CLIMATE INVESTMENT FUNDS

Joint CTF-SCF/TFC.22/4.5
March 5, 2020

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C. (Virtual Meeting)
March 24, 2020

Agenda 4

GOVERNANCE OPTIONS FOR THE NEW CIF ACTION AREAS

Table of Contents

1 Introduction 5
2 Background and purpose 5
3 Guiding principles and considerations for proposed governance options 7
4 Governance structure options for new action areas 9
Annex 1: Summary of governance options to accommodate new CIF action areas 17
Annex 2: Overarching principles for establishing a new FIF (World Bank) 20
Annex 3: Loan contributions in reference to trust funds (World Bank) 22

Glossary of Terms

“Administrative Unit” means the administrative unit established to support the work of CIF and to support the CIF Trust Fund Committees and other CIF bodies, in accordance with the terms of the CTF and SCF Governance Framework Documents.

“CIF” means the Climate Investment Funds (composed of CTF and SCF) established by the World Bank, in consultation with the MDBs, developed and developing countries, and other development partners.

“Contribution” means any grant contribution, capital contribution, and loan contribution administered by the Trustee pursuant to the provisions of the Contribution Agreement.

“Contribution Agreement” refers to the agreement that the Trustee and contributor enter into to formalize any type of contribution to CIF (including a Loan Agreement in the case of a loan contribution).

"Contributor" means any country (including any ministry and agency thereof) or other entity (if agreed by the CTF or SCF Trust Fund Committee and the Trustee) that provides a contribution to CIF.

“CTF” means the Clean Technology Fund established in accordance with, and for the purposes set forth in, the CTF Governance Framework Document under the CIF framework.

“CTF Trust Fund Committee,” composed of representatives from contributor and recipient countries, MDBs, and civil society observers), is the CTF governing body established in accordance with the terms of the CTF Governance Framework Document.

"Financial Procedures Agreements" set out arrangements for the commitment and transfer of CIF resources, administration and use of such resources by MDBs, and reporting on the use of such resources.

“MDB Committee,” composed of representatives of the MDBs, is a committee established to facilitate collaboration, coordination, and information exchange among the MDBs, in accordance with the terms of the SCF Governance Framework Document.

“MDBs” means the multilateral development banks named in the CTF and SCF Governance Framework Documents.

"Provisional Sub-Account" means a sub-account established for contributions that are not allocated or provisionally allocated by the contributor to any SCF program or any other trust fund.

“SCF” means the Strategic Climate Funds established in accordance with, and for the purposes set forth in, the SCF Governance Framework Document under the CIF framework.

"SCF Program" means any program established by the SCF Trust Fund Committee pursuant to the terms of the SCF Governance Framework.

"SCF Sub-Committee," composed of representatives from contributor and recipient countries, MDBs, and civil society observers, is the governing body of any SCF program, established in accordance with the terms of the SCF Governance Framework Document.

"SCF Trust Fund Committee," composed of representatives from contributor and recipient countries and MDBs (as well as observers), is the SCF governing body established in accordance with the terms of the SCF Governance Framework Document.

"Sub-Account" means a sub-account established under the SCF Trust Fund for the purpose of receipts of contributions, commitments, transfers, and use of SCF Trust Fund funds.

1 Introduction

1. The joint meeting of the CTF and SCF Trust Fund Committees, held in June 2019, reviewed the document Joint CTF-SCF/TFC. 21/3, Strategic Directions for Climate Investment Funds[1], including the establishment of four new programs, and requested the CIF Administrative Unit to present elaborated proposals for decision at the next joint meeting, including the necessary supporting information.

2. The request for the *necessary supporting information* is fulfilled with two separate documents:

   - *Operational Modalities of New CIF Action Areas* proposes the operational modalities for both the public and private sector operations that will be developed as part of new action areas under CIF. It outlines the operational modalities common across all areas and those specific to each area.

   - *Governance Options for the CIF New Action Areas* (this document) examines options on how to govern these new action areas, including creating a new financial intermediary fund (FIF) in line with the World Bank's newly updated *"Financial Intermediary Fund Management Framework"*[2], establishing new SCF program(s) with new sub-committee(s), and incorporating funding for the new action areas within the current CTF and SCF Trust Funds through the creation of a global program.

3. While examining options for the governance structure for the new action areas, consideration has been given to CIF's overall guiding principles of ensuring efficiency and effectiveness of its meetings and operations, aligning the governance structure to the needs of contributors and eligible recipient countries, and avoiding further fragmentation in the climate finance architecture. A summary of options provided in this analysis can be found in Annex 1.

2 Background and purpose

4. The Climate Investment Funds (CIF) were established in 2008 to provide scaled-up climate finance to developing countries in support of low carbon, climate resilient development. Its business model is characterized by five main features:

   - Country-led programmatic participatory approach enabling the design and implementation of strategic investments aligned with national priorities and building on existing efforts and strategies
   - Delivery of financing through multiple Multilateral Development Banks (MDBs) working together in a coordinated manner to support the implementation of coherent large-scale investment packages for cross-sectoral interventions responding to countries' priorities and objectives
   - Large-scale coherent investment packages helping to move markets, stimulate private investments and drive policy reform
   - Scaled-up, predictable, and flexible envelope of concessional resources
   - Consideration of system transformation and social inclusion at the outset

[1] Strategic Directions for Climate Investment Funds
[2] *"Financial Intermediary Funds Management Framework Update"*, discussed by the World Bank Board of Executive Directors on July 16, 2019.

5. Currently the governance and organizational structure of CIF includes Trust Fund Committees for CTF and SCF, Sub-Committees for each SCF program, an MDB Committee, an Administrative Unit, and a Trustee.

6. The CIF Trust Fund Committees, whose mandate is to oversee operations and activities of CTF and SCF, have equal representation of members from contributor and eligible recipient countries (decision-making members), a senior representative of the World Bank, and a representative of the MDBs (non-decision-making members). The committees also include representatives from Civil Society Organizations (CSOs)[3], and other development agencies, who serve as observers.

7. The three programs of SCF—Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Scaling-up Renewable Energy Program in Low Income Countries (SREP)—are each governed by a separate Sub-Committee. Each Sub-Committee comprises an equal number of members from contributor and eligible recipient countries (decision-making members). They also include representatives from CSOs and other development agencies, who serve as observers.

