

CLIMATE INVESTMENT FUNDS

JOINT CTF-SCF/TFC.15/3

November 2, 2015

Joint Meeting of the CTF and SCF Trust Fund Committees

Washington, D.C.

Monday, November 9, 2015

Agenda Item 3

**CLIMATE INVESTMENT FUNDS: ACCOMPLISHMENTS, TRANSFORMATIONAL IMPACT, AND ADDITIONALITY IN THE
CLIMATE FINANCE ARCHITECTURE**

Proposed Decision

The Joint meeting of the CTF and SCF Trust Fund Committees, having discussed the document CTFSCF/TFC.15/3, *Climate Investment Funds: an Assessment of Its Accomplishments, Transformational Impact, and Additionality in the Climate Finance Architecture*, agrees that

- MDBs have played and will continue to play a leading role in efficiently deploying scarce public resources and leveraging much larger private investments to implement mitigation and adaptation actions in developing countries; and
- concessional funding provided by the CIF to MDBs has been critical for the MDBs in delivering climate finance at scale.

The joint meeting recognizes the unique features of the CIF business model to pilot approaches and learn lessons for delivering climate finance at scale through the MDBs, notably through programmatic approaches seeking to mainstream low carbon development or climate resilience at the planning, policy and strategic levels to achieve transformative results in developing countries.

The joint meeting further recognizes that the CIF has initiated actions in recipient countries and at the global level that are already proving to be or could prove to be transformational at the level of institutions, policies, markets, technologies, and behavior change.

The joint meeting affirms that the principles agreed at its meeting in November 2014 of: a) supporting the continuity of climate finance flows and action on the ground and reducing funding gaps in the CIF operations; b) progressively taking measures to strengthen complementarity, coordination and cooperation within the climate finance architecture; and c) enhancing the programmatic approach and leverage of funds, should remain the basis for examining the additionality of the CIF in the climate finance architecture.

The joint meeting recognizes that various relevant mechanisms in the climate finance architecture should be used in accordance with their comparative advantage and value added. The joint meeting notes that the CTF Trust Fund Committee will be considering new financing modalities for the CTF.

The joint meeting recognizes the flexibility of the CIF business model and requests the CIF Administrative Unit, in collaboration with the MDBs, to conduct a more detailed gap analysis of the existing climate finance architecture and explore any potential role the CIF could play based on its comparative advantage and value added. The joint meeting would consider the gap analysis in conjunction with the discussion of the future of the CIF at its next meeting in May 2016.

Contents

Executive Summary	1
1 Introduction	5
2 A Reflection on the Strategic Objectives of the CIF and an Assessment of their Accomplishments	5
2.1 Climate Finance Flows.....	5
2.2 Role of the CIF.....	10
2.2.1 Clean Technology Fund (CTF).....	12
2.2.2 Scaling up Renewable Energy Program in Low Income Countries (SREP)	13
2.2.3 Forest Investment Program (FIP)	14
2.2.4 Pilot Program for Climate Resilience (PPCR).....	15
2.3 Key Features of the CIF Business Model	16
3 Transformational Impact of CIF Investments and Lessons Learned	20
3.1 Institutions	20
3.1.1 Coordination	20
3.1.2 Capacity development.	21
3.1.3 Lessons on Institutions.....	23
3.2 Policies	23
3.2.1 Lessons on Policies.....	25
3.3 Markets	25
3.3.1 Lessons on Markets.....	27
3.4 Technologies	27
3.4.1 Lessons on Technologies.....	29
3.5 Behavior Change	29
3.5.1 Pioneering a Model of Equitable Governance for Climate Funds.....	30
3.5.2 Country Ownership	30
3.5.3 Broadening Stakeholder Participation in Investment Planning and Implementation	31
3.5.4 Increasing Private Sector Awareness of Climate Change Risks and Responses.....	31
3.5.5 Enhancing Attention to Gender in CIF Programming	32
3.5.6 Lessons on Behavior Change.....	33
3.6 MDBs.....	33
3.6.1 Achieving Scale to Move Markets.....	34

3.6.2	Supporting Core Business of Climate-Smart Development	35
3.6.3	Outcomes	38
4	The Additionality of the CIF in the Climate Financing Architecture	39
4.1.1	Continuing Delivery of Climate Finance	39
4.1.2	Scaling MDB Climate Investments	40
4.1.3	Evolving the CTF into a Specialized Mechanism	41
4.1.4	Exploring the Flexibility of CIF	41

Executive Summary

1. Established in 2008, the Climate Investment Funds (CIF) represent the first effort by the international community to place a significant amount of resources in a dedicated funding vehicle to support developing and emerging economies in adopting a low carbon and climate resilient development trajectory. As of June 30, 2015, the CIF has received approximately USD 8.1 billion in pledges to support large-scale, high impact, first-of-a-kind investments in renewable energy, energy efficiency, sustainable transport, climate resilience, and sustainable forest management in 72 pilot countries.

2. Although the climate finance landscape has evolved since the CIF was created, notably with the operationalization of the Green Climate Fund, the CIF remains the only climate finance instrument delivering concessional finance at scale with recognized results, and the only one with the infrastructure and experience needed to continue the momentum while other funds ramp up. With 300 projects in the pipeline and many more expected as new investment plans are developed, the CIF is driving transformational change across sectors and technologies at the country and global levels while mobilizing significant co-financing—an expected USD 58 billion—for much-needed investments in mitigation and adaptation.

3. The CIF's meaningful, lasting impact can be directly attributed to the CIF's way of doing business, which is unique in the climate finance landscape. The CIF is the only fund to support a programmatic approach through planning and investments that draws on the strengths of diverse stakeholders and leverages other climate and development actions to achieve national or sector-wide transformation. The CIF is also the only multilateral climate fund to work exclusively with multilateral development banks (MDBs) as implementing agencies. By partnering with MDBs to administer funds and support investment planning, the CIF ensures due diligence and high standards, while benefiting from the banks' ability to leverage substantial financing, mobilize other actors, and harmonize policy support. The CIF, in turn, provides MDBs with important concessional resources that can spur transformational impacts in recipient countries. Moreover, the CIF has provided a platform for governments to draw on the comparative strengths of different MDB partners to better coordinate the development and implementation of national investment plans.

4. The Independent Evaluation of the CIF (2014) also indicates the CIF is having an impact. Fieldwork, interviews, and the project lead surveys conducted for the report emphasized the importance of CIF funding in moving projects forward. Nearly three-quarters of CIF project leads indicated that their project would not have proceeded without the addition of CIF funding.¹ This figure may be even higher for private sector projects where at least one MDB reported that none

¹

http://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_TFC_12_3_Independent_Evaluation_of_the_CIF.pdf

of its CIF private sector projects would have been able to reach financial close without the availability of CIF funds.

5. The CIF could be instrumental to achieving the USD 100 billion annual goal for climate finance by empowering wider, systematic transformation through five key pathways:

I. Institutions

6. In recipient countries, strong institutions with the mandate and capacity to plan, enable, and manage policies and investments that support climate-smart development are an essential building block of low carbon, climate resilient societies. The CIF has initiated institutional changes through multi-stakeholder coordination and capacity development that are already generating positive returns for recipient countries and have the potential to create meaningful long-term impact.

II. Policies

7. A key aspect of the CIF programmatic approach is to link investments to policy and regulatory reforms supported directly by the CIF or through complementary interventions led by the MDBs with support from other sources. By linking policies and investments through the public and private sectors, CIF-financed activities are contributing to strengthening the enabling environment that is critical to achieve transformational change. This is happening both directly, as a result of CIF financing for policy or regulatory work, and indirectly, such as when CIF-financed investments test the effectiveness of new regulations.

III. Markets

8. The creation of viable commercially-oriented markets is an essential prerequisite to ensure transformation toward low carbon, climate resilient development in both developed and developing countries. CIF-financed interventions are targeting barriers inhibiting the development of viable markets, in particular for renewable energy and energy efficiency. These include, among others, lack of familiarity among investors with new technologies and the risks they present, lack of access to financing at needed terms (lower rate, longer tenor), and high upfront capital costs.

IV. Technologies

9. The adoption and large-scale deployment of technologies for low carbon development and climate resilience are key aspects of transformational change in recipient countries. The CIF is the only existing climate fund that provides large-scale funding to specific technologies. There is evidence that the CIF is already exerting transformational change on technology deployment in a number of recipient countries by providing gap-filling finance at a critical juncture to move markets, by supporting the first use of key technologies in a country, and by facilitating MDB

cooperation in supporting the deployment of technologies at scale at the national and global levels.

V. Behavior Change

10. The CIF supports actions that are intrinsic to achieving transformation toward climate-smart development by influencing behavior change among a range of stakeholders at both the fund and national levels. Evidence of behavior change ranges from strong country ownership of CIF investment plans; to implicit and explicit recognition by governments of the contributions of non-state actors to the climate change agenda (e.g., by involving non-state actors in participatory processes to develop investment plans and monitor their progress); to growing awareness among the private sector of the benefits of taking actions to increase climate resilience; to an increased recognition by governments and MDBs of the ways in which climate change affects men and women differently and the importance of incorporating gender considerations into project design.

Looking Ahead: Additionality of the CIF

11. The additionality of the CIF in the climate finance architecture is examined through the principles agreed at the joint meeting of the CTF-SCF Trust Fund Committees in November 2014, namely:

- a) Supporting the continuity of climate finance flows and action on the ground and reducing funding gaps in the CIF operations;
- b) Progressively taking measures to strengthen complementarity, coordination, and cooperation within the climate finance architecture; and
- c) Enhancing the programmatic approach and leverage of funds.

12. For the medium term, these principles suggest the following role for the CIF in the climate finance architecture:

- a) **The CIF as a key mechanism to continue the delivery of urgently needed climate finance:** Experience from the CIF, MDBs, and other multilateral climate funds shows that deploying finance for climate-smart development takes time. Momentum must not be lost on the climate and development gains that countries are making with CIF and MDB support. The CIF should be maintained to ensure that the project development infrastructure that has been established can continue to play a key role, along with other mechanisms in the climate finance architecture, in promoting scale of climate action in developing countries. Moreover, the CIF has an existing pipeline of unfunded projects that continues to grow with the expansion of the SCF programs.

- b) **The CIF remains critical for scaling-up MDB climate investments:** The CIF business model of operating through MDBs has proven to be effective in initiating transformational impacts on the ground. The continued availability of concessional resources from the CIF, which enable MDBs to broaden and deepen their climate work beyond what could be achieved with their own resources, will be important to enabling MDBs to realize their ambitious climate investment targets announced in October 2015.

- c) **Specialization of the CTF:** Initial work has been carried out to explore new financing modalities for the CTF that would reinforce the CTF capital structure and enable the CTF to be more flexible and responsive in the use of its instruments. Two options have been identified that would enable the continuation of the CTF: a more traditional option of moving CTF into a pattern of periodic replenishments, perhaps supplemented with continuing low-cost borrowing from sovereign Sponsors; and the more innovative option of mobilizing a further equity capital infusion from sovereign (and possibly other) Sponsors, and leveraging the equity position modestly to implement a self-sustaining pricing and financial management regimen and build out the aspects of the CTF business that can most efficiently deliver into MDBs' operations the cost- and risk-reducing benefits of its public sponsorship. These options are outlined in the paper CTF/TFC.16/5 *Alternative Financing Models and Options to Increase Resource Availability in the CTF* and will be considered by the CTF Trust Fund Committee at its meeting in November 2015.

- d) **Exploring the Flexibility of CIF:** The flexibility of the CIF can be further explored going forward to fill in gaps or address priority areas through, for example, thematic programs and a pipeline development facility. A thorough gap analysis of the climate finance landscape including an elaboration of potential options for modifying CIF programs could be prepared for the consideration of the joint meeting in mid-2016.

1 Introduction

1. At the joint meeting of the CTF and SCF Trust Fund Committees in May 2015, the meeting requested the CIF Administrative Unit, in consultation with the Trust Fund Committee members and MDBs, to prepare a paper on strategic issues relating to the CIF to be presented at the next joint meeting in November 2015, including:

- a) A reflection on the strategic objectives of the CIF and an assessment of its accomplishments;
- b) Transformational impact of its investments and lessons learned; and
- c) The additionality of the CIF in the climate financing architecture.

2. This paper provides inputs for the elaboration of a guiding framework for discussion on the strategic direction of the CIF, recognizing the goal of maintaining an upward trajectory in the availability and delivery of climate finance.

