

CIF Strategic Paper

Joint Meeting of the CTF and SCF Trust Fund Committee

January 31, 2019



Sections

01

Sunset Clause and Previous Decisions

Slides 3-4

- Recap of the Sunset Clause
- Previous decisions
- Recap of previous strategic papers

02

Models for the future

Slides 5 - 8

- Sunset CIFs
- Continue as is
- CIF continue modified
- CIF absorbed by another part of the architecture

03

Climate Action Opportunities

Slide 9

- Urgency of Climate Action
- Funding Gaps

04

The CIF to date

Slides 10

- CIF results

05

CIF Business Model

Slides 11-12

- CIF business model
- Examples
- Applicability in a broader context

06

Challenges

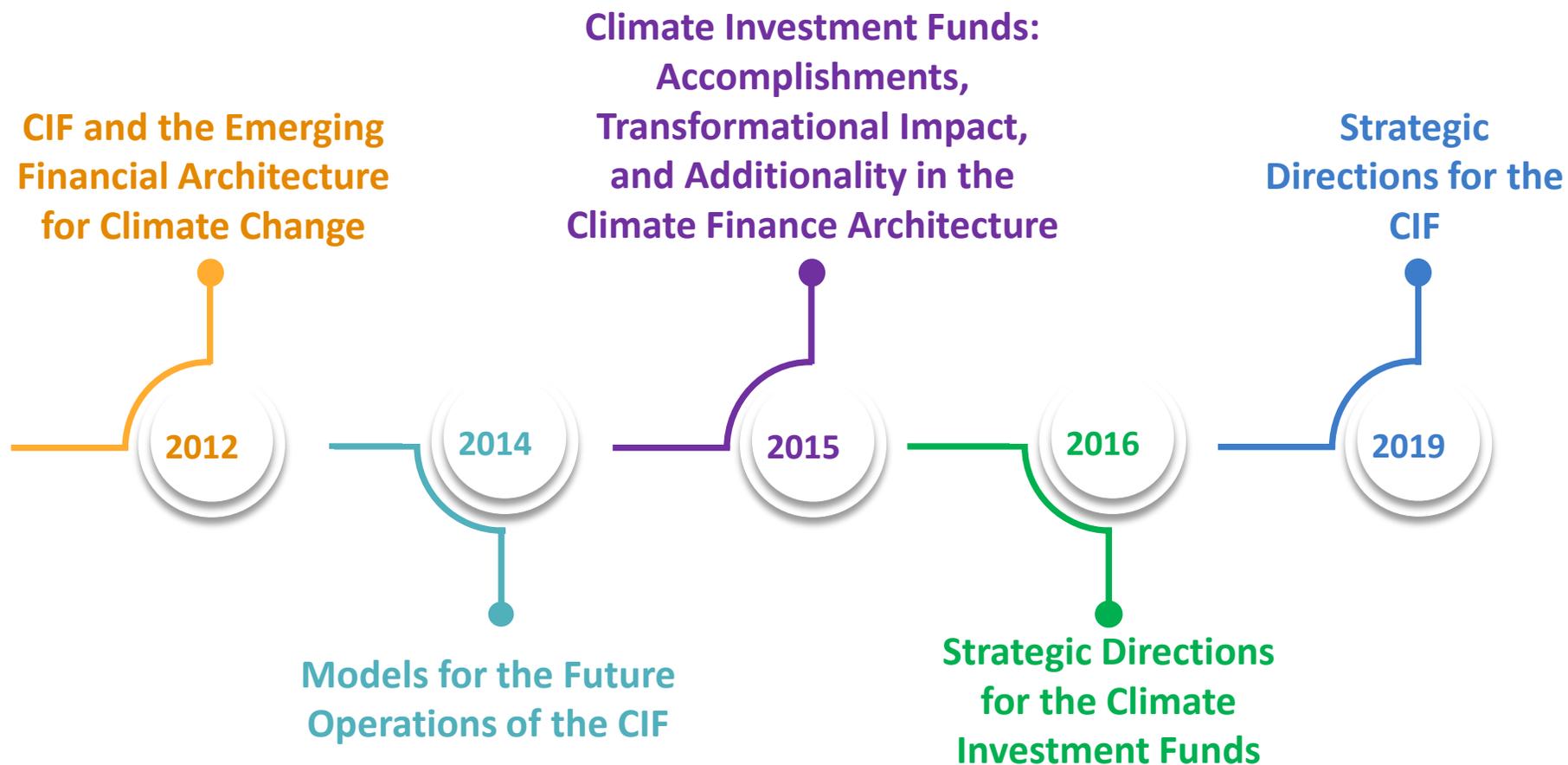
Slides 13-2

- Challenges ahead:
- Resilience
- Sustainable landscapes
- Energy transition and energy access
- Cooling
- Sustainable mobility
- Climate-smart urbanization

Recap of June 2016 decision

The Joint Meeting of the CTF and SCF TFC agrees to continue monitoring the developments in the international climate finance architecture to inform a discussion on the future of the CIF in December 2018 at the earliest.

