banks, commercial banks, and other local financial institutions, play a fundamental role in channeling finance toward investment in activities that reduce greenhouse gas emissions and build resilience. A significant amount of CIF resources—approximately $760 million or 17 percent of CIF $4.4 billion under implementation—is supporting projects that engage these institutions to expand their role in climate finance.

$4.2 BILLION
TOTAL EXTERNAL CONCESSIONAL RESOURCES TO MDBS (2012-2013)

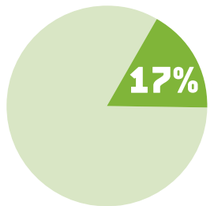


$1.8 BILLION FROM CIF

CIF resources offer an opportunity to test new business opportunities in low carbon and climate-related projects and give comfort to financial institutions to offer dedicated credit lines. National development banks are blending CIF concessional financing with their own resources to offer lower interest rates to boost investor confidence and stimulate greater private and public sector participation.

Local financial institutions are using CIF financing to build lending programs that can stimulate growth in climate-smart industries and markets. These intermediaries enable the diffusion and uptake of climate-smart technologies in renewable energy, energy efficiency, or adaptation to small-scale actors, such as small and medium-sized enterprises, farmers, and cooperatives. Moreover, the country ownership and sustainability of CIF investments are strengthened as these institutions gain important technical skills and funding to increase their capacity to lend to climate-friendly enterprises.

CIF $4.4 BILLION
UNDER IMPLEMENTATION



$760 MILLION TO NDBS AND LFIS

LATIN AMERICA AND THE CARIBBEAN

National development banks in Latin America and the Caribbean provide around $700 million a year in long-term private sector investments for a variety of activities.

BOX 9 STIMULATING CLIMATE ACTION WITH NATIONAL DEVELOPMENT BANKS IN LATIN AMERICA AND CARIBBEAN REGION

PROJECT	CO-FINANCING	NDB
JAMAICA		
Adaptation Program and Financing Mechanism for PPCR Jamaica	$17.9 m PPCR $1.97 m IDB	Development Bank of Jamaica National People's Cooperative Bank
MEXICO		
Renewable Energy Financing Facility	$70.6 m CTF $70 m IDB $70 m NAFIN	NAFIN
Financing Low-Carbon Strategies in Forest Landscapes Program	$15 m FIP	Financiera National
Geothermal Financing and Risk Transfer Facility (see page 15)	$54.3 m CTF/DPSP $54.3 m IDB $11.5 m government	NAFIN
Urban Transformation Project	$200 m CTF $150 m World Bank $2,344 m government/ private sector	BANOBRAS
Efficient Lighting and Appliances Project	$50 m CTF $250.7 m World Bank $127 m NAFIN $285.7 m others	NAFIN
ECOCASA Program	$51.1 m CTF $50 m IDB	Sociedad Hipotecaria Federal (SHF)
COLOMBIA		
Energy Efficiency Financing Program for the Services Sector	$10 m CTF via IDB $10 m other	Bancóldex
Technological Transformation Program for Bogota's Integrated Public Transport System	$40 m CTF via IDB	Bancóldex

The IDB and World Bank are working with many of these institutions to increase their capacity and financial flows for private sector projects and programs that address greenhouse gas emissions and climate resilience. By facilitating access to medium and long-term financing at adequate terms and conditions, national development banks are strategically placed to address market barriers that can hinder private sector actors seeking to invest in these activities.

The IDB and World Bank are channeling over $500 million from the CTF to help national development banks structure the demand and supply of financing for low carbon activities by providing targeted financing instruments coupled with technical assistance in areas such as the following:

- Identification and management of climate change risks in institutions´ operations
- Implementing greenhouse gas accounting and management systems
- Assessment of investment portfolios and identification of potential activities eligible for carbon markets
- Development of innovative financial products and services geared toward climate change mitigation

TURKEY

With a rapidly expanding economy and growing energy demands that are met in large part by energy imports (costing $60 billion or 7.5 percent of GDP in 2012), Turkey is working to expand domestic energy production, including renewable energy, and to increase energy efficiency. By the end of 2014, the EBRD and World Bank Group mobilized CTF $320 million in Turkey. Of this, $270 million was provided to local banks and leasing companies to support them in establishing products aimed at scaling up sustainable energy finance. CTF support was directed at technical training to build up the business and at concessional financing to offer more affordable blended interest rates for borrowers to invest in renewable energy and energy efficiency initiatives.

The Baymer Tourism and Investment Company, owner of the Carousel Mall in Istanbul, Turkey, invested in a number of energy efficiency measures financed through Vakifbank with $2.6 million from EBRD's TURSEFF and the CTF. The company expects to reduce annual energy costs by $484,000 and cut greenhouse gas emissions by over 2,000 tons of CO_2 equivalent.

In the first phase alone, $170 million of CTF investment resulted in substantial investments of nearly $1.4 billion for 430 sub-projects financed through local financial institutions. CTF-supported project investments are contributing to energy savings of approximately 902,000 tons of oil equivalent or $568 million of avoided cost of imported oil annually.

NIGERIA

Nigeria is Africa's largest economy and its leader in crude oil exports, yet only 40 percent of urban and 10 percent of rural residents have access to electricity. Despite the potential of renewable energy and energy efficiency projects to address Nigeria's most pressing energy challenges, financial institutions lack experience evaluating and investing in the technologies and do not generally perceive the projects to be commercially viable.