2 A Reflection on the Strategic Objectives of the CIF and an Assessment of their Accomplishments

3. It is increasingly clear that an orderly transformation to a low-carbon and climate resilient global economy will require investment on the order of hundreds of billions of dollars. In line with the pledge made in Copenhagen in 2009, developed countries are working towards mobilizing USD 100 billion of climate finance a year by 2020 from a variety of sources. The multilateral development banks (MDBs) and multilateral funds including the CIF have played a critical role in ramping up climate finance to catalyze transformational change in developing countries.

2.1 Climate Finance Flows

4. The UNFCCC Standing Committee on Finance estimates that all climate-related financial flows from developed to developing countries range from USD 40 to USD 175 billion per year as shown in Figure 1.2 This includes annual flows of USD 35 to USD 50 billion through public institutions and USD 5 to USD 125 billion of private finance.³ Public institutions that help channel climate finance from developed to developing countries include developed country governments, bilateral finance institutions, MDBs, and multilateral climate funds. A recently published report by the Organization for Economic Cooperation and Development (OECD) and Climate Policy Initiative (CPI) estimates North-South climate finance flows in support of the USD

² UNFCCC 2014. Biennial Assessment and Overview of Climate Flows Report.

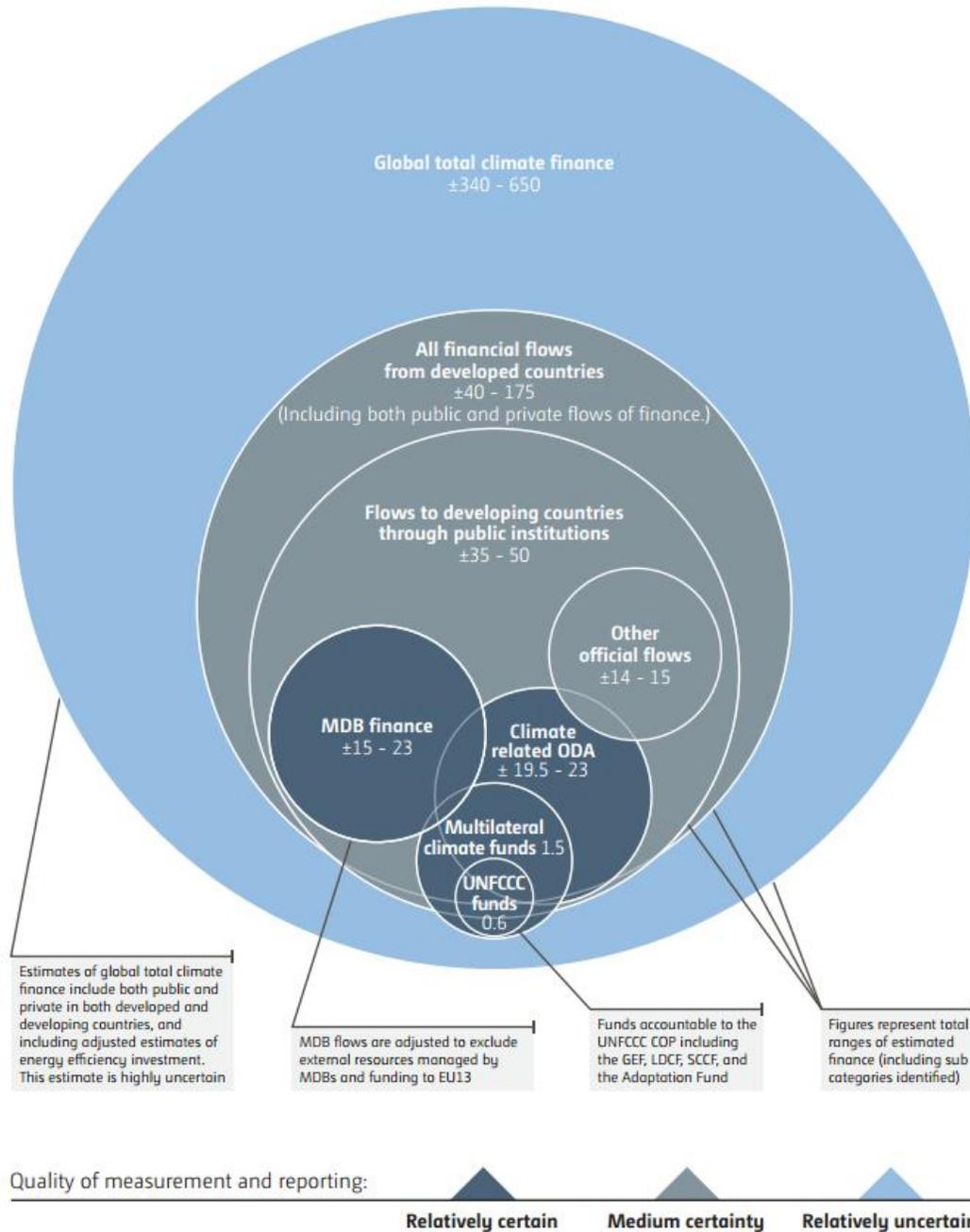
³ The UN issued a clarification note in early 2015 that actual private flows may be closer to the lower bound. The upper bound is based on estimates that include private investments in developing countries mobilized by developed countries, as opposed to just private investment mobilized by public funds.

100 billion per year goal reached USD 62 billion for 2014, up from USD 52 billion in 2013.⁴ Of this amount, the average estimate for 2013-14 comprises USD 40.7 billion of public finance (71 percent of the total) and an estimated USD 14.7 billion of mobilized private finance per year.⁵

⁴ Note: Citation of these figures does not indicate an endorsement by the CIF or its MDB partners of the report's methodology. Notably, the CPI-OECD methodology does not account for the full share of climate finance attributed to multilateral development banks as reflected in the joint reports on MDBs' climate finance.

⁵ OECD (2015), "Climate finance in 2013-14 and the USD 100 billion goal", a report by the Organisation for Economic Co-operation and Development (OECD) in collaboration with Climate Policy Initiative (CPI).

Figure 1. Annual Climate Finance Flows (USD billion)

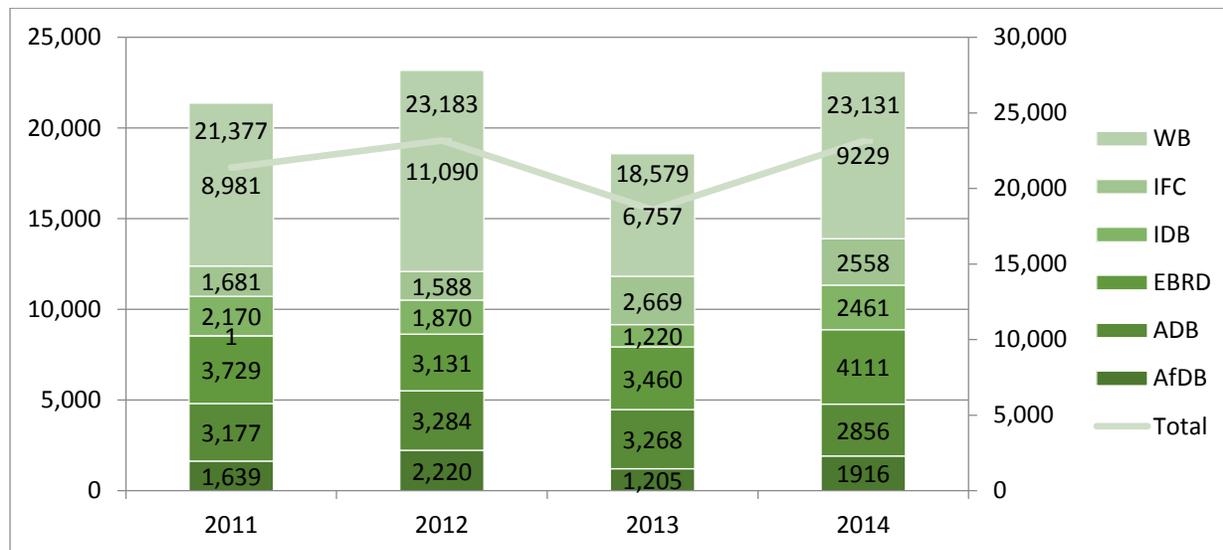


Source: UNFCCC Standing Committee on Finance 2014 Biennial Assessment and Overview of Climate Flows Report.

5. The MDBs, together with other public development finance institutions, play a leading role in efficiently deploying scarce public resources and leveraging much larger private investments to implement mitigation and adaptation actions in developing countries. Figure 2 shows the total

annual climate finance delivered from 2011 to 2014 by the CIF partner MDBs: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), the International Finance Corporation (IFC), and the World Bank. This figure includes funding from the MDBs’ own resources as well as funding channeled by MDBs from multilateral and bilateral trust funds and other sources. Cumulatively, CIF partner MDBs provided more than USD 86 billion in climate finance from 2011 to 2014.

Figure 2. Climate Financing by CIF Partner MDBs, 2011 – 2014 (USD millions)



Source: 2014 Joint Report on Multilateral Development Banks’ Climate Finance

6. Multilateral funds provide much-needed concessional resources for adaptation and mitigation activities in developing countries. The CIF, established in 2008, is the only fund to work exclusively with MDBs as implementing agencies and is currently the largest multilateral source of concessional financing for MDB mitigation and adaptation investments.⁶ As shown in Table 1, the CIF provided USD 3.5 billion, or 44 percent, of the nearly USD 8 billion in external resources (concessional resources provided to MDBs by donors or multilateral funds) delivered by the

⁶ The other notable multilateral funds providing climate finance include: the Adaptation Fund, which has committed USD 318 million grants for adaptation activities since 2010; the Forest Carbon Partnership Facility (FCPF), which has received contributions of USD 850 million for REDD+ readiness activities and results-based payments; the Global Environment Facility (GEF), which has allocated approximately USD 6 billion in climate finance since 1994, of which USD 3 billion is through the current GEF-6 replenishment cycle through 2018; and the Green Climate Fund, which has to date received USD 10.2 billion in pledges and will approve its first projects for funding in November 2015.

MDBs from 2011 to 2014⁷. CIF financing of USD 3.5 billion attracted close to USD 8 billion in financing from MDBs' own balance sheets.

Table 1. CIF as a Share of MDB Climate Finance, cumulative 2011- 2014 (USD millions)

MDB	Total climate finance including external resources	External resources		
		Total external resources	CIF	CIF share of external
AfDB	6,980	1,062	684	64.4%
ADB	12,585	1,779	657	36.9%
EBRD	14,431	584	379	64.9%
IDB	7,721	845	357	42.2%
IFC	8,496	318	100	31.4%
WB	36,057	3,693	1,325	35.9%
TOTAL	86,270	7,960	3,502	44%

Source: Joint Reports on MDBs' Climate Finance, 2011-2014 and MDB and CIF databases.

Note: Some figures may differ from the published joint reports due to subsequent updates by MDBs.

7. Although concessional resources from external sources account for less than 10 percent of the MDBs' climate investments, concessional finance can play a catalytic role in ensuring that climate-smart investments get off the ground. It can buy down high capital costs of investments, absorb risks that other financiers would not bear, and extend repayment rates to better match project cash flows. This in turn can unlock additional finance from MDBs' own balance sheets and the private sector. As Table 2 shows, the CIF endorsed portfolio of USD 8.3 billion is expected to yield MDB investment of more than USD 18 billion, which aggregates to total MDB investment of over USD 26 billion. Although it is difficult to ascertain with certainty which MDB investments would have occurred without the injection of CIF resources, MDBs affirm that concessional financing from the CIF has been critical in moving projects forward.⁸ The important role of

⁷ The share of MDBs own resources mobilized in CIF projects in their total climate finance (excluding external resources) was of 22% for AfDB; 11.3% for ADB; 7.2% for EBRD; 10.2% for IDB; 3.4% in IFC and 10.6% in WB.

⁸ This is reflected in MDB project submissions at the time of CIF Committee approval, many of which state that projects would not move ahead without CIF funding, and is validated by the Independent Evaluation of the CIF which found that three-quarters of CIF project leads indicated that their project would not have proceeded without the addition of CIF funding.

concessional resources in the delivery of climate finance through the MDBs is discussed in more detail in the sections that follow.