CIF strategy papers (2012 – date)



Options for the future of the CIF

From the 'Models for the Future Operations of the CIF' paper prepared for the Joint Meeting of the CTF and SCF Trust Fund Committees in November 2014

(a) Sunset of CIF

(b) CIF continue as is

(c) CIF continues but modified

(d) CIF is absorbed by other
instrument of the climate finance
architecture

Models for the future operations of the CIF

Option (a): Sunsetting CIF

Overall implication:

- Once the deadline for accepting new contributions is decided, the TFCs would approve funding for projects in the pipeline until all resources committed by donors are allocated to projects.
- With the winding down of the CIF after all funds are allocated to projects, the TFCs and CIF Administrative Unit could be scaled down significantly, and the MDBs would be accountable for supervising projects until they close, with reflows flowing back to the CTF and SCF trust funds.

Option (b): CIF continues as is

Overall implication:

- The CIF could play a complementary role to the GCF focusing on energy transition and access, adaptation and resilience and forestry and landscapes.
- The Joint Committee could allow for continuity of funding to be made to the CIF and new IPs to be endorsed. The CIF would remain as is and the CIF would continue receiving new contributions.
- The CIF would continue to support operations as the GCF operations mature, assuring continuity and support, and the objective of avoiding a gap in climate finance would be fulfilled.

Models for the future operations of the CIF

Option (c): CIF continues as but modified

Overall implication:

- The CIF could play a complementary role to the GCF and take an updated strategic approach by identifying critical areas or sectors that help advance the agenda to meet the Paris Agreement goals.
- The Joint Committee could allow for continuity of funding to be made to the CIF.
- The CIF would continue to support operations as the GCF operations mature, assuring continuity and support, and the objective of avoiding a gap in climate finance would be fulfilled.

Models for the future operations of the CIF

Option (d): CIF absorbed by other instrument of CF architecture

Overall implication:

- The integration of the CIF into an existing instrument of the climate finance architecture
- Merger CIF with an existing institution is inherently a complex task, with complicated legal, operational and financial issues to be addressed to avoid any interruption.
- A complete integration would entail the closing of the CTF and the SCF trust funds and all assets and liabilities of the CTF and SCF trust funds would be transferred/novated to the the new entity.
- CIF portfolio of projects and programs under implementation would be transferred to the new entity with existing rules of the CIF for implementation and supervision of this portfolio being grandfathered for already approved CIF projects/programs.

Urgency of climate action



IPCC Special Report - Global Warming of 1.5 °C

The climate consequences of a 2 C world are far greater than that of 1.5 C, especially for the poor and the vulnerable

Limiting warming to 1.5 C will require a major (unprecedented) economic transformation, is barely feasible now, and every year we delay the window of feasibility halves.

While the challenge is daunting, the window of opportunity is not yet closed.

We have 11 years to enact the unprecedented, “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities needed to overcome the existential threat of climate change.

The world is expected to invest some \$90 trillion on infrastructure by 2030. Much of this investment will be programmed in the next 2 to 3 years.