The AfDB is extending a line of credit of $100 million (AfDB $75 million and CTF $25 million) to a local commercial bank in Nigeria for lending to small and medium enterprises investing in renewable energy and energy efficiency projects. The funding will be used to stimulate investment in downstream opportunities that would lead to greater energy efficiency through a range of technologies, including industrial energy efficiency investments, renewable-based hybrid systems, and cleaner fuels and combustion processes. Resulting annual greenhouse gas savings are estimated at 158,500 tons, and at least 6,000 new direct employment opportunities are expected to be created, 40 percent of which will benefit women.

BOX 10 TurSEFF: EMPOWERING SUSTAINABLE ENERGY LENDING

According to an EBRD case study on its Turkish Sustainable Energy Finance Facility (TurSEFF)—a $218 million credit line to local banks supported by CTF $50 million—the mix of market-rate finance with concessional CTF finance has been an incentive for local partner banks to develop sustainable energy lending as a permanent business line. Technical training has enabled partner banks to identify, evaluate, and process sustainable energy projects, scale up investments, and build a solid basis for further development of sustainable energy finance. TurSEFF fully disbursed to final borrowers in January 2013, achieving all its targets. TurSEFF was extended in 2013 by another $240 million, with $2 million technical assistance support from the CTF, to meet the continued high demand for energy efficiency and small-scale renewable energy investments among small and medium enterprises.

EBRD also launched in 2013 the Turkey Residential Energy Efficiency Financing Facility (TuREEFF), which includes $282.5 million from the EBRD and $67.5 million from CTF. It provides a combination of long-term financial support to Turkish banks and technical advisory services to banks and home-owners to cut energy consumption and reduce household bills. The advisory services are financed by $10 million grant funding from the European Union and the CTF. The first bank signed in late 2014, and the credit line will officially launch in 2015.

DEDICATED PRIVATE SECTOR FINANCE

The CIF continues to test other modalities to address barriers that can hinder private sector participation in climate action. Over the years, the CIF has made significant advances and expanded initiatives, while introducing new risk mitigation measures.

Across the CIF, $2.4 billion (or close to 30 percent of $8.1 billion total CIF funding) is designated for projects and programs that aim to stimulate private sector participation. The CIF anticipates that approximately $20 billion in co-financing (or 35 percent of $57 billion total CIF co-financing) will come from the private sector. The CIF employs three financing vehicles:

- $1.7 billion allocated for private sector projects specified in CIF investment plans
- $508.5 million allocated through the CTF Dedicated Private Sector Programs (DPSP) designed to achieve scale and speed in response to market demand
- $200 million allocated through the private sector set-asides of the FIP, PPCR, and SREP designed to spur innovation and flexible delivery

The DPSP under the CTF was created to finance operations that can achieve large projects rapidly, while maintaining country priorities. It offers technology windows that allow for regional synergies and scale. Using a programmatic approach, the MDBs collaboratively identify and propose private sector opportunities for funding. To date, a total of $508.5 million is allocated for 23 subprograms and projects within six thematic areas: geothermal power, mini-grids, mezzanine finance, energy efficiency, solar PV, and early-stage renewable energy.

Financing was also set aside to be awarded on a competitive basis for private sector projects advancing the goals of the FIP, PPCR, and SREP in those pilot countries. To date, 23 private sector concept projects totaling $200 million have been endorsed by the CIF governing bodies for further preparation and approval. By number and total value of investments, these concept projects represent approximately 50 percent of private sector projects in the FIP, PPCR, and SREP pipelines—a doubling of expected private sector investment.

To address risk, the CIF is developing and implementing a robust risk management framework and promoting more monitoring and active management of risks to inform financial, strategic, and operational decision making. In 2014, the CIF Enterprise Risk Management Dashboard online tool was launched, and a first risk report[12] was issued.

Lessons from the CIF have encouraged other climate funds, including the Green Climate Fund, to consider from an early stage the importance of robust risk management frameworks and the deployment of financial instruments to help projects obtain adequate risk-return ratios.

$708 MILLION CIF DEDICATED PRIVATE SECTOR FUNDING

CTF — **$508.5 MILLION**
Chile, Dominica, Colombia, Ghana, Haiti, Honduras, India, Indonesia, Mali, Mexico, Philippines, Turkey

SREP — **$92.4 MILLION**
Honduras, Kenya, Mali, Nepal

PPCR — **$75.4 MILLION**
Bolivia, Cambodia, Mozambique, Tajikistan, Haiti, Jamaica, St. Lucia

FIP — **$31.3 MILLION**
Brazil, Ghana, Mexico

"WE ARE SEEING A LOT MORE PRIVATE MONEY COMING IN, BUT THERE ARE STILL ISSUES RELATED TO MAKING SURE THAT INVESTORS ARE COMFORTABLE WITH THE KINDS OF RISKS THAT ARE INHERENT TO DOING BUSINESS IN THESE [DEVELOPING] COUNTRIES."

ETHAN ZINDLER
Head of Americas, Bloomberg New Energy Finance
Panelist and participant at the CIF 2014 Partnership Forum

BOX 11 ASSESSMENT OF THE FIP, PPCR, AND SREP PRIVATE SECTOR SET-ASIDES

Based on recommendations of an assessment of the set-asides commissioned by the CIF in 2014, the following measures are being considered to improve future set-aside competitions:

- Regularize the timing of the call for proposals and provide sufficient time to respond
- Expand eligibility to allow a wider range of countries to participate
- Clarify the availability of local currency loans
- Provide a mix of grants and concessional finance
- Develop a better program of outreach that includes a consultation process to enable interested, eligible countries to agree on country-specific themes for the call for proposals
- Consider both project and programmatic proposals