Table 2. CIF Expected Co-financing – Entire Portfolio (USD millions, as of June 30, 2015)

Program	Source				TOTAL
	Private Sector	MDBs	Government	Bilaterals/Other	
CTF	17,180	15,351.3	5,601.8	13,714	51,847.1
PPCR	61.3	967.1	227.7	285.4	1,541.6
FIP	66.2	447.4	364.9	63	941.5
SREP	981.1	1,403.4	464.5	1,114.3	3,963.3
CIF TOTAL	18,289	18,169.20	6,658.90	15,177	58,293.40

Note: Expected co-financing is based on committee and board documents (including Annex Gs) for approved projects/programs and on investment plans for projects/programs still subject to approval.

2.2 Role of the CIF

The CIF represents the first effort by the international community to place a significant amount of resources in a dedicated funding vehicle to support developing and emerging economies in adopting a low-carbon and climate-resilient development trajectory. The origins of the CIF can be traced to the 2005 Gleneagles Plan of Action in which the G8 directed the World Bank and other MDBs to *inter alia* develop a framework for investment to accelerate the adoption of cleaner technologies and increase the volume of investments for renewable energy and energy efficiency consistent with the MDBs' core mission of poverty reduction. While the Clean Technology Fund (CTF) was designed to ramp up the deployment of clean technologies, the Strategic Climate Fund (SCF) was intended to respond to funding gaps for climate resilience, sustainable forest management, and the expansion of energy access through renewable energy.

8. The CIF was designed to fill specific gaps in the climate finance architecture that prevailed in 2008, including the following:

- a) Lack of funding for mitigation and adaptation activities *at scale*
- b) Need for upfront capital at concessional terms for clean energy investments not met through the flow of results-based payments through the Clean Development Mechanism

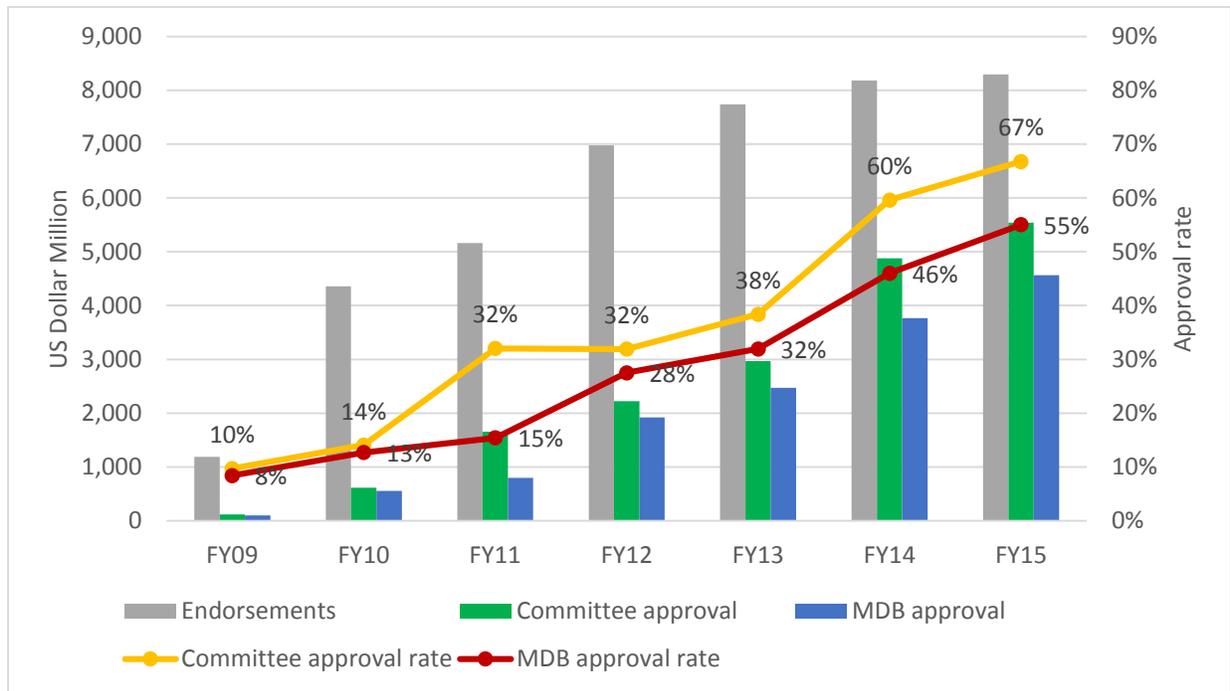
- c) Urgency to unlock private investment, especially for mitigation activities with clear revenue streams
- d) Importance of linking policy and planning for low carbon and climate resilient development with actual investments on the ground
- e) Need to maintain momentum in the delivery of climate finance to ride out political and economic turbulence
- f) Urgency to establish a track record and learning on new approaches and technologies at national and global levels

9. The urgency that framed CIF's design persists today, and the CIF remains committed to working with developing countries in identifying, prioritizing, financing and implementing their plans for climate action.

10. As of June 30, 2015⁹, the CIF has received approximately USD 8.1 billion in pledges, endorsed USD 8.3 billion for projects through investment plans and private sector windows, and approved more than USD 5.5 billion by the Trust Fund Committees and Sub-Committees and USD 4.6 billion by the boards of the MDBs to support large-scale, high impact, first-of-a-kind investments in renewable energy, energy efficiency, sustainable transport, climate resilience, and sustainable forest management in 72 pilot countries (including new pilot countries invited since June 2014 to participate in the SCF programs: the Scaling Up Renewable Energy in Low Income Countries Program (SREP), Forest Investment Program (FIP), and Pilot Program for Climate Resilience (PPCR). CIF-financed investments are expected to attract an additional USD 58 billion in financing from other sources. Figure 3 shows the trend in CIF investment plan endorsement and funding approval since 2008.

⁹ Note: The data cited in this paper reflects the status of the CIF portfolio as of June 30, 2015, unless otherwise specified.

Figure 3. CIF Portfolio: Investment Plan Endorsement and Funding Approval



11. The CIF have shown strong results in supporting countries in the development of programmatic approaches to influence, inform and transform strategy, planning and policy processes, strengthen institutions, and deliver climate relevant investments on the ground. The level of CIF disbursement has been significant, with USD 1.45 billion—approximately one-third of the MDB approved funding amount—disbursed through June 30, 2015.¹⁰ Demand from recipient countries for CIF funding is strong, and the CIF continues to build a pipeline of projects and programs that extends beyond current funding. This is particularly true in the SCF, which recently added new countries that are now embarking on the preparation of investment plans and strategic programs for climate resilience. While there is strong demand based on the prior investment phase, no pipeline building is currently taking place under the CTF, due to a shortfall of funds. The latest addition to the CTF pipeline was the 2014 Phase II of the Dedicated Private Sector Program.

2.2.1 Clean Technology Fund (CTF)

12. The USD 5.3 billion CTF was established to provide scaled-up financing to middle income countries to contribute to the demonstration, deployment and transfer of low carbon technologies with a significant potential for long-term greenhouse gas emissions savings. CTF

¹⁰ MDBs indicate that the disbursement profile of CIF projects has been found to be largely consistent with that of comparable MDB projects (when comparing like projects – e.g., CIF to non-CIF renewable energy, or CIF agriculture to non-CIF agriculture).

concessional financing, delivered predominantly in the form of concessional, long tenor loans, focuses on large-scale projects in renewable energy, energy efficiency, and transport.

13. The CTF has endorsed a USD 6.1 billion portfolio of 134 projects and programs, expecting co-financing of USD 50 billion from other sources. Of this, USD 3.4 billion has been approved by MDBs for 71 projects, expected to lead to nearly USD 32 billion in co-financing. As of June 2015, CTF USD 1.3 billion has been disbursed.

14. The CTF portfolio is projected to deliver emissions reductions of approximately 1.5 billion tons of carbon dioxide equivalent (tCO₂e) over all projects' lifetime – the equivalent of taking 315 million cars off the road. CTF projects under implementation and reporting results in 2014 will add 15 GW of renewable energy capacity of which almost 20 percent, 2.7 GW, is already installed, and are expected to lead to annual energy savings of 8,900 GWh, of which savings of 3,900 GWh – equivalent to saving 6 million barrels of oil annually – had been achieved by 2014.

15. The CTF differs significantly from other mitigation-focused, multilateral climate instruments by focusing on larger transactions in a smaller number of countries with investment plans and projects approved in 15 countries and for one region (the Middle East and North Africa). The CTF aims to drive down technology costs, stimulate private sector participation, and catalyze transformative change that can be replicated elsewhere. The average CTF investment size is five times greater than that of other mitigation-focused financing instruments.¹¹

16. The private sector is a key player in the CTF, with 30 percent of total endorsed funding going to private sector projects and programs and approximately one-third of total co-financing mobilized from the private sector. In 2013, the CIF embarked on new financing paths that put greater emphasis on reducing barriers to private sector participation. The Dedicated Private Sector Programs (DPSP) under the CTF were created to finance operations that can deliver scale and speed while maintaining country priorities. The DPSP are currently in their second phase and have allocated a total of USD 508.5 million to eight programs reaching countries as diverse as Chile, Colombia, Indonesia, Mexico, Turkey, Haiti, Honduras, and four countries in the MENA region – Jordan, Egypt, Tunisia, and Morocco.

2.2.2 Scaling up Renewable Energy Program in Low Income Countries (SREP)

17. The USD 798 million SREP was established to scale up the deployment of renewable energy solutions to increase energy access and economic opportunities in low income countries SREP financing aims to pilot and demonstrate the economic, social, and environmental viability of low carbon development pathways building off of national policies and existing energy initiatives.

¹¹ CIF 2014. Learning by Doing: The CIF's Contribution to Climate Finance.

18. SREP funding of USD 604 million has been endorsed for 14 investment plans that include 53 projects and programs; these investments expect USD 4.3 billion in co-financing. The portfolio is still at an early stage of implementation, with USD 165 million approved by the SREP Sub-Committee for 17 projects. If fully realized, SREP investment plans present substantial gains in renewable energy capacity with 1.2 GW new installed capacity expected through on-grid and off-grid projects. The SREP expected contribution to electrification relative to the funding provided is also significant, with new or improved access to 14.6 million people. Among others, in Nepal, Mali, Kenya, Tanzania, Honduras and the Pacific islands (Solomon Islands and Vanuatu), the contribution to increasing access to energy both directly and through scale up will be significant. In Liberia, the implementation of the SREP program will benefit 9 percent of the population, which represents a substantial impact in what is likely the country with the world's lowest rate of access to electricity at 1.6 percent nationwide.

19. SREP stakeholders place different emphasis on the Program's goals of increased access to clean energy and increased supply of renewable energy; the result has been a portfolio with about 51 percent of funds focused on grid-tied renewable energy. SREP off-grid projects have focused largely on addressing energy needs in rural and remote areas with no power infrastructure, where small-scale, distributed renewable energy technology is appropriate. A strong focus on mini-grid systems is also consistent with SREP's focus on productive uses.

2.2.3 Forest Investment Program (FIP)

20. The USD 787 million FIP supports developing countries' efforts to reduce emissions from deforestation and forest degradation and promote sustainable forest management and enhancement of forest carbon stocks (REDD+). A portion of FIP funding, USD 80 million, is earmarked for a program unique to the FIP: the Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM), the largest global REDD+ initiative created solely for and by indigenous peoples and local communities.

21. The FIP has endorsed a total of USD 490.3 million for eight investment plans (USD 420 million), national and global programs under the DGM (USD 50 million), and four projects under the private sector set-aside (USD 20.3 million). In May 2015 the FIP Sub-Committee invited an additional 15 countries to participate in the FIP with up to USD 145 million available to fund investments and up to USD 30 million available for national DGM components in six new countries.

22. Twenty of the 38 projects in the FIP portfolio have received a total of USD 298.9 million FIP funding approval; 15 of these projects totaling USD 249.4 million have been approved by MDB boards. The projects are still at an early stage of implementation so results on the ground remain limited. Nearly two-thirds of MDB-approved funding (USD 132 million) is targeted at capacity building and institutional strengthening and governance reform. These projects are expected to strengthen the enabling environment and critical processes that provide the foundation for effective implementation of projects that will deliver measurable results on the ground.

23. The FIP is the largest source of upfront financing—provided as grants and near-zero interest credits—for REDD+ implementation activities. It provides a crucial pull by creating incentives for readiness activities and exerts a push by supporting development of needed capacity and experience to allow countries to progress to results-based payments. There is a great diversity of FIP supported interventions addressing both direct and indirect drivers of deforestation and forest degradation. Hence, the FIP portfolio includes a mix of investments to work on policy, regulation and institutional capacity and to implement on-the-ground activities through communities, financial intermediaries and private sector operators.