8. CIF committee members are identified through a self-selection process, with eligible recipient countries selecting from among themselves and contributor countries selecting from among themselves. CSO observers are also identified through a self-selection process.

9. To maximize the comparative advantages of CIF's proven business model in support of accelerated climate action in priority areas, the CIF Administrative Unit and partner MDBs developed the following four program proposals to accelerate climate action and drive the "rapid and far-reaching transitions in energy, land, urban and infrastructures, and industrial systems"[4] called for by the international scientific community.

10. **Integration of renewable energy into power systems:** To meet internationally agreed climate goals, the share of renewables in the power mix needs to increase substantially. For this to happen, countries will have to overcome challenges related to the integration of additional variable renewable energy into power grids. CIF support under this action area seeks to help address system-wide barriers to the integration of renewable energy into power systems by accelerating the deployment of an integrated mix of supply/demand side flexibility measures – enabling technologies, enabling infrastructure, market design and system operations improvement, and electrification and demand management.

11. **Climate-smart urbanization:** Reaching the world's climate goals and Sustainable Development Goals (SDG) will require an urgent overhaul of the current urban development paradigm. With the prospect of another 2.5 billion people set to move into urban areas by 2050, in fact, it is paramount to avoid carbon and climate vulnerability lock-in as cities rapidly expand. This is especially relevant and urgent in rapidly urbanizing developing countries given where significant new urbanized land development is expected to take place through 2030. This action area would support a range of small to medium-size cities in developing countries to set on low-carbon and climate-resilient urbanization pathways. Under this action area CIF seek to test and demonstrate a new climate-smart model of urban development that is coordinated, compact, and connected, and pilot new investment approaches to tackle barriers to urban climate action and enhanced private sector participation.

12. **Accelerating low-carbon, climate-resilient transition in industry:** The industrial sector accounts for about 38 percent of total global final energy use and is responsible for about 24 percent of total

[3] Non-Government Organizations (NGOs), Indigenous Peoples groups, private sector organizations.
[4] IPCC (2018), *Special Report: Global Warming of 1.5°C*, *Summary for Policymakers.*

global GHG emissions. It may become the single biggest source of GHG emissions in less than a decade. Reaching a scenario pathway consistent with internationally agreed climate goals will require collaborative efforts across industrial sectors and regions to decrease energy usage and related GHG emissions. This action area aims to catalyze deep behavioral change and sustained impact in high-emitting industries, including the chemicals and petrochemicals, iron and steel and aluminum manufacturing, pulp and paper, and glass manufacturing sectors. It would intervene at multiple levels—industrial facility/technology, corporate, sectoral and national — to tackle through the target use of CIF's concessional finance the system-wide barriers and challenges hindering investment in low-carbon, climate-resilient industry business models and technologies.

13. **Nature, People and Climate Investments Program:** An estimated 23 percent of total anthropogenic greenhouse gas emissions derive from Agriculture, Forestry and Other Land Use. This action area aims to tackle in an integrated manner the multiple drivers and impacts of human activities and climate change on land resources and ecosystems services by fostering strategic partnerships and deploying scaled-up and flexible concessional capital in support of multi-sectoral investments in Nature-based Solutions, including the creation of enabling environments, and direct investments for improved use of land and natural resources. The Nature-based Solutions approach proposed under this action area will enable CIF and its implementing partners to contribute towards addressing climate change mitigation and adaptation and progressing towards sustainable development.

3 Guiding principles and considerations for proposed governance options

14. CIF is expected to remain one of the key players in the evolving climate finance architecture by continuing to push the frontier with these new action areas. To bring them to life, several options have been developed for their governance structure, each held to the following general principles:

    a. CIF Trust Fund Committees have equal representation of members from contributor and eligible recipient countries, up to a maximum of eight each; an agreed number of CSO observers; representatives from other development agencies, as appropriate; and representatives from the MDBs.

    b. Sub-Committees, where they are presented as options, have equal representation of members from contributor and eligible recipient countries, up to a maximum of six each; an agreed number of CSO observers; representatives from other development agencies, as appropriate; and representatives from the MDBs.

    c. Roles and responsibilities of the CIF Trust Fund Committees and Sub-Committees will resemble those set out in the Governance Frameworks for CTF and SCF (the Frameworks)[5] [6] .

    d. Membership terms for all Committees will be three years. The self-selection process for country membership and observer status remaining as is.[7]

    e. Frequency of committee meetings will remain as stipulated in the relevant Framework documents. [8]

---

[5] SCF Governance Framework (revised, 2011)
[6] CTF Governance Framework (amended June 2014)
[7] https://www.climateinvestmentfunds.org/documents/proposed-guidelines-and-procedure-selecting-committee-member-seats-recipient-countries
[8] Meetings may take place in person or virtually.

f. Current risk sharing and risk appetite stipulations will apply to new contributors to the existing CIF Trust Funds.

g. Current business model of CIF will be maintained (see Section 2).

h. The decision to establish a new Trust Fund must be made by the Trustee and interested contributors.

i. The decision to include action areas in the current format of CTF or SCF must be made by the CTF or the SCF Trust Fund Committee with agreement from the Trustee and the CIF Administrative Unit.

j. Simplification, cost-effectiveness, and avoidance of further fragmentation, both in terms of governance and financial management, remain guiding principles.

k. Based on the outcome of the review of CIF reporting requirements,[9] the CIF Administrative Unit, Trustee, and MDBs are in the process of reviewing the information sharing and reporting requirements currently codified in CIF agreements. Any new requirements associated with the new action areas can be incorporated as part of this ongoing process.

15. Governance structure options for new action areas take into consideration lessons learned from the current governance structures of the CIF Trust Fund Committees and Sub-Committees and the ease of contributing to future themes and programs to better address the ever-changing needs in the climate finance architecture. While these new action areas can encourage a wider variety of donors (including private sector entities and recipient countries) and additional implementing agencies, their governance should continue the current practice of equal representation of contributor countries and eligible recipient countries on CIF committees and an agreed number of CSO representatives as observers.

16. Consideration has also been given to the streamlining opportunity identified in a parallel process under SCF. At the intersessional meeting of the SCF Trust Fund Committee on November 20, 2019, options to streamline the governance of the current SCF were discussed. The SCF Trust Fund Committee approved Option 2 of the document[10] which expands the responsibilities of the SCF Trust Fund Committee and converts the FIP, PPCR, and SREP Sub-Committees into Technical Committees.