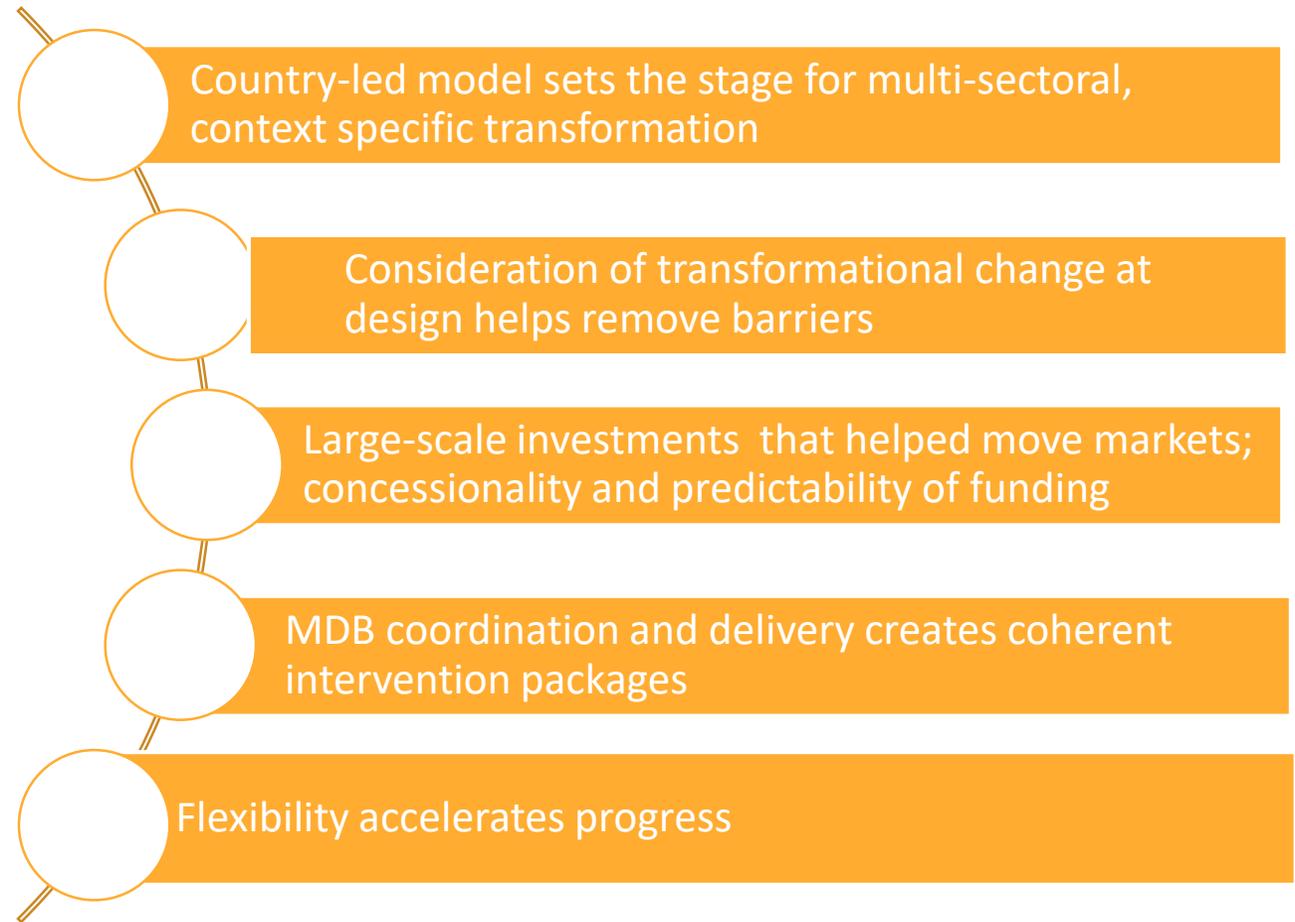
The Climate Investment Funds

Our more than 300 programs in 72 developing countries are leading to the following results:

- 26,500 MW in clean power, which is more than the total power capacity of Vietnam and almost the same as Netherlands (26.6 GW)
- 8.5 million people with improved access to energy, which is equivalent to the population of Switzerland or Sierra Leone
- Over 10,000 GWh/year energy saved, which is the equivalent of total annual electricity production of Uruguay
- Over 36 million ha of forests under improved management, the area of Congo or Germany
- 45 million people supported to cope with effects of climate change, more than the population of Argentina or Sudan

CIF's Business Model

5 Key Elements Driving Transformational Change





MOROCCO



ZAMBIA



Challenges ahead:

Urbanization

Transport

Adaptation and resilience

Forestry and sustainable landscapes

Energy transition and energy access

Cooling

Challenges Ahead: Resilience

How do we accelerate transformative investments in adaptation and resilience?

The Challenge

- The countries that are most vulnerable to climate change are also those with very limited financial resources and borrowing capacity to invest in resilience
- In 2015-2016, total average adaptation finance only amounted to USD 22 billion out of the USD 410 billion climate finance. Adaptation finance requirement could range from USD 140 billion to 300 billion by 2030
- Most country NDCs will need resources and assistance to further translate adaptation commitments into concrete programs and actions



The Opportunity

- Concessional finance is critical to encourage governments to invest in adaptation at scale in the short term amongst other core development priorities
- The private sector can play an important role in closing the adaptation finance gap; concessional finance provides a window of opportunity for it to overcome barriers, test out new business models, and take on climate adaptation projects at scale in developing countries.

Challenges Ahead: Sustainable Landscapes

How do we best support the forest-agriculture interface?



The Challenge

- 1/3 of all land is moderately or severely degraded, and over 50% of the land used for agriculture is affected by land degradation
- 1.6 billion people rely on benefits forests offer, including food, fresh water, clothing, traditional medicine and shelter
- 30 percent of global forest cover has been cleared, while another 20 percent has been degraded
- Agriculture expansion and production of commodities has been identified as the primary driver of approximately 80% of deforestation worldwide.
- The agricultural sector is the world's second-largest emitter, after the energy sector
- Agriculture is the largest water user globally, and a major source of water pollution. Unsustainable agricultural water use practices threatens the sustainability of livelihoods dependent on water and agriculture.