2.2.4 Pilot Program for Climate Resilience (PPCR)

24. The PPCR, with USD 1.2 billion pledged, supports countries to shape and inform strategies and planning processes and strengthen institutional and stakeholder capacity to effectively mainstream climate resilience into development planning. It then provides funding to pilot innovative public and private sector investments to address pressing climate-related risks. Currently the largest adaptation fund in the world, the PPCR is also the only funding mechanism that both encourages and provides the significant resources needed to help countries develop and implement a programmatic approach through both planning and investment. The PPCR is active in nine pilot countries and two regional programs, which include nine small island developing states. An additional 10 countries were invited to prepare strategic programs for climate resilience (SPCR) in May 2015.

25. The PPCR extended resources of up to USD 1.5 million for a programming phase to enable countries to undertake necessary analyses, diagnostics, outreach, and capacity development activities to ensure that investments identified for PPCR funding would meet country needs and dovetail with country priorities. It also ensure the development of the SPCR would be based on a solid analytical and participatory process. For the majority of the first phase of PPCR countries, the PPCR programming phase set the foundation for the development of the SPCR, facilitated its timely completion, and improved their overall readiness to implement the program of investments and supporting activities.

26. All PPCR pilot countries and regions from the original group have now moved into project preparation and implementation. PPCR funding of USD 1.1 billion has been endorsed for 75 projects and programs, expecting co-financing of USD1.7 billion from other sources. The PPCR Sub-Committee has approved 51 projects for USD 862.9 million PPCR funding of which 48 projects receiving USD 816.1 million in PPCR funding have been approved by MDB Boards. As of June 2015, PPCR USD 106 million has been disbursed.

27. Early estimates made during project preparation were that over 30 million people would be supported by the PPCR over the lifetime of the implementation of the 41 approved projects reporting results for 2014. Of these, an estimated 50 percent are women. To date, more than 900,000 people have been directly supported by the PPCR as reported by seven countries. This number will increase substantially once more projects are approved and are in full implementation.

2.3 Key Features of the CIF Business Model

28. The CIF was designed to pilot approaches and learn lessons for delivering climate finance at scale through the MDBs, notably through programmatic approaches seeking to mainstream low carbon development or climate resilience at the planning, policy, and strategic levels to achieve transformative results in developing countries. Several features of the CIF business model are fundamental to the CIF's ability to deliver on its strategic objectives.

29. **MDBs as implementing agencies:** The CIF was designed to deliver financing through the MDBs to harness the skills and capabilities of the MDBs to raise and deliver financing at scale, and to provide a vehicle to integrate climate change considerations into MDB operations to promote economic growth and poverty reduction in developing countries. The decision to utilize the MDBs as CIF implementing partners has been significant on many levels:

- a) The collaborative platform created by the CIF has forged an unprecedented partnership among the MDBs at both the level of CIF policy deliberation and program management and at the operational level.
- b) CIF recipient countries have benefitted from the MDBs' ability to leverage significant resources from their own balance sheets, as well as through mobilizing other financial actors, including, the private sector and national development banks. Table 2 above provides a breakdown of the USD 58 billion co-financing attracted by the CIF.
- c) The MDBs reinforce and expand the benefits of scale that the CIF can deliver. When multiple MDBs coordinate their support to specific projects, this enables more resources to flow to transformative programs and projects (e.g., CSP and DPSP) than if one MDB were investing alone. When MDBs coordinate support to specific technologies or sectors (e.g., CSP in South Africa or energy efficiency and renewable energy through financial intermediaries in Turkey), the impact is potentially transformational.
- d) The additional resources provided by the CIF have enabled MDBs to integrate climate change considerations into projects where this might not have otherwise

occurred and have achieved complementarities between climate and development finance.

- e) The CIF relies on MDB policies and procedures pertaining to the design and implementation of projects and programs. This approach, which imposes limited additional requirements on MDBs, has generated efficiencies, reduced bureaucracy, and enables more flexibility and nimbleness in the deployment of CIF resources in comparison to other multilateral funds.
- f) While the MDB partnership has yielded some instances of harmonization challenges, for example in complex procurements for public sector CSP projects in Morocco and South Africa, on balance recipient countries' ability to work with two or more MDBs in implementing CIF-financed investments has enabled them to draw on the comparative advantage of each MDB.

30. Programmatic approach: In the context of climate finance, the programmatic approach is an innovation of the CIF to embed investments in a country-driven and owned strategic planning process with the objective of linking and leveraging investments with other actions, such as policy and regulatory reform and capacity development, and the activities of other partners to effect national or sector-wide transformation. The programmatic approach has several notable features, including inter-ministerial coordination, multi-stakeholder consultation in the design and implementation of investment plans, programmatic results measurement, and the linking of public and private sector investments and activities. CIF recipient countries are able to apply the programmatic approach flexibly in accordance with national priorities by targeting, for example, specific technologies through multiple MDBs (e.g., CSP in South Africa), specific communities or vulnerable groups at the national level (e.g., combined FIP actions to support *ejidos* in Mexico), a specific geographic region (e.g., linked FIP investments in Brazil's Cerrado biome), or by piloting the same development approach through different MDB partners (such as the participatory adaptation programs implemented in Zambia by the AfDB and World Bank).

31. Scale: The CIF is testing what can be achieved when a large envelope of resources is applied to a limited number of countries or a specific technology or business model. There are two dimensions to the CIF ability to support investments at scale: first, the large envelope of concessional resources the CIF itself provides, and second, the substantial co-financing from MDBs and others that CIF-supported investments attract.

32. Use of reimbursable (non-grant) resources: The use of reimbursable resources for climate-smart development is important in enabling more leverage and promoting sustainability in the long term. The PPCR is the first fund to extend reimbursable resources for adaptation. This has enabled transactions with the private sector to be structured in a commercially-oriented way, helps build a business case for adaptation to change the way markets work, and spurs the

development of new models of adaptation finance (e.g., delivery through the local banking sector). The availability of PPCR loans at highly concessional terms (more concessional than standard terms of the International Development Association, or IDA) has also expanded the pool of resources available to governments not at high risk of debt distress to implement important investments with substantial development benefits.

33. Learning by doing: The CIF was established to test and learn about the deployment of climate finance at scale. Consistent with this mandate, the CIF has embraced learning on many levels. The Independent Evaluation of the CIF attested to the CIF's capacity for organizational learning and adaptive evolution in response to evidence of gaps in policy, challenges that arise, and lessons learned. This can be seen, for example, through the creation of dedicated funding windows for the private sector under the CTF and SCF programs and the improvement in investment planning processes over time. At the project and program level, while much work remains to be done, the CIF has initiated important steps to generate evidence on what is working, what is not, and why. This effort will be bolstered by the forthcoming CIF work program on evidence-based learning and the establishment of a CIF-wide advisory group on knowledge from evaluation and learning.

34. CIF recipient countries have expressed appreciation for the strong South-South learning platform fostered through CIF pilot countries meetings. They report these meetings are helping to build capacity of national officials to effectively implement their climate change agendas and empower champions within countries. There are strong examples of CIF approaches being replicated beyond the CIF, such as the effort of Belize to prepare a strategic program for climate resilience and the IDA 17 directive to support the development of multi-sectoral resilience plans in an additional 25 countries beyond the first phase of PPCR pilots. Notably, the Green Climate Fund (GCF) has also benefited from CIF learning, such as through the development of its results frameworks.

35. The Independent Evaluation of the CIF completed in 2014 summarizes the key achievements of the CIF, while also noting challenges to be addressed as the CIF continues to support new investment plans and projects (see Box 1).¹²

¹²

https://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_TFC_12_3_Independent_Evaluation_of_the_CIF.pdf.

Box 1. Summary Findings of the Independent Evaluation of the CIF (based on 2009 to 2012 data)

Governance

The CIF draws legitimacy from a principle of equal representation, consensus decision-making, inclusivity of observers, and transparency. Compared to other funds, observers at the CIF have greater voice.

Investment plans, national ownership, and consultation

Programmatic national investment plans are an innovation of the CIF. The investment plan process has largely secured strong government ownership and alignment of CIF plans with existing national strategies and programs. MDBs and governments have collaborated effectively to develop investment plans, and development partners have been engaged in the process in all CIF countries. However, concerns were raised about the quality and depth of consultations with other stakeholder groups at the investment plan level and the lack of enduring participatory structures in some countries.

Private sector engagement

The CIF has taken big strides forward in engaging the private sector, but have encountered some of the same hurdles as other climate funds. Government-led investment planning in most countries prioritized public sector over private sector investments, and the length of the investment planning process undermined private sector engagement. The CIF has begun to address this issue through SCF private sector set-asides and CTF's dedicated private sector program.

Risk management

Some stakeholders in the CIF are risk averse, and thus the CIF does not deploy the full range of originally intended financial instruments, in particular for the private sector. Innovative and 'paradigm shift' efforts are inherently risky, with the potential of both informative failure and high payoffs. This suggests focusing results attention on portfolio performance at the national or global level, rather than the project level.

Transformation, leverage, and impact

Some projects are plausibly transformational; others lack a convincing logic of transformation and impact. The evaluation recommends that the CIF should agree on a specific interpretation of 'transformation' that focuses on the logic of demonstration effects, lowering technology costs through economies of scale, and removing policy and regulatory barriers, and ensure that research and learning is geared to identify key barriers to impact and assess the degree to which CIF interventions address those.

Learning, monitoring and evaluation

Learning is a pillar of CIF objectives and was embraced from the outset through strategy and program development, the Partnership Forum, and human and financial resource allocation. The CIF has undertaken inwardly focused learning which has resulted in improvements in their organizational performance, for instance through reappraisal and revamping of their results frameworks. The CIF has vast potential to provide valuable lessons on responding to the challenge of climate change, but there are insufficient plans for learning from projects, although a few projects are beginning to incorporate impact evaluations.

3 Transformational Impact of CIF Investments and Lessons Learned

36. The CIF is intended to initiate transformational change in recipient countries toward low carbon, climate resilient development. While it is too early to assess whether the CIF has induced transformational impact (this would be measured in the long-term as the aggregate result of cumulative interventions including those supported by the CIF), it is possible to identify pathways through which CIF investments and activities have induced wider, systemic change that is likely to have meaningful, lasting impact beyond the specific interventions themselves. There are five such pathways through which the CIF has initiated actions, in country and at a global scale, that are already proving to be or could prove to be transformational: institutions, policies, markets, technologies, and behavior change.

3.1 Institutions

37. Strong institutions with the mandate and capacity to plan, enable, and manage policies and investments that support climate-smart development are an essential building block of low carbon, climate resilient societies. The CIF has initiated institutional changes that are already generating positive returns for recipient countries and have the potential to create meaningful long-term impact.

38. There is evidence from across the CIF portfolio that actions supported by the CIF to strengthen recipient country governing institutions are yielding important systemic changes that have the potential to be transformational. These changes broadly fall under two categories: coordination and capacity development.

3.1.1 Coordination

39. The CIF programmatic approach envisions a process of high-level coordination across relevant ministries and sectors within a country to develop and implement a strategic investment plan. There is strong evidence that in some countries the CIF has spurred unprecedented high-level coordination that is benefitting countries even beyond activities directly supported by the CIF.

40. The evidence of improved coordination is clearest in the PPCR, which is the first initiative for climate resilience to bring together multiple sectors in a country to engage in resilience planning at the highest levels of government. All PPCR countries have created some form of coordination entity, either building on existing structures or, establishing new structures, to coordinate PPCR activities and work toward mainstreaming climate resilience into development processes. The mandate for coordination units often extends beyond inter-agency coordination to include coordination between national and sub-national actors and coordination with civil society groups and other stakeholders.

41. Coordination units led by the Ministry of Finance have been particularly successful in some PPCR countries, as they are able to exert influence at the highest levels of government, exercise authority over major sector ministries, and have experience utilizing MDB finance. In **Zambia**, the PPCR supported the establishment of the Interim National Climate Change Secretariat under the Ministry of Finance. With the Ministry of Finance at the helm, Zambia seized the opportunity to utilize its strategic program for climate resilience to mainstream climate resilience measures into the country's Sixth National Development Plan. Strong political buy-in for the PPCR in Zambia leveraged three-fold additional national budget allocation in FY15 compared to FY14 for PPCR-specific investments. The interim secretariat now coordinates all climate change activities in Zambia and credits the PPCR for empowering the country to access climate finance from other sources, including the GCF. While the PPCR is providing substantial funding (USD9.6 million over five years) to the secretariat, national budgetary allocations are slated to increase progressively to set the secretariat on a path to sustainability once PPCR funding is exhausted in 2019.