17. Each governance option for new action areas presents its own cost implications. The Administrative Unit, MDBs, and the Trustee will provide specific administrative services and project-related activities. The following principles will be followed in determining the future costs of the agreed option:

a. Compensation for the administrative services and project-related activities for the Administrative Unit, MDBs, and the Trustee will be on the basis of full cost recovery, consistent with their respective institutional policies on management of trust funds, including the retroactive recovery of set-up costs.

b. Per current practice, the Administrative Unit, MDBs, and the Trustee will include projected annual administrative costs in the CIF Business Plan and Budget document submitted to the Joint meeting of the CTF and SCF Trust Fund Committees for approval.

---

[9] Action Plan of the Assessment, Review of the Project Portfolio, Financial and Risk Management and Financial Reporting Requirements of CIF presented during the joint meeting of the CTF and SCF Trust Fund Committees in December 2017.

[10] Options to Improve the Efficiency of SCF Governance

c. Tracking of funds by program, provision of capital along with grant contributions, tracking of reflows, customized reporting, and other services not part of standard Trustee services will entail additional costs. Provision of customized services is subject to, *inter alia,* availability of resources and acceptable operational risks.

4 Governance structure options for new action areas

4.1 Option 1: Create a new financial intermediary fund (FIF)

18. Option 1 is based on the Trustee creating a new FIF under CIF, one that is separate from the current CTF and SCF Trust Funds and their respective governing bodies. This new FIF would have its own governance and reporting structure and its own legal agreements and operational documentation. The new FIF would have a similar governance structure as the CTF or the SCF Trust Funds and could benefit from the current CIF operating procedures.

19. A new FIF might be better able to respond flexibly to new proposals being put forward, namely new implementing entities or new funding sources (e.g., private sector) and could be structured to support strong alignment with new and emerging areas of action. It may better incorporate lessons from current funds and encourage new contributors who would not be obligated by the legal, financial, and loss-sharing terms already agreed under the current CIF arrangements.

20. Establishing a new FIF would need to be guided by the updated *Financial Intermediary Funds Management Framework*, discussed by the World Bank Board of Executive Directors on July 16, 2019, which aims to strengthen FIFs through greater selectivity, oversight, and risk management (see Annex 2 for the World Bank's overarching principles for establishing a new FIF).

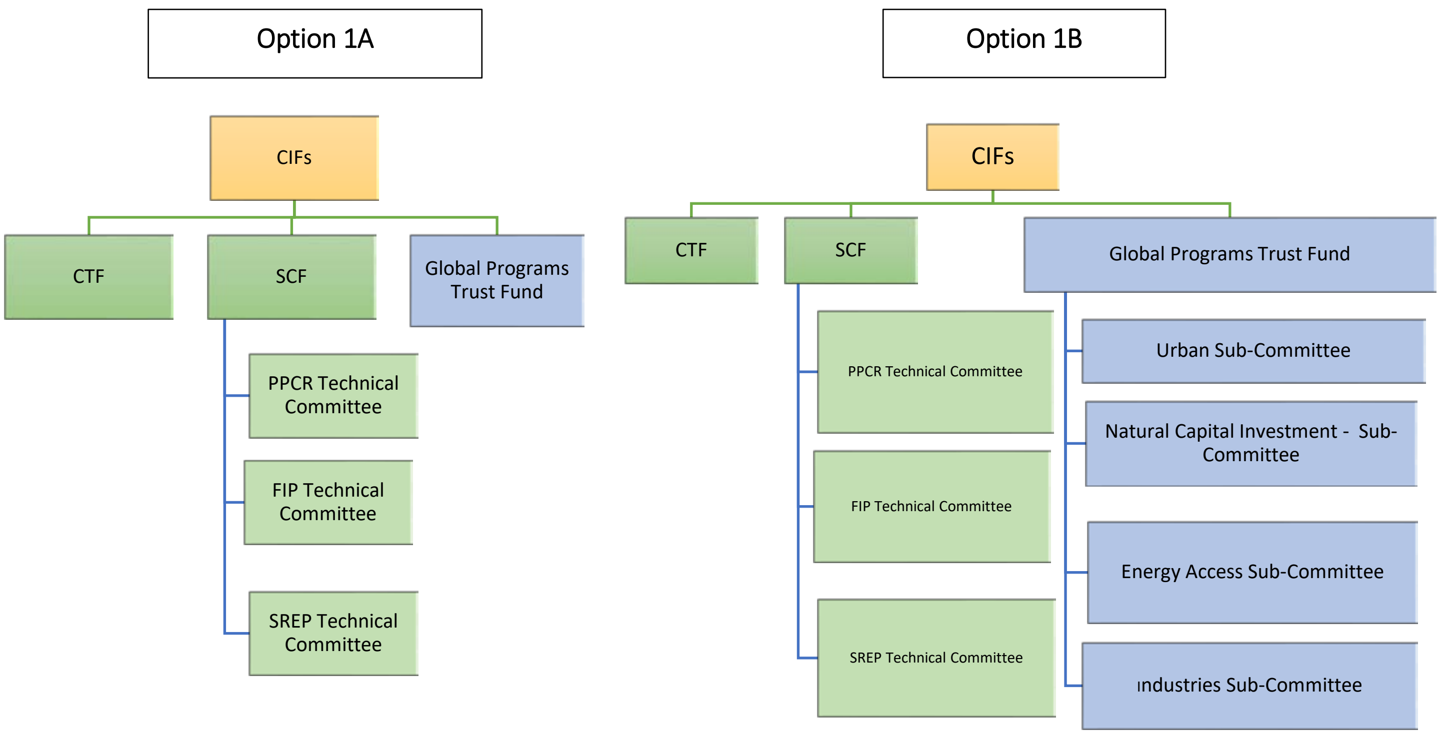
21. If there is agreement to establish a new FIF, two governance structures could be considered for implementation (see Figure 1):

a. Option 1A: Similar to the current CTF operations, with one governing body authorized to take decisions for all new action areas based on notional allocations[11]

b. Option 1B: Similar to the current SCF operations, with one governing body authorized to make fund-specific decisions and one sub-committee per action area established to make program-specific decisions.

[11] While earmarking is not possible under the CIFs, notional allocations for each program may be considered.

Figure 1: Options to create a new FIF for new action areas



22. Under a new FIF, only those countries contributing[12] to the new action areas, as well as an equal number of eligible recipient country members, would have decision-making authority over the funds and all funding and policy approvals. The new FIF would require new legal documentation such as Contributions Agreements, Financial Procedure Agreements with MDBs, a Governance Framework Document, and Rules of Procedure.

