Climate Investment Funds

CTF-SCF/TFC.9/CRP.1
November 2, 2012

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CONCEPT NOTE: CIF PROGRAM FOR STRENGTHENING CLIMATE INVESTMENT READINESS

I. CONTEXT

1. Climate risks are a significant challenge to sustainable development. Many developing countries are vulnerable to the impacts of climate change, such as floods, droughts, storms, and uncertain rainfall that exact a significant toll on lives and livelihoods and undermine economic progress. Climate risk and resilience need to be integrated into core development planning and investments. Developing countries are also keen to be a part of long-term mitigation efforts by advancing low emission development strategies and making investments to support national low emission goals.

2. The Climate Investment Funds (CIF) are designed to help developing countries, working in collaboration with the multilateral development banks (MDBs), to pilot low emission and climate resilient development. The CIF are currently working in 48 countries.

3. Within the context of the United Nations Framework Convention on Climate Change (UNFCCC) significant progress has been made on financing to assist developing countries. This includes scaling up financial support for developing countries through the financial mechanism of the Convention as well as progress in the policy agenda and coordination of climate finance through the operationalization of the Standing Committee and implementation of the work program on long-term finance.

4. Within these discussions, Parties have under consideration the goal of significantly scaling up volumes of climate finance up to 2020 with the aim of jointly mobilizing USD100 billion per year by 2020 from a variety of sources. Parties have also established the Green Climate Fund (GCF) as a new operating entity of the financial mechanism of the Convention. The GCF Board is presently working to design the operational procedures and systems for making the GCF fully operational.

5. There is an opportunity for MDB partners, working through the CIF, to collaborate with developing countries to prepare countries to expeditiously and strategically access climate investment finance from a range of sources, including funding from the GCF. These preparatory and readiness activities could include support to prepare or strengthen low emission, climate resilient development strategies or plans, developing and preparing projects and programs, including private sector projects, and strengthening in-country institutional arrangements, including capacities for coordination, fiduciary standards, environmental and social safeguards and results measurement. Given the importance of facilitating early action and expedient access to resources, it is expected that preparatory and readiness activities should begin as early as possible.

Rationale of Working through the CIF and the MDBs

6. The comparative advantage that MDBs can offer in delivering readiness support is the actual experience of working with developing countries and the private sector to build and implement a pipeline of low emission, climate resilient investments. MDBs are strategically placed to assist developing countries to design and prepare for scaled-up investments that address both development and climate objectives. MDBs routinely provide financing packaged

with advisory support to help countries strengthen fiduciary standards, environmental and social safeguards, and results measurement to ensure that investments deliver the intended results. The CIF offer a platform for MDBs to work with developing countries, through country-led processes, to develop climate-focused investment projects and programs in priority sectors.

II. OBJECTIVES AND PURPOSE

7. The aim of a new CIF program for Strengthening Climate Investment Readiness is to provide grant funding to developing countries to:

a) develop strategic investment plans to meet national priorities for climate action and development while providing targeted and tailored support for building the capacity of regional and national institutions to prepare climate investments and access climate finance; and

b) develop a pipeline of priority investment projects, both public and private, that generate both climate and development benefits and that could be effectively funded with climate finance.

8. By working with the CIF, funding will be provided to:

a) promote a programmatic, strategic approach to investments to implement national plans and strategies for climate resilient, low emission development;

b) provide positive incentives for improving the investment climate for public and private sector climate investments;

c) support the preparation of country, and if appropriate regional, investment strategies for targeted areas identified in national strategies and plans;

d) provide incentives for systematic capacity-building programs for regional and country-level stakeholders to better manage a broad spectrum of climate-related issues for a new generation of climate-related investments; and

e) support the preparation of a pipeline of investments that may benefit from emerging [future] climate finance, including funding from the Green Climate Fund.

9. Providing funding through the CIF will serve to:

a) utilize the skills, technical assistance, and advisory capabilities of the MDBs;

b) support collaboration and partnership among countries and development partners at the country level; and

c) provide experience and lessons in responding to the investment challenges of climate change through learning by doing.

III. SCOPE OF PROGRAM

10. The program would provide financing to strengthen the climate investment readiness of developing countries, at national and, where appropriate, regional levels.

11. Funds can be made available for two tracks of activities: a) preparation of investment strategies and/or, if appropriate, targeted support for strengthening capacities, and/or b) preparation of investment projects and programs. The following types of activities may be considered:

a) Support for the preparation of regional and country investment strategies in priority areas identified by early consultation during preparation. This could include support for strategic planning in targeted sectors or locations (e.g. basins, cities, sub-national regions, countries, and regions) as well as targeted support for planning private sector interventions. Experience from the PPCR has shown the value of combining capacity building with strategic planning. Therefore, it is suggested that, where appropriate, support could be provided for capacity building for regional and country-level stakeholders to better manage a broad spectrum of climate-related issues for a new generation of climate-related investments. The identification of activities to be funded should be based on specific country circumstances and needs.