42. In **Tajikistan**, the PPCR supported the establishment of a new PPCR secretariat under the Executive Office of the President, which is the first example of a cross-sectoral coordination platform in the country. The PPCR secretariat has been instrumental in strengthening dialogue with stakeholders around the PPCR, including through its steering of the multi-stakeholder PPCR monitoring and reporting process. Although much work still remains to be done to empower stakeholders, the PPCR secretariat has built important bridges to stakeholders, helping bring a new level of transparency and accountability to development activities in a country that had limited experience with true participatory stakeholder engagement.

3.1.2 Capacity development.

43. An important component of CIF programming in many recipient countries is support for capacity development to strengthen the ability of institutions and stakeholders to effectively deliver investments, scale up technologies and sectors, and mainstream new approaches into their development processes. There are numerous examples of how the CIF is supporting capacity development that could have far-reaching impacts if successfully mainstreamed into development planning and implementation processes. These include the following.

44. **Strengthening evidence-based understanding of climate risks and vulnerabilities to inform decision-making:** Consistent with its objective of mainstreaming climate risk management into development, the PPCR is supporting all pilot countries in improving their awareness of climate risks to prioritize resilience investments and better manage the likely impacts of climate change to key sectors. Phase 1 of the PPCR supported important analytical work underpinning policy and investment design.

45. In **Tajikistan**, PPCR Phase 1 technical assistance produced the country's first set of statistically downscaled general circulation models. These have given Tajikistan a reliable picture

of climate change that can be expected in 70 percent of the country over the next century, and its effects on water resources. Moreover, this work provided the analytical and methodological base for two of the country's PPCR investments: a USD 21.55 million grant to strengthen resilience in the country's breadbasket and largest river basin, and a USD 6 million capacity development technical assistance that will *inter alia* generate more precise dynamical downscaled climate models to improve the accuracy of predicted climate impacts at the local level. Such work is critical for Tajikistan and other highly vulnerable countries to target scarce resources toward communities and sectors most affected by climate change.

46. Improving the monitoring and evaluation of climate change interventions: In many countries, the CIF programmatic results framework represents the first time that countries have engaged in programmatic monitoring and reporting for a sector or across sectors, as in the case of the PPCR. The PPCR monitoring and reporting framework has been the most influential among the CIF programs as it broke new ground on how to measure resilience. Today, some countries, such as **Nepal**, use the five core PPCR indicators to track the progress of their entire national climate resilience portfolio.

47. Another important dimension of the PPCR and FIP monitoring and reporting approaches, which utilize qualitative indicators, is the involvement of stakeholders beyond government in the qualitative scoring process. This participatory, inclusive process enhances transparency and contributes to the creation of a social accountability mechanism. In **Saint Vincent and the Grenadines**, for example, the country has adopted a seven-step PPCR monitoring and reporting process that involves stakeholders every step of the way from jointly developing criteria to score progress against PPCR core indicators to validating data to learning, adjusting, and adapting projects.

48. Building capacity of non-state actors: The USD 80 million FIP **Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM)** is a transformational innovation of the CIF. Unique to the FIP, the DGM is a one-of-a-kind program designed and led by representatives of indigenous peoples groups and local communities in FIP countries to enhance their communities' capacity to engage in and contribute to the national REDD+ dialogue and actions. Composed of country programs for each FIP pilot country and a global component for knowledge exchange, capacity building, and networking, the DGM is the largest global REDD+ initiative created solely for and by indigenous peoples and local communities and is one of the first citizen partnership models in practice. Collaboration between indigenous peoples and local communities and governments in the preparation and operationalization of the DGM promotes ongoing success of REDD+ initiatives.

49. Building the capacity of national and local stakeholders to withstand and adapt to climate change is a pillar of **Cambodia's** SPCR. On the basis of an analysis assessing the capacity for adaptation of civil society organizations (CSOs) carried out during PPCR Phase I, Cambodia developed a USD 2 million CSO support mechanism that competitively awards grants to CSOs.

These grants will contribute to the overarching PPCR objective of enhancing communities' coping capacity and resilience to climate change by helping communities to coordinate and better understand their sources of vulnerability, generating knowledge on impacts from climate change and approaches to community-based adaptation and disaster risk reduction, and capturing lessons learned in the implementation of adaptation activities to inform future actions.

3.1.3 Lessons on Institutions

50. The PPCR has been more successful in achieving high-level coordination within recipient countries than other CIF programs. This is not surprising given that climate resilience cuts across key economic sectors. In addition, the larger amount of funding available for the PPCR programming phase through PPCR Phase I grants (countries were able to access grants of up to USD 1.5 million, compared to USD 300,000 for SREP or up to USD 250,000 for FIP) was instrumental in establishing coordination mechanisms in some countries that then served a bridging function into SPCR implementation.

51. Institutional strengthening is a fundamental component of transformation toward low carbon, climate resilient development. While the resources required for fostering stronger institutions should decline over time, the continued availability of sufficient quantities of grant finance, including in middle income countries, will be necessary to ensure that this aspect of transformation is effectively supported.

3.2 Policies

52. A key aspect of the CIF programmatic approach is linking investments to policy and regulatory reforms supported directly by the CIF or through complementary interventions led by the MDBs with support from other sources. By linking policies and investment through the public and private sectors, CIF-financed activities are contributing to strengthening the enabling environment that is critical to achieving transformational change. This is happening both directly, as a result of CIF financing for policy or regulatory work, and indirectly, such as when CIF-financed investments test the effectiveness of new regulations.

53. In **Kazakhstan**, the EBRD worked with the government to create the legal and regulatory framework for renewable energy that culminated in the passage of the Renewable Energy Law in 2013, which includes feed-in tariffs for renewables, an essential foundation for attracting investments. With CTF support, IFC is advising the government in the design of its regulations and permitting requirements for renewable energy projects, standardized power purchase agreements, and grid-access procedures to improve the enabling environment for renewable energy. The EBRD and CTF are now supporting the country's first two large-scale renewable energy investments to help road-test the new regulations and set the benchmark for developing, building and operating greenfield renewable energy in Kazakhstan: CTF €18 million co-financing supports the 50 MW Yereymentau wind farm, the first in the country, while CTF €13.8 million supports the 50 MW Burnoye Solar project, which is a first in many categories: the first commercial scale solar park in Kazakhstan, the first privately owned renewable energy generator

in Kazakhstan, and the first use of a non-recourse project finance structure that will open the door to more private investment in renewables in the future. From a baseline of just 117 MW installed renewable energy capacity in 2012 (of which 99 percent was from old hydro stations), the Kazakh government aims to install about 1,040 MW renewable energy capacity by 2020 of which the CTF will support about 200 MW.

54. In **Tanzania**, IFC is implementing an advisory project supported by SREP USD 2.3 million to establish an enabling environment for the country's geothermal development that is conducive to private sector investment. Activities include drafting or revising geothermal laws aimed at providing a strong and transparent regulatory framework to govern private power generation as well as support for the development of required operational and institutional structures. This is a crucial first step in pursuing Tanzania's as-yet untapped geothermal potential, which is estimated to exceed 650 MW. This will be critical to expand energy supply in a country where only 18 percent of the population has access to electricity, and the reliability of hydropower, its primary renewable energy source, is declining due to changing weather patterns. Total SREP support of USD 25 million for geothermal development is expected to catalyze the country's first 100 MW of geothermal power.

55. In **Mozambique**, the PPCR provided the first support for addressing climate risks to the country's road infrastructure, through surveys and inventories of climate risks to road networks in vulnerable areas, piloting of climate resilient road designs, and the development of climate resilient national road standards to achieve transformative impact at the national level. The government has also introduced a reform that now requires mandatory risk screening of all new roads investments. These measures are critical for strengthening Mozambique's resilience to climatic events as analysis of the country's vulnerability to natural disasters has underscored the key role that roads and bridges infrastructure should play in breaking the isolation of rural communities during and after weather-related natural disasters. More resilient roads translate to reduced economic loss. Devastating flooding in the lower Limpopo Valley in 2013 caused an estimated USD183 million damages to the road infrastructure in Gaza province, leaving many communities inaccessible, severing them from markets and paralyzing the transportation of goods. PPCR support for technical assistance and investments in Mozambique is complemented by a programmatic Development Policy Lending series implemented by the World Bank which supports national level reforms that build resilience into development planning and investment in seven sectors. These complementary and coordinated actions are expected to go a long way toward achieving transformational impact.

56. In **Burkina Faso**, the FIP investment plan implemented by the AfDB and World Bank with additional funding from the European Union supports a suite of linked activities to help the country implement a national REDD+ strategy that addresses both mitigation and adaptation concerns through a landscape approach to rural development. Measures to be supported by the FIP include mainstreaming REDD+ and climate change into sectoral frameworks; developing the necessary legal and institutional framework to effectively implement REDD+ activities; strengthening capacity to deliver on a national REDD+ strategy at the national, sub-national, and local levels; and investments that test REDD+ mechanisms to address the drivers of deforestation

in classified forests and the areas bordering these forests. If effectively implemented, these measures have the potential to be transformational for a country that derives 35 percent of its GDP from agriculture, forestry, and related sectors.

3.2.1 *Lessons on Policies*

57. Policy and regulatory reforms will dictate the long-term success of any country's ambition to transform its development pathway. While it was envisioned that SCF programs would support policy and regulatory dialogue and reforms, CTF funds were intended to support scaled-up action. However, a greater emphasis on stressing reform within the CTF may be warranted given that policy and regulatory barriers have slowed the progress of CTF implementation in some countries and could limit or delay transformation and replication, as suggested by the Independent Evaluation of the CIF.

58. The experience of the CTF in linking CTF-financed investments to GEF-financed policy support highlights the complementarities that can be achieved when different sources of climate finance are effectively aligned.

3.3 **Markets**

59. The creation of viable commercially-oriented markets is an essential prerequisite to ensure transformation toward low carbon, climate resilient development in both developed and developing countries. CIF-financed interventions target barriers inhibiting the development of viable markets, in particular for renewable energy and energy efficiency. These include, among others, lack of familiarity among investors with new technologies and the risks they present, lack of access to financing at needed terms (lower rate, longer tenor), and high upfront capital costs.

60. In **Morocco**, the AfDB and World Bank have jointly supported the 500+MW Noor (formerly Ouarzazate) solar complex, which has been championed by Morocco's Agency for Solar Energy (MASEN), channeling USD 435 million CTF alongside their own investment of USD 980 million. Given the scale of public finance required to move this multi-billion dollar, three-phase complex forward, the support of both MDBs, in addition to the CTF, was critical. The Ouarzazate-Noor complex installs CSP at a scale that sufficiently tests and demonstrates the storage technology component, triggers important cost reductions, and tests a business model that could attract and increase private-sector backing and enhance the availability of capital and know-how to support CSP scale-up. This is transformational for Morocco, which imports 91 percent of its primary energy supply (2012).

61. The Noor solar complex is a major milestone for the Moroccan Solar Plan, which aims for 2 GW installed solar energy capacity (through CSP and solar PV) by 2020. Independent analysis concludes that the low-cost debt provided in part by the CTF is already driving down the cost of CSP in Morocco by 25 percent for Noor I and an additional 10 percent for Noor II and III and thus reducing the government subsidy required to bridge the affordability gap for CSP.

“CIF funds have been able to mobilize a bigger pool of liquidity and, thus, make available larger amounts of funds permitting a higher leverage for a longer tenor and at a lower risk premium. The proof of the value created can be seen in the tariff we have been able to deliver.”

Paddy Padmanathan, Chairman and CEO of ACWA Power (Noor complex project developer)

62. In **South Africa**, the combination of public and private support to CSP delivered by the AfDB, IFC, and World Bank through the country’s CTF investment plan, which directs USD333 million CTF to CSP, will have a major impact on the CSP market there as the investment plan includes the country’s first public and private sector utility-scale CSP projects. The AfDB and World Bank have provided crucial support to the 100 MW Eskom CSP project, one of the most technically ambitious CSP projects undertaken to date with up to 12 hours of storage capacity. They have channeled USD250 million CTF alongside USD415 million of their own resources. The IFC committed USD81.8 million of its own finances, along with USD26.5 million in CTF concessional funds to help finance the pioneering KaXu CSP project, the first utility-scale CSP plant to operate in the developing world. The successful completion of KaXu has helped catalyze a new wave of CSP plants in the Northern Cape, and the South African government is considering a significant increase in its target for CSP installed capacity by 2030 from its original goal of 1,200MW. Critically, KaXu demonstrates that private financing can be successfully mobilized for emerging market CSP projects, and KaXu’s track record is already helping attract private investment to the sector.