23. Based on the experience of the Trustee, establishing a new FIF could take as few as nine months (in the best-case scenario) to as many as 25 months (in the worst-case scenario). At a minimum, it would require the following steps and estimated timeline:

   a. Internal agreement within the World Bank to create a new FIF (3-6 months). The new FIF may require approval by the World Bank Board of Executive Directors.[13]

   b. Consultation and negotiation among contributors and MDBs on new legal documentation applicable to the new FIF (Standard Provisions for Contributions Agreements, MDB Financial Procedures Agreements, etc.), Governance Framework, and the Rules of Procedure (3-9 months).

   c. Negotiation and execution of individual agreements with contributors (2-12 months). This may include the need to negotiate loss-sharing arrangements among contributors, if required based on lessons learned from the current CIF.

[12] In line with paragraphs 22 and 17 of the CTF and SCF Governance Framework documents respectively.
[13] Financial Intermediary Fund Management Framework (Framework) para 22.

24. Financial management and reporting would be required by the Trustee, MDBs, and CIF Administrative Unit on the new fund and action areas. Additionally, separate externally audited financial statements may be required.

25. *Option 1A: Establishment of one FIF, one trust fund committee.* Contributors to the new fund could notionally indicate their specific interests in the different action areas, which would be managed in a manner similar to that of the Dedicated Private Sector Program (DPSP) under CTF. This option would provide a flexible approach toward funding the new FIF or adapting to changes in strategy and priorities as the needs of the climate finance architecture evolve over time. In addition, the lack of sub-committees in this option would keep operational and reporting costs in line with those associated with the provision of standard services, unless other customized services are agreed.

26. As decision-making authority would be at the trust fund committee level, all contributors[14], irrespective of whether they had indicated an interest in a specific action area, would retain decision-making authority over the FIF.

27. *Option 1B: Establishment of a new FIF with program Sub-Committees.* This would be a mirror image of the current SCF and its sub-committees, retaining the same responsibilities as defined in the respective SCF governance documents.[15] This option has the advantage of allowing donors to contribute directly to a specific program and keeps decision-making authority over the use of the funds at the program sub-committee level.

28. Presenting a more complex governance structure, Option 1B would increase the initial set-up costs as well as ongoing operating costs of the fund. As per the common principles, the new FIF Trust Fund Committee and Sub-Committees would comprise an equal balance of contributor and eligible recipient country members. The current SCF Framework Document includes criteria to consider separate programs, multiple donors, and availability of resources to finance activities at scale (see Paragraph 29). The same criteria would be applied under the new FIF to ensure the sub-committee(s) structure is streamlined and efficient, including requiring a minimum number of donors before operationalizing a sub-committee(s).

4.2 Option 2: Establish new programs within the SCF Trust Fund

29. The aim of SCF is to provide financing to pilot new development approaches or scale up activities aimed at a specific climate change challenge or sectoral response.[16] The SCF Trust Fund is currently supported by three funding Sub-Accounts for its three programs: FIP, PPCR, and SREP. The Governance Framework provides that, in support of the objectives of the SCF, other SCF programs (in addition to FIP, PPCR and SREP) may be considered in accordance with the following criteria:

   a. Multiple donor interest in establishing a SCF program
   b. Broad applicability of lessons to be learned
   c. Sufficient resources to finance activities at scale
   d. Complementary to any other multilateral financial mechanism or initiative
   e. Link between climate change and development

14 In line with paragraphs 22 and 17 of the CTF and SCF Governance Framework documents respectively.
15 The Governance Framework for the Strategic Climate Fund: amended December 2011 – paragraph 28.
16 Governance Framework of the Strategic Climate Fund, amended December 2011

30. As an existing program, SCF operations, processes, and procedures are already established and could be used in the same manner for the new action areas.

31. As the needs of the climate finance architecture evolve over time, this option would offer additional flexibility to quickly adapt to changes. Using the existing SCF Trust Fund model, contributions could be accepted to the new program(s) in the forms of grant and capital. See Annex 3 for further elaboration on loan contributions to trust funds administered by the World Bank.

32. Given the interest of contributors to have reporting and management of activities of new actions areas separate from the current programs, and considering the lessons learned from the existing programs, the administrative costs associated with the new action areas would be determined, allocated, and tracked separately from the current programs, including inflows, outflows, reflows and investment income. The cascade approach currently used for covering administrative costs— first applied against the investment income and any reflows, and then against contributions—will be maintained under the new program(s). A reserve for administrative expenses will be maintained under each new program calculated on a three-year rolling basis. The current practice of preparing audited financial statements will be maintained. Reporting would be annually.[17]

33. New sub-committees will be comprised of up to six contributor countries with an equal number of eligible recipient country members, and a considered number of CSO.

34. For any new sub-committee(s) created to govern the new program(s), the responsibilities of the SCF Trust Fund Committee and the new sub-committee(s) will remain as stipulated in the Governance Framework Document. Options to include the new programs in the SCF takes into consideration the decisions of the SCF Trust Fund Committee on November 20, 2019 to streamline the governance of the SCF.[18] Governing bodies of any future program(s) reaching maturity could exercise options to further streamline operations consistent with the decision taken by the SCF Trust Fund Committee in November 2019,[19] whereby the responsibilities of the SCF Trust Fund Committee would be expanded to include managing the operational responsibilities related to the governance of the SCF Sub-Committees, and the current SCF Sub-Committees would function as Technical Committees to review funding requests related to the programs. In-person meetings would not be convened for the Technical Committees.

35. The following three governance structures are examined in support of the new action areas under the SCF (see Figure 2). In all options, the SCF Trust Fund Committee would retain its current responsibilities vis-à-vis new programs, as identified in paragraph 20 of the Governance Framework (December 2011).

    a. Option 2A would establish one Program supported by one sub-account and one sub-committee for all new action areas based on notional amounts per contributor interest.

    b. Option 2B, similar to the current operations of the SCF, would create multiple programs, each separately supported by its own sub-account and sub-committee.