A menu of possible capacity building activities both for the public and private sectors, including the local financial sector, could include:

i. General: improved information on emerging technologies, climate and climate finance portals, open data and visualization platforms, decision and investment management support systems,

ii. Capacity building for public and private sectors:

I. <u>Public Sector:</u> institutional skills development, including basic climate science and processes, accessing climate financing, monitoring and verification systems, understanding investor costs, building stakeholder platforms, national inter-agency cooperation for strategic climate investment planning and partnerships, designing new investment strategies to ensure both climate and development benefits, designing appropriate supervision mechanisms to ensure effectiveness of investment implementation, in particular with a view to ensuring fiduciary standards and safeguards are upheld, and engaging the private sector; and

II. Private Sector: develop skills required for preparation, appraisal and implementation of bankable climate-related projects, identify potential ancillary revenue streams from market-based instruments, accessing climate finance, planning projects to fit into a defined strategic context, engaging with sophisticated measurement, reporting and verification (MRV) systems, meeting requirements for enhanced fiduciary duties and complying with high-level environmental and social safeguards.

b) Support for the preparation of projects (such as scoping, surveys, market studies, resource assessments, project-specific pre-feasibility assessments, environment and social assessments, economic analyses) to prepare a pipeline of investment projects that can be proposed by national, and where appropriate, regional entities for funding from emerging climate finance.

12. The preparation of strategies and capacity building activities may consider taking advantage of economies of scale, where appropriate (e.g. by working through regional level institutions for technical assistance to build capacity at the national and regional levels) while also being responsive to individual country needs. Investment preparation will normally be more targeted to countries, with flexibility to prepare regional investments (such as in hydromet and early warning systems) where appropriate. Consideration may also be given to supporting the development of open source tools (e.g., for modeling or developing least cost abatement curves) that would support countries' climate change decision-making processes.

13. If there is an agreement to proceed with a new CIF program on strengthening climate investment readiness, then appropriate indicators for measuring results of the program will be developed, taking into account the existing CIF results frameworks.

Learning and Coordination

14. There are a number of programs and initiatives that are already underway to prepare countries for various aspects of climate finance readiness. Some initiatives address either mitigation or adaptation but not both, for example the preparation of Nationally Appropriate Mitigation Actions (NAMAs) or National Adaptation Programmes of Action (NAPAs). Other programs are sector specific, such as those which support REDD+ readiness, including the Forest Carbon Partnership Facility (FCPF) Readiness Fund. Others still are tailored to support countries to access specific types of financing, such as the Partnership for Market Readiness, which prepares countries to implement market-based instruments for greenhouse gas reductions. Valuable information and lessons can be drawn from these processes, and lessons learned on the uptake and implementation of investment proposals developed through these mechanisms should be carefully considered in the further development of any climate finance readiness measures supported by the CIF.

15. It is recognized that multiple partners are working on various aspects of climate readiness in countries eligible for the proposed CIF program. It is therefore recommended that an inclusive coordination mechanism should be established at the relevant level(s) to improve coordination

among partners supporting climate readiness activities. The proposed CIF program would be fully integrated into such a joint effort.

IV. INSTITUTIONAL ARRANGEMENTS

Option 1: Approval of a new CTF and/or SCF operational program

16. In the interest of efficiency, cost-effectiveness, and speed of deployment, it is suggested that consideration be given to establishing a new operational program under the CTF, the SCF and/or any of the SCF targeted programs, to serve as an umbrella of funding for agreed readiness activities.

17. Under this model, an operational program would be approved by the appropriate Trust Fund Committee or Sub-Committee with an envelope of funding and operational guidelines, criteria for activities to be funded and agreed procedures for approving such funding. The Dedicated Grant Mechanism of the FIP is a precedent for approving a program outside the investment plan/strategy process.

18. Requests for funding to support activities under the program would be prepared by countries and the MDBs, and submitted for approval of funding from the envelope of resources available to the program.

Option 2: Approval of a new SCF targeted program

19. The Governance Framework for the Strategic Climate Fund provides that, "targeted programs with dedicated funding can be established to provide financing to pilot new development approaches or scaled-up activities aimed at a specific climate change challenge or sectoral response. Arrangements to guide the SCF Programs, ensure effective partnerships, and provide accountability will be defined for each SCF Program to ensure the effective operations of the programs"(Paragraph 9 of the SCF Governance Framework).