63. The CTF has also supported both **Morocco** and **South Africa** to structure competitive procurement aimed at developing the countries’ CSP markets (with substantial cross-learning between the two countries), thereby bringing efficiency and scale to their deployment.

64. In **Turkey**, the CTF investment plan channels CTF USD 270 million to drive investment in renewable energy and energy efficiency through complementary programs with Turkish financial intermediaries. Three programs implemented by the EBRD, IFC, and the World Bank each worked with different local institutions (private sector banks, private leasing companies, and national development banks, respectively) to address common barriers to renewable energy and energy efficiency finance, including building technical capacity among banks to evaluate energy efficiency and renewable energy projects and assess risks, raising awareness among industry about the benefits of energy efficiency, and providing loans at more favorable terms (lower interest rates and longer tenors) than available in the market. CTF USD 172 million has thus far leveraged USD 1.8 billion through 430 sub-projects in Phase I alone (through end of 2012), saving 902,000 tCO₂e and USD 568 million in avoided oil imports per year.

65. The transformational impact continues, with EBRD now processing the third phase of the CTF-supported TurSEFF credit line, which will allow it to reach a total volume of USD 942 million,

including USD 52 million from the CTF, for a leverage ratio of over 1:17. The impact of the CTF on the energy efficiency market was most notable as this market progressed from barely existent to one that could be financed on purely commercial terms.¹³ This is significant for Turkey as the impact assessment of the CTF in Turkey conducted in 2012 found that energy efficiency investments have the greatest impact on Turkey's energy independence in terms of primary energy savings per dollar invested.

“Partnering with the multilateral development banks through the CTF has helped Turkey to scale up investments in energy efficiency, renewable energy, and smart grids by empowering its own national private and banking sector. The fact that Turkey has been a first mover in achieving results on the ground has inspired investors and emboldened us to be even more ambitious not only in the scale of investments we seek to achieve but also in the types of renewable technologies we are considering.”

Taner Yildiz, Turkish Minister of Energy and Natural Resources

3.3.1 Lessons on Markets

66. The provision of finance is just one element of market creation. As the Independent Evaluation of the CIF noted, CTF financing in Turkey was able to deliver immediate impact as a result of the robust policy and regulatory environment already in place; the country had already implemented renewable energy and energy efficiency laws that included feed-in tariffs and grid access requirements. In addition, the World Bank and IFC CTF programs built on ongoing MDB investments in renewable energy and energy efficiency in Turkey. Thus the lesson to be drawn from the Turkish experience where the CTF delivered rapid results is that low-cost financing can achieve rapid, scaled-up impact in an environment where laws and regulations are already in place.

67. Climate finance has the potential to support the delivery at scale of significant improvements to infrastructure. This effectively de-risks the decision of governments to continue investments utilizing their own funds, and helps them calibrate the support levels to what is really needed, thereby making efficient use of public revenues. CTF programs therefore can initiate the sectoral transformation that is required for the low-carbon economy of the future.

3.4 Technologies

68. The adoption and large-scale deployment of technologies for low carbon development and climate resilience is a key aspect of transformational change in recipient countries. The CIF is the

¹³ Based on the experience of the EBRD and IFC.

only existing climate fund that provides large-scale funding to specific technologies. There is evidence that the CIF is already exerting transformational change on technology deployment in a number of recipient countries through three pathways: (i) through providing gap-filling finance at a critical juncture to move markets; (ii) by supporting the first use of key technologies in a country; and (iii) through MDBs joining together to support the deployment of technologies at scale at the national and global levels.

69. **CSP:** CTF USD 945 million—expected to attract an additional USD 8.4 billion in co-financing—is supporting early public and private sector CSP projects in Chile, South Africa, and the Middle East and North Africa (MENA) region. Projected generation capacity is 1.2 GW, or more than one-fourth of the current global CSP capacity (90 percent of which is in Spain and the United States). The CIF’s CSP investments are establishing a record of performance for the technology, thereby lowering perceived risk and reducing future project costs for private sector CSP investors and developers.

70. **Geothermal:** The CIF is a global leader in supporting geothermal deployment with USD 810 million CIF resources supporting geothermal investments in 15 middle and low-income countries. The CIF is helping to expand geothermal markets in countries like Indonesia, Kenya, and Mexico and is supporting some of the first large-scale geothermal projects in Armenia, Chile, Dominica, Ethiopia, and Tanzania. CIF-supported projects are expected to attract over USD 10 billion co-financing and lead to up to 3.5 GW of new geothermal capacity (more than one-quarter of current global installed capacity). The CIF leads all other funders in supporting the earliest, riskier stages of geothermal projects providing USD 400 million, which is more than half (~55%) of total public finance currently flowing to the exploration and test drilling stages. Analysis carried out by CPI on behalf of the CIF suggests that much, much more of this early stage finance is required to the tune of an additional USD 12.5 billion in public finance.

71. **Climate services:** The PPCR has recognized the critical importance of hydro-meteorological and climate services effectively tailored to meet user needs in building climate resilience across economic sectors and communities. Approximately USD 186 million of the PPCR pipeline is allocated to enhancing climate services in the first phase of 18 PPCR pilot countries. Climate services are essential to enabling more informed decision-making to transform and mainstream climate-resilient development, contributing directly to resilience while at the same time acting as a key enabler of a broad range of adaptation decisions, such as disaster relief management systems, early warning systems, and agricultural extension systems. Private companies and businesses also need and rely on the data provided by climate services to make investment decisions related to climate risk mitigation for their operations. PPCR-supported climate services interventions are an important building block of more climate resilient societies in all PPCR countries.

72. In **Mexico**, CTF support delivered through the IDB and IFC spurred the commercialization of Mexico’s wind power sector. In 2008 the sector nearly ground to a halt due to the global financial crisis; with a 3800 MW pipeline but only 85 MW installed capacity, funding dried up. CTF USD 45 million subordinated debt blended with IDB and IFC funds launched two private sector wind

farms (250 MW Eurus and 67.5 MW La Ventosa) in 2009. These “anchor” investments “effectively catalyzed debt financing for wind projects in Mexico” (IRENA).¹⁴ CTF funds bought down cost of debt and increased project leverage. These projects were followed by the first bond issuance for Mexican wind projects (USD 298 million) in 2012, and in 2013 IFC and Mexico reallocated CTF resources earmarked for wind development, as the market was already mature enough to be financed on commercial terms. It is projected that by 2016, 5-6 GW wind capacity will be installed with USD 12 billion total investment.

73. In **Tajikistan** the PPCR and EBRD are supporting the first application of climate resilience measures in the hydropower sector to maximize investment in the aging 126 MW Qairokkum hydropower system upon which half a million people depend. PPCR USD 21 million in highly concessional loan and grant included additional funding for the project team to model both the water inflow into the reservoir and the plant’s electricity generation capacity under different climate change scenarios. This served as a basis for selecting the most suitable rehabilitation design across a range of possible projected climate change scenarios. The PPCR will also support the hydropower operator in adjusting the plant’s operational management to account for climate change. This is a pioneering investment for a country that depends on hydropower for 98 percent of its electricity generation and whose chronic electricity shortages are becoming more acute with climate change.

3.4.1 Lessons on Technologies

74. CIF investments are establishing a track record for new technologies and generating important learning both nationally and globally. CIF-supported analytical work on CSP and geothermal in particular have increased global understanding among key players active in the development of these technologies on how to utilize public finance and public resources more effectively to lower costs and mitigate risks that have constrained their deployment to date.

75. The CIF experience in directing significant finance toward the riskiest stages of geothermal development illustrates the impact that a multilateral fund can potentially exert in shaping the development trajectory of a technology at the global level.

3.5 Behavior Change

76. An important fifth pathway through which the CIF has supported actions that are intrinsic to achieving transformation toward climate-smart development is by influencing behavior change among a range of stakeholders at both the fund and national levels. Evidence of behavior change ranges from strong country ownership of CIF investment plans; to implicit and explicit recognition by governments of the contributions of non-state actors to the climate change agenda (e.g., by involving non-state actors in participatory processes to develop investment plans and monitor their progress), to growing awareness among the private sector in PPCR countries of the benefits of taking actions to increase climate resilience, to an increased recognition by governments and

¹⁴ <http://www.climateinvestmentfunds.org/cif/content/case-study-investments-windy-harvest-mexico>

MDBs of the ways in which climate change affects men and women differently and the importance of incorporating gender considerations into project design.

3.5.1 Pioneering a Model of Equitable Governance for Climate Funds

77. CIF governance arrangements were built on a number of important pillars, including equal representation of developed and developing countries on CIF governing bodies, consensus decision making, and active observer status for civil society, indigenous community, and private sector representatives. While some stakeholders express concern that some of these procedures may diminish the quality of decision making, they reflect a widely supported principle of balanced voice and decision making authority among contributor and recipient countries. Australian Aid states that the CIF is “being used by many as a model for development in part because of its equitable and efficient governance arrangements.”¹⁵

3.5.2 Country Ownership

78. The additional step required by the CIF of developing investment plans prior to seeking project-level funding approval is intended to ensure that CIF investments dovetail with country priorities and contribute to the realization of broader national or sectoral climate change strategies or goals. According to the Independent Evaluation of the CIF, a “Review of investment plans and joint mission reports, plus fieldwork and interviews, suggests strong government leadership and good integration with national policies in most CIF recipient countries. Nearly all CIF investment plans document alignment with national development and climate strategies. In fieldwork, most government officials felt that their country’s investment plan reflected national priorities.”¹⁶ In many PPCR countries, the preparation of the SPCR built upon existing processes and platforms established during the preparation of National Adaptation Programmes of Action (NAPAs), while also drawing on additional analysis to complement priorities identified through the NAPA process.¹⁷ In FIP pilot countries, analysis by Climate Focus found that FIP activities are well integrated in most countries’ larger REDD+ processes. In the **Democratic Republic of Congo (DRC)**, for example, FIP investments are a direct outgrowth of the REDD+ strategy that has already been extensively elaborated through other readiness programs. Similarly, in **Mexico**,

¹⁵ Australian Aid, 2012, as cited in CIF 2014, Learning by Doing: The CIF’s Contribution to Climate Finance.

¹⁶ ICF International 2014.

¹⁷ For example, in Mozambique, the NAPA process identified four priorities for immediate action – a) Strengthening early warning systems, b) Strengthening the capacity of farmers to deal with climate change, c) Reduction of the impacts of climate change along the coastal zone, and d) Water resources management. Mozambique’s SPCR included investments to address these four priorities, with the addition of a fifth priority – roads – taking into account additional evidence-based analysis identifying roads as a particularly vulnerable sector.

CONAFOR built on existing strategies and projects from their Strategic Forest Program and others and adopted them for FIP.¹⁸

3.5.3 Broadening Stakeholder Participation in Investment Planning and Implementation

79. The Independent Evaluation of the CIF found evidence of broad-based stakeholder consultation in the preparation of investment plans, particularly in SCF countries. While not without difficulties, the CIF mandate to involve stakeholders in the preparation of investment plans helped reveal the value non-state stakeholders can add to strategic planning and prioritization processes. Although the Independent Evaluation of the CIF found that there was a lack of ongoing engagement with stakeholders in PPCR countries, feedback from the PPCR and FIP monitoring and reporting processes suggest that in many countries these processes have been highly participatory and have involved a range of stakeholders.

80. In **Kenya**, although both civil society and the government were initially wary of civil society intervention in the preparation of the country's SREP investment plan, civil society influence grew during the process and, consequently, a more comprehensive investment plan emerged. After this positive experience, the Government of Kenya began involving civil society in non-CIF-led development programs in Kenya.

81. In **Peru**, despite the protracted and, at times, quite difficult process of preparing the country's FIP investment plan,, the participation of indigenous peoples' organizations ultimately helped build a stronger investment plan with buy-in from affected peoples.