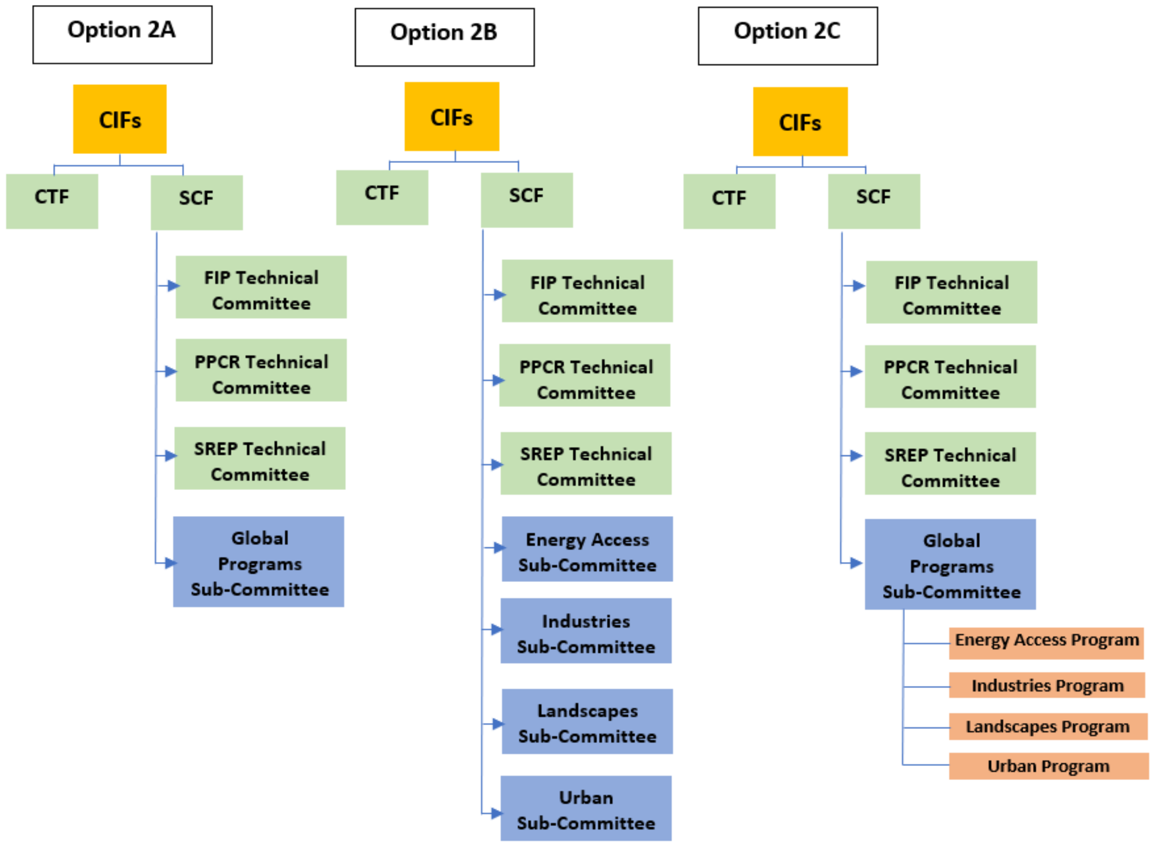
    c. Option 2C would create multiple programs, each supported by a sub-account, but all overseen by one governing sub-committee.

[17] Program-specific results and operational information will be available on the CIF Collaboration Hub (CCH)

[18] Options to Improve the Efficiency of SCF Governance

[19] Options to Improve the Efficiency of SCF Governance

Figure 2: Options to include new action areas under the SCF Trust Fund



36. *Option 2A: Establishment of one new program, supported by one sub-account and one sub-committee under SCF.* All contributions would be made to one program supported by one sub-account managed by the Trustee, which would pool together new contributions with notional allocations for the different action areas managed by the CIF Administrative Unit. The one sub-committee would have decision-making authority over programming the funds.

37. Implementing Option 2A would be more consistent with harmonization and simplification. This option provides a flexible approach toward adapting to changes in strategy and priorities, as the needs of the climate finance architecture evolve over time. As decision-making authority of the new program would reside with a single sub-committee, all contributors to the new program[20], irrespective of whether they had indicated an interest in a specific action area, would be included in the decision-making process. The SCF Trust Fund Committee would retain its responsibilities for fund-related decisions and joint CIF-level related decisions. Financial reporting by the Trustee, including investment income, would be at the Program level. Reporting based on action area of interest will be managed by the Administrative Unit.[21]

[20] In line with paragraphs 22 and 17 of the CTF and SCF Governance Framework documents respectively.
[21] Notional reporting will be managed by the CIF Administrative Unit through the CIF Collaboration Hub

38. *Option 2B: Establishment of separate programs with program-specific sub-accounts and sub-committees.* These separate programs with program-specific sub-accounts and sub-committees would adopt the same responsibilities as the current SCF Sub-Committees[22], with the SCF Trust Fund Committee retaining its current responsibilities. This option would keep decision-making authority of program funding with only the countries who contributed to a specific program and an equal number of eligible recipient countries members.

39. This governance structure would require that the Trustee creates separate Sub-Accounts for each new program and that the CIF Administrative Unit and MDBs establish financial, programmatic, and risk reporting for four separate programs. Consideration to establish new programs should be in accordance with the criteria stipulated in the SCF Governance Framework Document, which requires, *inter alia*, multiple contributors and provision of sufficient resources to ensure financing at scale. Reporting would be at the individual program level.

40. *Option 2C: Establishment of separate programs with a separate sub-account for each, but one overall sub-committee.* In this option, separate programs would be established for each new action area, overseen by one sub-committee under SCF. The Trustee would establish a separate sub-account for each program to keep track of funding and spending. The sub-committee would have decision-making authority over programming of funds, operational oversight, and strategic decision making for all new programs, whether donors had contributed to a specific program or not. Reporting would be at the individual program level.

41. Options 2B and 2C would provide flexibility for donors to contribute directly into a specific program. Options 2A and 2C would require all members of a single sub-committee to share decision-making authority and would expect members to be prepared to participate in sub-committee meetings to ensure a quorum is reached. As provided for in the governance documents, decision makers may choose to abstain from approving a decision rather than block a decision.