20. SCF Programs are approved by the SCF Trust Fund Committee and are to meet 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; and

e) link between climate change and development. (paragraph 11, SCF Governance Framework)

21. If sufficient funds can be mobilized for a new SCF Program on Strengthening Readiness for Climate Investments (estimated at USD 50-100 million) from a number of donors, then consideration could be given to structuring the funding in this way.

22. If a new SCF Program were adopted, a new SCF Sub-Committee would be established to govern the program in accordance with the SCF Governance Framework. This Sub-Committee would have equal representation from donors and eligible recipient countries, with up to six from each. The Sub-Committee would meet at such frequency as it may decide, but at least one a year concurrently with the SCF Trust Fund Committee. The Sub-Committee could review and approve SCF financing for programs and projects and take other decisions without meeting, through decisions by mail.

23. All other SCF procedures would apply to the new program, with any necessary modifications to reflect the size and purpose of the program.

Country eligibility

24. All developing countries (non-Annex I) that meet the basic eligibility criteria of the CIF ((i) ODA eligibility according to the OECD/DAC guidelines) and (ii) an active MDB program) will be eligible to access these funds.

25. Detailed criteria will be developed consistent with agreed operational policies and procedures (e.g. particularly vulnerable countries, geographic balance, etc).

26. If demand is sufficiently high, a cap on the volume of resources that may be allocated to each country/region could be introduced to ensure equitable distribution. This cap would be determined by overall resources available and demand from recipient countries.

Indicative funding allocation

27. It is suggested that a country may receive an allocation of between USD 1.5 million to USD 3 million from the program, taking into account that funding may or may not be utilized to prepare a country or regional investment strategy or plan (depending on whether or not a strategy has already been developed) and/or for the preparation of one or more low emission and/or climate resilient investment projects.

Country Access

28. As agreed for the FIP and SREP programs, it is proposed that the CIF invite eligible countries to express an interest in participating in the program. To initiate a call for expressions of interest, the CIF Administrative Unit, in consultation with the MDB Committee, would circulate a note detailing the criteria for proposals (based on that to be elaborated above) to the CIF country focal points. In cases where a country does not have a CIF focal point, information will be channeled via MDB country offices. The call could be circulated periodically (e.g. quarterly), as determined by the relevant Committee or Sub-Committee and based on available resources.

29. When a country or regional institution expresses interest in accessing financing under the program, countries to participate could be selected either:

Option 1: by the decision making authority (see below) on the basis of recommendations of an expert group (note: this procedure was followed for the current SCF programs. Experience shows that it does require some time and resources to support the work of the group)

Or

Option 2: countries would be admitted into the program, on a first-come-first-served basis, until all the funds of the program have been allocated.

30. Once countries are selected, the MDB Committee will be informed and the MDBs concerned will consult jointly with the country or the institution on how they may collaborate to access funding from the program. It is expected that in carrying out these consultations other relevant stakeholders, including other development partners working at the country level, will be actively engaged. A plan of proposed activities should be developed consistent with the objectives of the program.

Decision-making and Approval Processes

31. Further discussion will be required as to how those funding requests should be reviewed and approved, recognizing the importance of facilitating early action and expedient access to resources. Possible considerations include:

a) Pre-review of proposal: Proposals could be reviewed and scored against agreed funding criteria, including recipient country circumstances (e.g. vulnerability), prior to consideration for approval. Such scoring could be undertaken by an expert group[1] or the CIF Administrative Unit. Under a scoring system, proposals may need to meet a certain threshold score to be submitted for approval of funding from the program;

b) Virtual Approvals: The appropriate Committee or Sub-Committee could approve each funding request by mail; or

c) Delegated Approval Authority: Authority to approve funding requests, for example for projects under a certain dollar amount, could be delegated to an appropriate CIF unit or person, such as the MDB Committee or the CIF Administrative Unit. Proposals calling for funding that exceeds the threshold amount could be sent to the appropriate Sub-Committee or governing board for approval by mail.

[1] If scoring is to be undertaken by an Expert Group, this would imply that funding proposals would be presented in a "batch" at regular intervals (for example, on a quarterly basis).

Timing and Value for Money

32. If there is agreement to proceed with the development of a readiness program in November 2012, it is estimated that operational guidelines could be prepared and submitted to the appropriate Trust Fund Committee and/or Sub-Committee for approval at the next set of Committee meetings in May 2013.

33. Option 1 to establish a new operational program or programs under the CTF, the SCF, and/or any of the SCF targeted programs, is likely to be the more cost effective option as there would no legal or administrative costs to establish a new program or constitute a new Sub-Committee. The use of existing mechanisms and processes for decision-making, administration, and financial management would lower costs and transaction time. Under both options, there may be some administrative costs associated with launching and managing a new program. While these are not expected to be substantial, they can be explored in more detail together with the development of operational guidelines for a readiness program.