3.5.4 Increasing Private Sector Awareness of Climate Change Risks and Responses

82. The PPCR has supported some of the first private sector adaptation measures in highly vulnerable least developed countries, including Bangladesh, Nepal, Niger, and Tajikistan. Through advisory services activities and investments, PPCR-supported private sector interventions are demonstrating the business case for climate resilience. In **Bangladesh and Nepal**, IFC-PPCR advisory services programs are working with key agribusiness companies, farmers, and supply chain members to increase farmer productivity and revenues through the adoption of climate smart agribusiness technologies and practices. In **Niger** an IFC-PPCR advisory services project is promoting the use of affordable, efficient irrigation equipment by smallholder farmers. The program aims to provide clear evidence of the benefits from commercial, sustainable irrigation systems that are needed to encourage private sector interest to scale up and increase the impacts of the program. In **Tajikistan**, the EBRD-PPCR investments cited above are breaking new ground in generating private sector investment in adaptation. Although none of these projects can claim

¹⁸ An exception was Indonesia where Climate Focus found there were concerns in the government that the FIP process would compete with the national REDD+ strategy, and significant additional work has been required to harmonize them. CIF 2014. Linkages between REDD+ Readiness and the Forest Investment Program.

to be transformational on their own, they are contributing to raising awareness and building a convincing evidence base on the value of investing in resilience measures for the private sector.

3.5.5 *Enhancing Attention to Gender in CIF Programming*

83. The 2014 CIF Gender Action Plan is helping foster gender-responsive approaches across the CIF portfolio through technical support, knowledge generation, and program learning. Early results are encouraging. The increased attention to gender within the CIF has resulted in:

- a) 60 percent of new projects approved in the six months following the adoption of the CIF Gender Action Plan (i.e., July 1-December 31, 2014) undertaking sector-specific gender analysis at design stage, compared to a baseline of 24 percent of projects from inception to June 30, 2014
- b) 67 percent of new projects have specific activities targeting women, compared to a baseline of 31 percent of projects
- c) 40 percent of new projects have gender-disaggregated indicators in their results frameworks, compared to a baseline of 25 percent of projects.

84. At the country level, processes and activities supported by the CIF are helping to effect gender-positive outcomes and women's empowerment in the context of investments in climate mitigation and adaptation. Efforts include the following:

- a) Clearly identifying beneficiaries and gender-disaggregated targets (e.g., in training and employment) at project design and implementation levels
- b) Enhancing women's participation in local resource management, such as water user associations (PPCR Tajikistan)
- c) Gender-transformative efforts in expanding women-owned enterprises in renewable energy, including new retailing models (SREP Nicaragua)
- d) Institutional reform of national and local machinery for more gender-responsive forest management (as in FIP Mexico).

85. In addition, within the global climate finance arena, the CIF has been sharing lessons on gender mainstreaming with other climate funds, including the Global Environment Facility (GEF) and the GCF, with positive institutional learning loops for all three funds, as recognized by UNFCCC and other observers.

86. In **Vietnam**, the *Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 (CTF)*, includes a range of gender-responsive design features to increase women's access to transport services, and to employment in the transport sector, with targets of 20 percent of project construction jobs and 30 percent of station jobs for women. Project stations feature dedicated waiting spaces on platforms for women; shop spaces for female-owned businesses; women-only carriages with child seating; secure street lighting and security cameras at stations; multi-modal planning and ticket/ schedules systems to suit multiple destinations used by women; and direct marketing to women as metro users.

87. In **Tajikistan**, the *Pyanj River Basin Project (PPCR)* features a number of good practices in gender mainstreaming, including use of multi-stakeholder planning (with participation by women's associations); linkages to the national women's machinery; gender-sensitive social mobilization and institutional development in land and water management for multiple-use; and clear gender targets in employment, training, and governance. This project approach is leading to strong results: the project reaches 35,000 households and has improved water storage infrastructure in this climate-vulnerable basin. As a result, the time spent on water collection by women has reduced by 75%.

88. In **Maldives**, the *Preparing Outer Islands for Sustainable Energy Development (POISED) Program (SREP)* has gender-specific targets in its design, including goals of at least 25% of energy parastatal staff trained under the project being female. The project features a gender-inclusive community outreach program that targets women's development committees at the local level, as well as women consumers in the outer islands, in order to improve household level demand-side management for renewable energy. In addition, the project has designed for application of reduced off-peak and/or shoulder rate tariffs for women-owned micro and small enterprises under the project.

89. In **Mexico**, the *Forests and Climate Change Project (FIP)* is mainstreaming gender in National Forestry Commission (CONAFOR) planning, budgeting and monitoring processes, while working at the local level with women forest users and producers to expand women's role in formal forest governance in *ejidos*, including non-timber forest production and management, for women's improved tenure security and their expanded benefit streams.

3.5.6 Lessons on Behavior Change

90. Behavior change is a process that yields results over time, and while it cannot be claimed that any of these examples have induced transformational impact in and of themselves, they have initiated important changes that are a necessary component of transformational change. A key observation is that such change efforts find the most traction when program goals and approaches are set explicitly in the context of larger national strategies and targets, including international commitments, such as those for gender and inclusion or energy access. By design, CIF seeks to embed its innovation efforts in such country-driven processes in order to give reform efforts the best chance of resulting in robust and enduring institutional change.

3.6 MDBs

91. Beyond the significant, transformational or potentially transformational changes the CIF is catalyzing in recipient countries, the CIF has already achieved significant impact within the MDBs themselves. This is evident along two key dimensions: (i) the unprecedented level of collaboration engendered by the CIF among MDBs and the impact this has generated for recipient countries, and in some cases at a global level (e.g., with respect to specific technologies); and (ii) the impact the CIF has brought to MDBs' climate change operations. We shall consider each in turn.

92. The CIF represents the first instance that multiple MDBs have come together in a country to support the government in a process of strategic planning linked to investments. This partnership has generated significant impact for recipient countries that might not otherwise have been realized in two notable ways: first, through scale, with multiple MDBs supporting a project or a technology in specific countries and at the global level, and second, through a programmatic approach targeting common barriers in a country – through reform elements and investments – through different entry points.

3.6.1 Achieving Scale to Move Markets

93. The CIF experience illustrates how MDBs, working in coordination at the country and global levels, can achieve the scale required to move markets for specific technologies. This is most notable for CSP and geothermal to which the CIF has provided USD 945 million and USD 810 million, respectively, in grant and concessional financing to support the global deployment of these renewable energy technologies. CIF-financed CSP and geothermal projects are expected to attract more than USD 18 billion co-financing for up to 4.6 GW of global installed capacity. Without the concessional resources provided by the CIF and the additional resources mobilized from the MDBs' own balance sheets, these projects would in all likelihood not have moved forward.

94. In **Indonesia**, USD 375 million of the country's USD 400 million CTF investment plan implemented through the ADB, IFC, and World Bank targets investments aimed at unlocking the country's abundant geothermal potential with 720 MW supported by CTF already under development. When fully realized, Indonesia's CTF-backed geothermal projects and programs are expected to attract more than USD 8 billion in total finance for up to 2.2 GW new capacity. These projects could have important long-term effects on the geothermal sector in Indonesia – a sector that the government deems crucial for sustainably meeting the country's growing energy needs – by demonstrating viable approaches for de-risking investments to attract greater private sector participation.

95. The CIF programmatic approach has provided a platform for governments to draw on the comparative strengths of different MDB partners to better coordinate the development and implementation of linked activities and investments that address common barriers through different entry points. This approach expands the impact beyond what could be achieved through stand-alone actions, generates synergies through complementary actions, and improves harmonization of development assistance.

96. In **Mexico**, the FIP investment plan builds on nearly 20 years of World Bank support to forestry and related sectors. The FIP program, which focuses on sustainable land and forest management by *ejidos* (a collective ownership system), is integrated within a broader suite of World Bank operations using different instruments, including REDD+ readiness support, a sector investment loan, and results-based finance. At the same time, the FIP investment plan draws on IDB's knowledge of and operations in Mexico's financial sector and its established relationships

with local financial institutions including the publicly-owned Financiera Rural and private bank FINDECA. Although FIP USD 60 million resources are relatively minor in the Mexican context, the investment plan aims for significant changes in the way rural development policies are managed and aligned at the level of forest landscapes and creation of innovative credit and financing facilities for REDD projects.

97. **Brazil's** FIP investment plan includes four linked projects to improve the sustainability and efficiency of forest resource management and land use in the Cerrado biome, a vast savanna region that accounts for more than a fifth of Brazil's territory and is home to many habitats and species as well as indigenous cultures. The FIP investment plan aims to put in place processes to ensure that agriculture in the Cerrado can continue to develop while preserving remaining forest stocks and reducing GHG emissions. The FIP project supported by the IDB will help the government implement the country's National Forest Inventory (NFI) in the Cerrado biome and will disseminate information from the NFI through the National Forest Information System. This information will in turn provide important inputs to the three FIP projects implemented by the World Bank. A FIP coordination project will ensure continued successful collaboration between the three ministries implementing Brazil's investment plan and their MDB partners as well as alignment with ongoing Cerrado government plans and policies already in implementation at federal, state, and municipal levels.

"It is essential that the CIFs spark truly transformative changes in how climate change is integrated into economic development choices supported by the Multilateral Development Banks (MDBs). The success of the CIFs should be judged, at least in part, by whether they are supported by systematic changes in practice within the MDBs that mainstream climate change considerations into decision-making."¹⁹

World Resources Institute, 2008

3.6.2 Supporting Core Business of Climate-Smart Development

98. **Concessional resources from the CIF have unequivocally helped MDBs integrate climate-smart development into their core business.** While every MDB had ongoing climate change activities, primarily support to clean energy, at the time the CIF was established, all CIF partner MDBs report that their participation in the CIF has moved the dial on climate action within their

¹⁹ WRI 2008. Correcting the World's Greatest Market Failure: Climate Change and the Multilateral Development Banks. Accessed on 20 September 2015 at http://www.wri.org/sites/default/files/pdf/correcting_the_worlds_greatest_market_failure.pdf

institutions to a degree that would not have otherwise occurred in the period since the CIF was established. MDBs cite several reasons for this.

99. Concessional resources buy down the upfront cost for strategically important but high cost technologies. It is telling that the CIF has supported nearly all of the utility-scale concentrated solar power (CSP) development underway to date in CIF recipient countries. Given the high cost differential between CSP and alternative (renewable energy and conventional) technologies, these projects would not have moved forward without the concessional resources provided by the CIF (and in some case bilateral donors).²⁰ For example in the public sector CSP projects supported by the CIF and IBRD in Morocco and South Africa, the use of CIF resources to buy down the high capital cost improved the project IRR and provided comfort to other lenders to extend debt financing to enable the projects to reach financial close.

100. The CIF enables MDBs to innovate and implement higher risk projects. Although the differentiated risk tolerance among CIF contributors has impeded the use of CIF funds for some higher risk instruments, MDBs still have been able to structure higher risk transactions utilizing CIF funds than would be possible using their own balance sheets, yielding opportunities to pilot and learn from experience with new instruments. Such transactions can unlock more private sector investment by absorbing risks that the private sector would not take on. Examples of higher risk, more innovative projects in which CIF financing has been catalytic include the following.

101. CIF concessional funding enables support to the earliest, riskiest stages of geothermal development that prove resource availability. With CIF funds structured to absorb the greatest risk, MDBs are able to co-invest using their own resources. An example is the **Mexico** geothermal financing and risk transfer facility (IDB), which uses USD 54.3 million CTF of which USD 20 million CTF is contingent recovery grant (not repaid in the case of failed drilling), to share drilling costs with developers and partially cover private resource risk insurance. IDB investment of USD 54.3 million will provide direct financial support to project developers. The facility is expected to attract more than USD 1 billion private sector investment for 300 MW of new geothermal capacity and achieve emissions reductions of 33 million tCO₂e. Reykjavik Geothermal, an experienced geothermal developer, cited the facility as the best risk mitigation structure to be deployed in the sector.

102. Also in Mexico, the IDB is implementing a Green Bond Securitization Project, with up to USD 150 million financing including CTF USD 10 million to promote sustainable energy investments in SMEs developed by ESCOs. The Green Bond will provide direct long-term financing to a portfolio of sub-projects investing in sustainable energy initiatives. CTF funding will be used to provide credit enhancement to the portfolio, through the use of a partial risk guarantee to mitigate risks faced by (i) lenders to the warehousing facility, while the portfolio is developed to reach the critical mass needed for bond issuance; and (ii) bond investors. CTF support is expected to enable

²⁰ See: CPI 2012, San Giorgio Group Case Study: Ouarzazate I CSP; and CPI 2014, The Role of Public Finance in CSP Case Study: Eskom CSP, South Africa.

the Green Bond to achieve the credit rating required to attract institutional investors, which would be a first for the sector in Mexico. In this transaction, IDB will actually be a beneficiary of CTF guarantees, as CTF will mitigate against construction and performance risk while IDB by charter can only cover credit risk.