42. Based on the experience of the CIF Administrative Unit and the Trustee, establishing new action areas within SCF could take around 2-15 months depending on the scope of any needed changes to the governance, programmatic, and financial management and reporting arrangements and systems. This would require, at a minimum, the following steps with estimated timelines:

   a. Joint CTF and SCF Trust Fund Committees (i) consider and approve the proposals to establish new action areas and (ii) approve the option for establishing the new action areas under the SCF. (March 2020).
   b. SCF Trust Fund Committee approves the governance structure and operational modalities for the new action areas (March 2020).
   c. CIF Administrative Unit and MDBs undertake operational assessment of new action areas (April – June 2020).
   d. CIF Administrative Unit, MDBs and Trustee assess whether there is sufficient funding pledged to operationalize the action areas based on the operational assessment (April – July 2020).
   e. Consultation and agreement on financial, administration and reporting arrangements, consultation and agreement with contributors to the new programs on revised contribution arrangements, if required, and consultation and agreement with MDBs on revised financial procedures agreements, if required (April 2020 – July 2021).

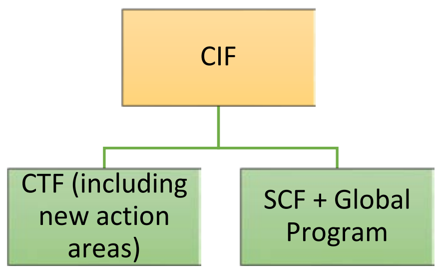
[22] The Governance Framework for the Strategic Climate Fund: amended December 2011 – paragraph 28.

f. Following signing of contribution agreements, the Trustee to operationalize the necessary programs under the SCF Trust Fund.
g. CIF Administrative Unit to revise Governance Framework (May - October 2020).
h. CIF Administrative Unit, MDBs, Trustee to enhance information management and reporting system (if needed) (April – October 2020).

4.3 Option 3: Include new action areas under current CTF Trust Fund and/or SCF Trust Fund

43. Option 3 allows for maximum use of the existing CTF and SCF systems and governance structures, while allowing to fully streamline the governance arrangements for the new action areas. In this option, the new action areas would be included and managed as notional program(s) under CTF, similar to the DSPS, with oversight continuing to reside with the CTF Trust Fund Committee. If managed under SCF, the new action areas would be established as a "Global" Program, with oversight residing with the SCF Trust Fund Committee. (see Figure 3).

Figure 3: Option to include new action areas in existing CTF and SCF Trust Funds



44. Implementation of this option under CTF would be relatively simple as the operating and reporting systems are already established and there would be no need for amendments to the current Contribution Agreements, Financial Procedures Agreements, and the Governance Framework Document. Decision-making authority would reside with all contributors on the CTF Trust Fund Committee, irrespective of whether they contributed to these new action areas. Administration of CTF resources allocated for new action areas, including new contributions, would be managed in accordance with existing arrangements, including governance and decision-making arrangements, current financial management, reporting and loss-sharing agreements, and allocation of administrative costs. Contributors would not be able to specify action areas in the contribution agreements and the Trustee would continue to provide reporting at the overall CTF level. The CIF Administrative Unit would track and report on activities for each action area based on notional amounts.

45. Implementation of this option under the SCF would require the creation of a new Global Program with oversight by the SCF Trust Fund Committee. Existing MDB Financial Procedures Agreements and the Governance Framework Document of the SCF would be revised. Decision-making authority would reside with all members of the SCF Trust Fund Committee, irrespective of whether members have contributed to the new action areas. Administration of Global Program resources, including new contributions, would be managed in accordance with existing arrangements applicable to SCF, including governance and decision-making arrangements, current financial management, reporting and loss-sharing agreements, and allocation of administrative costs. Contributors would not be able to specify action areas in the contribution agreements and the Trustee would provide reporting at

the Global Program level. The CIF Administrative Unit would track and report on activities for each action area based on notional amounts.

46. Considering existing experience of the Trustee and Administrative Unit, the negotiation and execution of amendment to agreements and requisite governing documents, creating a new program, and enhancing needed systems could take up to 9 months.

Annex 1: Summary of governance options to accommodate new CIF action areas

	Option 1: New FIF		Option 2: Establish within in SCF			Option 3: Consolidate under current SCF/CTF
	Option 1A	**Option 1B**	**Option 2A**	**Option 2B**	**Option 2C**	**Option 3**
Description	*One FIF and one trust fund committee for all new action areas*	*One trust fund committee with separate program sub-committees for each action area*	*One new SCF sub-committee for all new action areas*	*Multiple new SCF sub-committees for each new action area*	*One new SCF sub-committee but separate programs with individual reporting for all new action areas*	*Each new action area incorporated under CTF and/or SCF (under a Global Program)*
Implementation modalities and governance changes	• Approval of World Bank Board may be required • Negotiation of new agreements (Contribution Agreements, FPAs) • Creation of new Governance Framework document and the Rules of Procedures for the new governing body	• Approval of World Bank Board may be required • Negotiation of new agreements (Contribution Agreements, FPAs) • Creation of new Governance Framework document and the Rules of Procedures for the new governing body	• Update to existing SCF Governance Framework document; Contribution Agreements (only for contributors to the new program) and FPAs required • Contributors can notionally indicate their specific interests in the new action areas	• Update to existing SCF Governance Framework document, Contribution Agreements (only for contributors to the new program(s)) and FPAs required	• Update to existing SCF Governance Framework document, Contribution Agreements (only for contributors to the new program(s)) and FPAs required	• Action areas contributions managed notionally (like the DPSP) in CTF and under a Global Program Sub-Account in SCF • For SCF, update to existing SCF Governance Framework document, Contribution Agreements and FPAs required • No updates required for CTF

	Option 1: New FIF		Option 2: Establish within in SCF			Option 3: Consolidate under current SCF/CTF
	Option 1A	Option 1B	Option 2A	Option 2B	Option 2C	Option 3
Estimated implementation timeframe	>9-25 months	>9-25 months	>2-15 months	>2-15 months	>2-15 months	>9 months
Pros	• Flexible approach toward capitalization of new programs • Fresh start with design incorporating lessons from CTF and SCF • Ease of introducing new action areas in future with no need to create sub-committees • Feasible with fewer donors Possibility of loan contributions	• Flexible approach toward capitalization of new programs • Fresh start with design incorporating lessons from CTF and SCF • Possibility of loan contributions • Investment Income reported on at the Program level (system/manual)	• SCF Governance Framework allows for consideration of new programs based on defined principles; • Easy to introduce new action areas in future;	• Governance Framework allows for consideration of new programs based on defined principles • Reporting by individual program • Investment Income reported on at the Program level (system/manual)	• Governance Framework allows for consideration of new programs based on defined principles • Reporting by individual program • Investment Income reported on at the Program level (system/manual)	• For CTF, uses existing CIF governance structure • Ease of introducing new action areas in future with no need to create sub-committees
Cons	• Higher transaction, operational, and reporting costs • Longer time to set up • TFC has decision-making authority	• Higher transaction, operational, and reporting costs • Longer time to set up • Requires multiple contributors per program to	• Decision-making authority over all funds irrespective of contribution/area of interest • Investment income reported on at the	• Higher transaction, operational, and reporting costs • Requires multiple contributors per program to	• Higher transaction, operational, and reporting costs • Decision-making authority over all funds irrespective of contribution	• Some new action areas are not strategically aligned with the priorities of the existing programs • New contributors to new action

