CLIMATE INVESTMENT FUNDS

Investing in the future

Intersessional Joint Meeting of the CTF and SCF Trust Fund Committees

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ACCELERATING COAL TRANSITION (ACT) INVESTMENT PROGRAM (SUMMARY)

CLIMATE INVESTMENT FUNDS
1818 H Street NW
Washington, D.C. 20433 USA
T: +1 (202) 458-1801
climateinvestmentfunds.org

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PROPOSED DECISION

1. Despite the developments supporting transformation of the energy sector in recent times, energy-related carbon dioxide emissions have continued to rise over the last five years.

2. In 2017, global coal production grew by 1% to 7585 Mt, accounting for 27% of all energy consumption and 38% of electricity generation. While a phase out of coal is occurring, the process is slow given (a) a large existing stock of coal plants and associated mines (“coal assets”) to be retired; (b) partial replacement with new coal assets often within the same region or on existing sites; and (c) limited economic alternatives to redeploy existing coal and power plant workforce. Even though the ongoing pandemic has rendered many coal plants uneconomic, and added to the stock of plant closures, emissions from the existing plants may hinder countries’ efforts to fulfill their domestic climate-related priorities.

3. The advent of low-cost solar, wind and (increasingly) battery and other energy storage technologies provides an opportunity for countries to re-evaluate new coal assets being built, re-purpose existing assets which still have considerable life left, or to decommission existing assets which are near retirement. Importantly, renewable energy, alongside natural gas and hydro, are eroding the commercial viability of coal, especially in older inefficient operations.

4. There are also significant social, economic and political challenges to resolve. Coal regions are typically mono-industry areas, and transition may involve re-orienting the structure of the economy itself. Developing country demand-driven regional transition strategies is key to identifying new labor opportunities for existing and future workforces of a coal region. Alongside these nationally driven efforts there is the need to strengthen local and regional institutions to manage the transition, notably the capacity to implement large social protection, education and economic innovation programs.

5. The implementation of kick-start projects can provide important impetus to communities and governments to work together to effect coal sector transition in the electricity sector. Yet, many regions lack the funds to bring these projects from the conceptual to bankable phase, leaving many regions frustrated by the inability to demonstrate real progress in transition.

6. The multilateral development banks (MDBs) have a critical role to play in assisting countries to meet domestic climate-related targets, by securing affordable, reliable, and sustainable energy access for all. Based on their experience in supporting coal regions in their energy transitions, a dedicated investment program could assist countries and their coal regions to achieve their defined energy and socioeconomic transitions. The main objective of the *Accelerating Coal Transition (ACT) Investment Program* would be to address funding gaps leading to the successful implementation of national coal transition strategies and associated kick-start projects; building support at the local level to reconsider the development of new coal plants and accelerate retirement of existing coal assets together with new economic activities supported by new sources of energy.

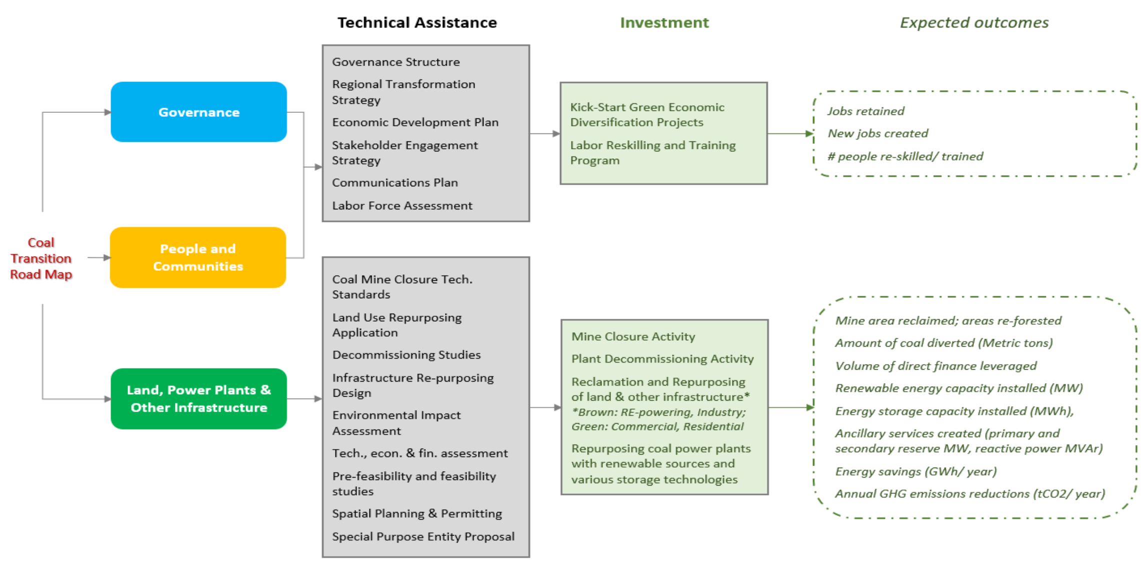
7. The focus of the *Accelerating Coal Transition (ACT) Investment Program* would be to support some of the major coal consuming and producing developing countries including those where thermal coal is a dominant factor in the energy mix. During the implementation phase of the program, the process for the

selection of countries (a number that would depend on available resources) would be undertaken in consultation with the MDBs. This would be based on a set of criteria which could include:

- NDC or other policy instrument that outlines nationally driven goals for coal transition
- Highest impact in terms of emission reduction potential and co-benefits such as air pollution
- Demonstration effect both in its region, and globally
- Political commitment and country readiness to implement
- Regional diversity

8. Finally, the selection of countries and underlying activities would also depend on readiness, feasibility, potential to mobilize private sector financing, country level engagement assessments, and gender considerations, among others.

9. Depending on the selected site/s, the program will look to deliver on the Coal Transition Roadmap, developed by the host country, and finance relevant activities under the following pillars: *i) governance; ii) people & communities;* and, *iii) land, power plants, & other infrastructure* (see figure below).



Potential activities supported by ACT Investment Program

10. The program would primarily focus on downstream investment activities financed using concessional funds from the CIF, as well as the MDBs' own resources, and other private or public financing. Upstream activities necessary to implement the downstream investment activities, such as the development of road maps, pre-feasibility and feasibility studies as well as other technical assistance can be supported by the MDBs through their individual initiatives (such as EBRD's NDC, Long Term Strategy and Low Carbon Pathway support, World Bank's Energy Sector Management Assistance Program (ESMAP)). Where such resources are not available, ACT-IP could fund such activities, upon MDB request, in order to facilitate implementation of activities downstream.

11. The program would look to support both public sector utilities as well as private sector operators, developers in the built environment and financial services providers with the relevant toolkit necessary to affect the transition. Consistent with the principle of leveraging public finance, the key focus here would be to mobilize private sector participation as well as sources of financing. Concessional funding from the CIF can be used to mitigate and spread risks, both real and perceived, thereby ensuring more efficient use of limited public resources. The program would strive to offer necessary flexibility and use of innovative ideas such as results based financing, risk capital for nascent technologies among others, in order to facilitate private sector participation.