103. The CIF has enabled MDBs to test new products/business lines that they can later replicate with their own resources. Using CIF resources, MDBs have been able to generate new products to expand the range of instruments they can offer to all client countries to effectively address barriers to low carbon, climate resilient development.

104. The EBRD credits the PPCR in **Tajikistan** for helping it to launch two new business lines for adaptation. The EBRD channeled PPCR USD21 million, including USD10 million grant, to support the integration of climate resilience measures into the modernization of the aging Qairokkum hydropower plant, a critical energy asset for the country. This was the EBRD's first experience incorporating climate resilience into the hydropower sector. As a result of this project, the EBRD is now undertaking a similar investment in Morocco. The EBRD tapped USD5 million from the PPCR set aside to develop and implement in Tajikistan its first ever credit line for climate resilience, a product which it is now considering replicating in other countries.

105. CIF resources expand the pool of funding available to low income countries and countries in high risk of debt distress. In IDA countries, the provision of additional grants and credits has enabled MDBs to do more climate-related investment than would have been possible with just IDA (or regional development banks' IDA-equivalent) allocations. In Mozambique, Tajikistan, and Zambia, for example, PPCR-supported planning and investments have amplified the impact that IDA (or IDA-equivalent) alone could deliver in terms of deepening resilience work. In Mozambique, following the country's devastating floods in 2013, the PPCR provided the first support for climate-proofing the country's road infrastructure, which ensured that roads rebuilt through funding from IDA's crisis response window would be more resilient to future extreme weather events.

106. While augmenting the volume of much-needed concessional resources for least developed countries, the CIF has also proven critical in enabling MDBs to access concessional funds for middle-income countries that they cannot offer from their own resources. As the example from Turkey illustrates, with the right conditions in place well-targeted concessional support can quickly transform a market.

107. The CIF has generated positive "spillover" that is strengthening how the MDBs tackle climate change within their operations. Examples include:

- a) Joint MDB climate finance tracking: This work was possible because of the experience of working in partnership within the CIF. Since 2011 MDBs have issued a joint climate finance report yielding greater transparency into MDB climate finance flows. Similar

work is happening on GHG accounting, which will eventually benefit CIF results measurement in the CTF, FIP, and SREP.

- b) Climate change monitoring and evaluation: The CIF, through the development and implementation of the programmatic results frameworks, has stimulated action within MDBs and client countries to improve various aspects of climate change monitoring and evaluation. Examples include the Readiness for Investment in Sustainable Energy (RISE) Initiative launched by the World Bank in 2014 with funding support from the SREP, which aims to help countries assess the legal and regulatory environment for investment in sustainable energy, and the multi-tier framework for measuring energy access led by ESMAP, which aims to capture the multi-dimensionality of energy access, and will be piloted with SREP support in several new SREP pilot countries.
- c) Expanded roll-out of multi-sector resilience planning. The experience of the PPCR informed the IDA 17 mandate for the World Bank to support IDA countries to develop and implement country-led, multi-sectoral plans and investments for managing climate and disaster risk in development in at least additional 25 countries, and the knowledge and experience gained from PPCR countries have influenced the design and development of these plans.

3.6.3 Outcomes

108. The MDBs have significantly increased their volume of climate business since the establishment of the CIF in 2008. Concessional resources, especially those provided by the CIF given the volume, have been critical to this trend, enabling MDBs *inter alia* to undertake more climate projects; to implement higher risk projects; to provide lower cost, longer tenor funds to the private sector to address prevailing barriers to commercialization; to develop new business lines; and to learn internally on a wide range of issues from multi-sectoral planning to monitoring and evaluation.

109. The CIF business model utilizes MDBs as implementing partners because of their comparative strength in mobilizing resources to deliver investments at scale. This model has worked well for the CTF and the first phase of pilot countries under the three SCF programs where sizeable envelopes of resources were allocated to each country. However, the recent expansion of the three SCF programs challenges this model as the smaller resource envelopes provided to new FIP pilot countries may be too small to be utilized efficiently by MDBs, particularly with two or more MDBs expected to support a country. In addition, the lack of availability of project funding for all new PPCR and some new FIP and SREP countries affects MDBs' readiness to participate in the investment plan preparation process. It is unlikely that the MDB partnership model that has proven effective in many pilot countries will persist in all of the new SCF pilot countries due to the limited availability of resources.

4 The Additionality of the CIF in the Climate Financing Architecture

110. The additionality of the CIF in the climate finance architecture is examined through the principles agreed at the joint meeting of the CTF and SCF Trust Fund Committees in November 2014. These guiding principles serve as the framework for the discussion of the future operations of the CIF:

- a) Supporting the continuity of climate finance flows and action on the ground and reducing funding gaps in the CIF operations;
- b) Progressively taking measures to strengthen complementarity, coordination and cooperation within the climate finance architecture; and
- c) Enhancing the programmatic approach and leverage of funds.

111. For the medium term, these principles suggest the continuation of the CIF in the climate finance architecture as articulated below.

4.1.1 *Continuing Delivery of Climate Finance*

112. The CIF is a key mechanism in the international climate finance architecture to continue the delivery of urgently needed climate finance. Experience from the GEF, Adaptation Fund, and the CIF indicates that deploying finance for climate-smart development takes time. The lifecycle of a climate project can take at best from four to five years from initiation to implementation following all of the necessary due diligence and safeguards. Experience from the CIF suggest that a number of factors can cause delays in this process, including the lack of an appropriate enabling policy and regulatory framework, challenging political situations, complex and highly specialized procurement processes (e.g., for CSP), extended consultation processes, and changing priorities on the ground. This experience is not unique to the CIF (e.g., all complex MDB infrastructure projects take time), however, and provides an important lesson in terms of reasonable expectations of the time horizon required for a new fund like the GCF to operate at scale.

113. There is a risk of a time-lag before countries' Intended Nationally Determined Contributions (INDCs) get supported, which could result in a loss of momentum, especially among developing countries that have developed and shared ambitious plans for climate action. An immediate area with urgent need for resources is pipeline identification and project preparation, including in areas where national programs and policies can provide sufficient comfort for private and public co-investments with meaningful and lasting climate benefits.

114. The CIF has an existing pipeline of projects that require funding, and this pipeline is continuing to grow. In the last one year the CIF has expanded through new countries joining

SREP²¹, FIP²² and PPCR²³ with up to 39 new investment plans expected. Recipient countries, supported by the MDBs, have made progress in developing investment plans and identifying programs and projects to achieve strategic priorities. Recipient countries recognize the value of undertaking a strategic planning process but have expressed strong concerns about the lack of available funding for investments and highlighted that unless new funds are mobilized quickly there is an imminent risk of potential disruption to implementation on the ground. Funding provided through the CIF to these new investment plans would help maintain the momentum on the ground and would be a strong motivating factor for new recipient countries to carry out strategic planning processes.

4.1.2 *Scaling MDB Climate Investments*

115. The CIF has been critical for scaling up MDB climate investments with USD 8.3 billion CIF projected to yield more than USD 18 billion in MDB financing. The CIF business model of operating through MDBs has proven to be effective in initiating transformation impacts on the ground, and given the key features of its business model is unique and filling a necessary gap in the climate finance architecture.

116. The Independent Evaluation of the CIF found that “fieldwork, interviews, and the project lead survey emphasized the importance of CIF funding for moving projects forward. Nearly three-quarters of CIF project leads indicated that their project would not have proceeded without the addition of CIF funding.”²⁴ This figure is likely even higher for private sector projects where at least one MDB reported that none of its CIF private sector projects would have been able to reach financial close without the availability of CIF funds. Evidence from independent case studies on the Ouarzazate I and Eskom CSP projects and La Ventosa and Eurus wind projects indicate that CIF financing was indeed catalytic in mobilizing other financing for these projects. MDBs indicate that many other types of potentially transformative projects, including CTF and SREP geothermal projects, off-grid solutions in Africa and South Asia, and urban transport operations would likely not have materialized without CIF financing and the ability of the CIF to bring other funders around the table.

21 At its meeting in June 2014 the SREP Sub-Committee selected 14 new pilot countries (most of them from Africa) to the SREP.

22 At its meeting in May 2015, the FIP Sub-Committee approved six new pilot countries to be supported under the FIP: Congo Republic, Côte d’Ivoire, Ecuador, Guatemala, Mozambique and Nepal. Nine additional countries (Tunisia, Bangladesh, Zambia, Cambodia, Cameroon, Guyana, Honduras, Rwanda, and Uganda) have also been invited to prepare FIP investment plans.

23 At its meeting in May 2015, the PPCR Sub-Committee expanded the program to additional 10 pilot countries: Bhutan, Ethiopia, Gambia, Honduras, Kyrgyz Republic, Madagascar, Malawi, Philippines, Rwanda and Uganda. However, with this opportunity came the challenge of fund raising as the PPCR currently has funds available only for investment plan preparation.

24

http://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_TFC_12_3_Independent_Evaluation_of_the_CIF.pdf

117. Moving forward, it is clear that the MDBs will play a pivotal role in reaching the USD 100 billion climate finance mobilization target by 2020. In the run-up to and at the Lima Climate Finance Ministerial in October 2015, all MDBs announced targets to significantly scale up their climate investment by 2020. MDBs have recognized that they need concessional climate finance to blend with their resources if they are to meet their new climate investment targets.²⁵ Even in a scenario where MDBs expand their capital base, the CIF would remain relevant and important for MDBs as stringent MDB risk management practices prevent the MDBs from taking on certain high risk transactions that CIF resources are able to support. It is precisely these types of transactions that can have catalytic effects on markets. The CIF is the only climate finance instrument delivering concessional finance at scale through the MDBs today, and the only one with the infrastructure and experience needed to continue the momentum while other funds ramp up. The CIF has also helped develop an infrastructure at the country-level – e.g., through coordination units – which will enable CIF countries to scale up action on the ground using all available resources.

4.1.3 *Evolving the CTF into a Specialized Mechanism*

118. **Alternative financing models for the CTF:** Following the request from the CTF Trust Fund Committee in May 2015, the CIF Administrative Unit, Trustee and MDBs have initiated work to explore new financing modalities for the CTF that would reinforce the CTF capital structure and enable the CTF to be more flexible and responsive in the use of its instruments to advance qualified activities by MDBs in recipient countries. Based on preliminary due diligence and refinement, two options that would enable the continuation of the CTF have been identified. These include a more traditional option of moving CTF into an IDA-type pattern of periodic replenishments, perhaps supplemented with continuing low-cost borrowing from sovereign Sponsors; and a more efficient option of mobilizing a further equity capital infusion from sovereign Sponsors (and perhaps other sponsors), and leveraging the equity position modestly to implement a self-sustaining pricing and financial management regimen and build out the aspects of the CTF business that can most efficiently deliver into MDBs' operations the cost- and risk-reducing benefits of its public sponsorship.

119. These options are outlined in the paper CTF/TFC.16/5 *Alternative Financing Models and Options to Increase Resource Availability in the CTF* and will be considered by the CTF Trust Fund Committee at its meeting in November 2015. The initial exploration of these options confirms that the CTF business model has sufficient flexibility to enhance its financial toolkit without adding materially to administrative costs.

4.1.4 *Exploring the Flexibility of CIF*

120. Given the emerging landscape of climate finance, it is clear there is a wide niche for the CIF focusing on sectoral/technology transformation in a country-driven context. The flexibility of the

²⁵ For example, the World Bank's forthcoming Africa Climate Business Plan anticipates the need for USD 2 billion from climate finance instruments for the period 2015 to 2018.

CIF can be further explored going forward to fill in gaps or address priority areas through, for example, thematic programs (e.g., transport, low carbon solutions for urban development, storage technologies) or a pipeline development facility that could support the preparation of projects; such a facility could also support preparation for MDB projects that do not require CIF financing for the implementation stage. For the FIP, the scope of activities could be expanded to include results-based financing, whereby expected results go beyond just the carbon benefits and instruments like pay for performance could be utilized for both mitigation and development benefits. In the PPCR, the scope of activities could be deepened and broadened in existing and new pilot countries. Specialized themes like micro-insurance, climate services, or a special initiative for small island developing states (SIDS) could be supported through the PPCR programmatic approach. A thorough gap analysis of the climate finance landscape including an elaboration of potential options for modifying CIF programs to effectively address priority areas could be prepared for the consideration of the joint meeting in mid-2016.