	Option 1: New FIF		Option 2: Establish within in SCF			Option 3: Consolidate under current SCF/CTF
	Option 1A	**Option 1B**	**Option 2A**	**Option 2B**	**Option 2C**	**Option 3**
	over all funds irrespective of area of interest • Investment Income reported on at the Program level (system/manual)	establish sub-committees.	Global Program level .	establish sub-committees.	• Requires multiple contributors to establish program(s).	areas under CTF must agree to the current loss-sharing agreements or re-negotiate • New contributors will have equal say over funding decisions of the current CTF • Current CTF contributors not contributing to the new action areas would have decision making authority over the new funding • Investment income reported on at the CTF and Global Program level (SCF) .

Annex 2: Overarching principles for establishing a new FIF (World Bank)

47. Consideration to establish a new FIF would need to be guided by the updated *Financial Intermediary Funds Management Framework*, discussed by the World Bank Board of Executive Directors on July 16, 2019, which aims to strengthen Financial Intermediary Funds (FIFs) through greater selectivity, oversight, and risk management. While new FIFs may be attractive for high profile advocacy around critical international priorities, the World Bank's Board of Directors noted that the recent growth in the number of FIFs, particularly in environment and climate change, gave rise to a number of challenges, including:

- Potential for duplication and fragmentation of the aid architecture given that each FIF has its own governance arrangements separate from the governance structure of the World Bank and other development institutions
- Narrowing mandate of new FIFs increasing the risk of overlapping with other FIFs, IDA, IBRD, and other development initiatives
- Own terms for access and use of funds, which place a burden on implementing entities and recipient countries that often struggle to navigate access to different funding sources.

48. Consultation with development partners and the World Bank Board of Executive Directors has revealed a common understanding that collective action is required to reduce further fragmentation in the climate finance landscape going forward. For clients, more efficient and strategic delivery of development finance would reduce transaction costs of multiple instruments and support a greater focus on results. In this context, the new approach to considering the establishment of a new FIF will include these principles, among others:

- **Greater selectivity and oversight at initiation:** The World Bank will take into consideration the full suite of available responses and instruments that offer the best "fit for purpose" recommendation. A strengthened internal review process will be followed involving earlier senior level guidance both on fit with World Bank strategy, comparative advantages, and financial modalities, to ensure systematic due diligence on alternative instruments. New FIFs require World Bank Board approval except when the level of risk is low when assessed across multiple dimensions, including strategic, operational, and financial. The establishment of a new FIF under CIF may require approval at the level of World Bank Board of Executive Directors.
- **Simpler, more consistent design of new FIFs:** Based on experience, reduce unnecessary customization to enable greater efficiency.
- **Improved lifecycle management of new FIFs:** The new framework puts in place measures to support improved information flow and engagement after establishment.

49. In addition to these overarching principles, under the new FIF approach, assurance of large-scale funding and a reasonable case for financial sustainability to reach the objectives should be available at initiation to warrant the establishment and recurrent institutional costs for FIFs. Also, for a FIF to be an appropriate mechanism, it needs to involve pooled funding with closely coordinated decision making and large-scale implementation across multiple implementing entities.

50. Per the Financial Intermediary Fund Management Framework – July 4, 2019; paragraph 22 states:

> "The World Bank Executive Directors' oversight role in the establishment of FIFs will be clarified and strengthened. FIFs set up parallel oversight structures to the World Bank's own Board of Executive Directors, and World Bank shareholders that are not donors to new initiatives typically do not have a voice in their negotiation. Given the implications of FIFs to the World Bank governance structure and to the larger membership beyond those funding FIFs, this framework proposes that all new FIFs continue to be approved following a risk-based approach, with FIFs submitted to the World Bank's Board of Directors for approval unless the risk is assessed to be low, in which case Management may approve and inform the Board subsequently in a timely manner. FIFs that propose to use the World Bank's balance sheet or request a contribution from the World Bank will always be sent to the Board for discussion. Management will be delegated authority to approve new funds or the restructuring existing funds with a low rating on assessed strategic, operational, stakeholder, legal and financial risks. The criteria for risk assessment will be made publicly available; it is recognized that consistent and transparent application of criteria to all new FIFs will be key to successful implementation. In addition, the World Bank Board will be informed of new FIFs under development while there is still an opportunity for them to be shaped, including information on existing FIFs and other major funds in the same sector/theme."

Annex 3: Loan contributions in reference to trust funds (World Bank)

a) Overview

51. Grant contributions are critical for the World Bank as such contributions support analytical and advisory activities; complement IDA credits and IBRD loans for recipient-executed work; enable quick responses to crisis; support global, regional, and country-based partnerships; and fund the World Bank's knowledge agenda. A number of development partners (DPs), however, have requested consideration of an expanded range of contribution modalities. **In 2015, the World Bank's Finance and Risk Committee (FRC) reviewed the opportunities, risks, costs, and alternatives of loan contributions, drawing on earlier experiences. It approved a framework for managing loan contributions that allows for such contributions through a limited set of modalities, but not to Trust Funds (TFs).** This decision is still applicable to all new contributions to TFs and FIFs for which the World Bank provides its legal personality. [23] [24]

b) Framework for managing loan contributions more broadly

52. The 2015 framework identified a set of strategic, operational, and risk management principles (see Annex 2) to assess any new proposal involving loan contributions and manage the various risks raised by requests to provide loan contributions. Four modalities were found to fit within the framework principles:

    i. project co-financing, in which DPs extend loans directly to a borrowing country alongside IBRD lending or an IDA credit
    ii. IDA Concessional Partner Loans (CPL) in which DPs may provide a share of their contribution to IDA in the form of a loan[25]
    iii. Member Country Loans (MCL)[26] in which a grant element of a DP loan to IBRD is extracted as the basis of a contribution to a TF
    iv. IDA Participation Program, in which DPs may extend a grant or loan to an IDA recipient, thus freeing up IDA resources for other uses.[27]

53. It was determined that providing direct loans to World Bank TFs does not fit within the framework.

[23] The World Bank is trustee to the Green Climate Fund, which accepts loan and capital contributions, but it has its own legal personality, is the borrower of loans and administers all such non-grant contributions directly.
[24] This also applies to TF contributions for which there would be an expectation of reflows from investment operations returning to contributors before the trust fund closing. This framework does not apply to IFC which has its own separate trust fund policies, systems, and other features.
[25] When accepting loans from DPs, IDA recognized the critical risk of substitution of grants by loans. To protect IDA's core grant financing, avoid perverse incentives that result in lower grant contributions from partners, and mobilize additional resources, IDA has established strict principles to manage this form of contribution, which in particular require DPs to maintain a minimum level of grant contribution, and only count the grant equivalent of the loan in the burden sharing calculations.
[26] Under this rarely used scheme, a DP would offer a loan to IBRD as part of IBRD's regular borrowing operations while simultaneously using the present value of some or all of the yield on this loan to finance a grant contribution on behalf of the DP to a pre-specified Bank TF.
[27] Participating DPs provide funding as an outright grant or as a loan, replacing IDA as financier for a portion of the IDA grant or credit and thus freeing-up IDA resources for other uses. The IDA Participation Program design was approved by the World Bank Board but awaits development partner commitment to put it into effect.

c) Challenges with loan contributions to TFs

54. The assessment of potential direct loan contributions to TFs identified significant risks and challenges, for which the required risk mitigation measures offset any overall advantage to this instrument compared with existing options. **DPs contributing a loan to a TF would face the same risks as in the case of a co-financing operation (direct loan to the recipient, managed by the World Bank) but with greater complexity and at a higher cost.** Issues include the following:

a. **Dilution of the Preferred Creditor Status (PCS) enjoyed by IBRD and IDA:** Even if loans from TFs would not carry PCS and, in the event borrowers are unable to meet their debt obligations and the outgoing loan from a TF has a payment default, the outgoing loan would be assigned to the DPs, it is difficult to assess the extent to which a "halo effect" would nevertheless apply.

b. **Limited applicability in development contexts:** Loans from TFs would only be able to be used under a limited set of circumstances, taking into due account the debt sustainability framework and the Non-Concessional Borrowing Policy.[28]

c. **Currency factors:** There could be risks from a currency mismatch between the currency of the donor loan contribution and outgoing loans from the TF which the World Bank would not bear.

d. **Potential for disincentives for other grant-contributing donors:** The "grant equivalent" of the loan would need to be used in contributions reporting to avoid disincentives for DPs that contribute grants.

e. **Significant accounting, auditing, and systems challenges:** Loan contributions would require using a different basis of accounting to other TFs (accrual versus cash), different audit requirements, and different ledgers and systems. To the extent that these challenges could be addressed through special arrangements, the potentially very significant costs of these, as well as the loan contribution management, would need to be recovered directly from the DP.

f. **Challenges with co-mingling and applying in multi-donor contexts:** Direct loan contributions result in more fragmented aid architecture. They cannot be commingled with grant contributions and are very difficult to use in multi-donor trust fund contexts. In addition to technical requirements—the need for all such donors to contribute under identical loan terms, in the same currency, and in a very close time window—experience has shown significant governance challenges when not all donors in a partnership have the same risk appetites and expectations of returns.

d) Pilot experiences and current status

55. Two exceptional pilot experiences have been undertaken with loan contributions to TFs.

1) **Climate Investment Funds (CIF)**: established in 2009 before the referenced framework was developed, the World Bank as Trustee and provider of legal personality agreed that the Clean Technology Fund under CIF could accept DP loan contributions, among other

[28] Note that this applies to co-financing as well.

forms. A valuable and continuing learning experience, this is nevertheless also subject to the current hold on new loan contributions to TFs.

2) **Canada Clean Energy and Forests Climate Facility[29]-World Bank Climate Innovation Financing Facility:** In 2018, Canada and the World Bank agreed to establish a Single Donor Trust Fund (SDTF) facility on a pilot basis in which part of Canada's contribution would be in the form of a concessional loan. The facility is designed to mobilize resources to finance transformational climate actions aligned with the World Bank's and Canada's climate policy priorities and primarily provides concessional loans in USD to co-finance World Bank projects and carbon finance operations.

56. In providing clearance for this facility as a fully ringfenced pilot, the FRC decided to put on hold any further arrangements for loan contributions to TFs, including FIFs under the World Bank's legal personality, subject to evaluation by the FRC of lessons learned and risks and opportunities after a sufficient period of operation, likely after 2028.

e) Alternatives

57. The main readily available alternative for DPs wishing to provide loan contributions to TFs would be to enter into a co-financing framework agreement (CFA) with the World Bank.[30] This allows DPs to provide loan contributions directly to recipients with the World Bank providing an agreed suite of services for their supervision.

f) Strategic, operational, and risk management principles

58. Responding to a shifting international development environment where DPs request more flexibility to support the World Bank with an expanded range of contribution modalities, the World Bank introduced a framework identifying the strategic, operational, and risk management principles guiding the World Bank's internal decision-making:

1. ***Strategic principles:***
    - Grants should remain the main modality for contributions to TF;
    - The World Bank should manage the risk of establishing any disincentives for DPs to contribute to IDA;
    - Existing instruments such as co-financing, IDA CPL and IDA Participation Program should be prioritized; and
    - The World Bank should ensure equity and transparency amongst all DPs.
2. ***Operational principles:***
    - The World Bank should clearly communicate on and report the grant component (or the grant equivalent, as the case may be) of loan contributions, to enable the recognition of the relative cost for DPs of loans compared to grants;
    - All additional costs related to this form of contribution should be recovered from DPs.
3. ***Risk management principles:***
    - The Finance and Risk Committee (FRC) should approve all new loan instruments prior to implementation;

[29] Initially reviewed under the name "Canada-WB Climate Innovation Financing Facility"

- All new instruments must consider the Debt Sustainability Framework (DSF) and IBRD's exposure management framework; and
- The World Bank will monitor the volume of loan contributions to TF and would consider revising the framework beyond a threshold.