Challenges Ahead: Sustainable Landscapes



The Opportunity

- Natural climate solutions might offer a third of the solution for carbon emissions, but they take up less than 1% of the public discussion and just 3% of the public funding for emissions reduction
- A “landscape approach” means taking both a geographical and socio-economic approach to managing the land, water and forest resources that form the foundation – the natural capital – for meeting our goals of food security and inclusive green growth.
- The land use sector, including forests, is critical to achieving climate targets. About 70% of the countries who have signed the Paris Agreement reference land use in their nationally determined contributions (NDCs), but very few include any specific actions or targets
- Concessional finance—if properly structured—can help address the often considerable barriers that both public and private sectors face in investing in sustainable landscapes

Challenges Ahead: Energy Transition



How do we make an energy transition for a 2° world?

The Challenge

- To reach a 2° world, energy-related CO₂ emissions would need to peak before 2020 and fall by more than 70% by 2050. Energy intensity of the global economy must be reduced by 2.5% a year, while wind and solar combined must become the largest source of electricity by 2030
- While RE such as solar and wind has seen a dramatic expansion in recent years, coal and gas are still more competitive in many areas, and the variable nature solar PV and wind can limit large-scale deployments
- Battery storage can help integrate variable RE with the grid and significantly increase the deployment of renewable capacity. But the cost of storage technologies remains too high in many markets

The Opportunity

- According to BNEF, concessional finance can accelerate the times in which a.) a new solar PV and wind plant is cheaper to build than a new coal/gas plant, and b.) a new solar PV/wind plant is cheaper to build than to keep an existing coal/gas plant operational, which could be critical to reaching to deep decarbonization
- The availability of finance, especially concessional finance, could also prove crucial in incentivizing new-build energy storage globally by significantly reducing the relatively high cost of capital for these technologies (BNEF)

Challenges Ahead: Energy Access



How do we power the billions that still lack access?

The Challenge

- 1 billion people worldwide still live without electricity, while almost 3 billion people do not have access to clean fuels for cooking and heating.
- Without accelerated progress, there will still be 674 million people worldwide living without electricity by 2030 and the gap for access to clean cooking fuels and technologies will be even higher
- Clean cooking has generally not received much attention from policymakers and investors, and progress for deploying clean cooking fuels and technologies lags considerably behind.

The Opportunity

- Rural electrification is key for the socio-economic development of rural areas in developing countries. Improving energy access can trigger economic development and lead to increases in income generation for the poor.
- Concessional finance and a programmatic approach have been demonstrated to support the deployment of energy access

Challenges Ahead: Cooling

How do we drive clean cooling solutions at scale?



The Challenge

- 1.1 billion people lack access to cooling, and millions die each year due to lack of cooling that could help address hunger and malnutrition, preserve vaccines, and alleviate the worst health impacts of heat waves.
- At the same time, demand for air conditioners, as well as refrigerators, is set to soar and become the main driving force for electricity demand for buildings in developing countries
 - Cooling by air conditioners/electric fans now accounts for about 10% of global electricity consumption. By 2050, global energy use from AC will triple, requiring as much electricity as all of China and India use now.
 - GHGs released by fossil-generated electricity to power those air-conditioners could nearly double by 2050. Those emissions would contribute to global warming, which could further heighten the demand for AC

The Opportunity

- Energy performance and refrigerant standards, labeling, and investments in more efficient and climate-friendly technologies can go far to reducing GHG emissions from this sector
- A combination of policy and technical support, along with investment at scale, can help overcome barriers facing the sector including a lack of finance and financial incentives, poor consumer awareness leading to weak demand for efficient technologies, and a lack of product availability

Challenges Ahead: Sustainable Mobility

How do we accelerate the revolution required for sustainable mobility?

The Challenge

- In 2012, transport was the largest energy-consuming sector in 40% of countries worldwide, and in the remaining countries, it was the second largest energy-consuming sector
- 96% of global transport's energy mix currently dependent on fossil fuels. By 2035, transport is expected to be the largest GHG emitter, accounting for 46% of global emissions
- The transport sector is also highly vulnerable to the effects of climate change, and damage to transport systems can comprise a large share of the destruction caused by climatic events,
 - Impacts from disrupted transport often fall most heavily on vulnerable populations
- Transformation of the global mobility system is urgently required to meet the Paris Climate targets, to increase its resilience, and to cut its environmental footprint.
 - But the costs to support the transition to sustainable, climate-proofed forms of mobility through use of new technologies are high and will require financing at scale and flexible approach



Challenges Ahead: Sustainable Mobility

How do we accelerate the revolution required for sustainable mobility?



The Opportunity

- Need for a platform to bring together all key stakeholders, including government, regional MDBs, private sector, among others, in a coordinated manner to identify potential activities in the sector in accordance with national/regional priorities
- MDBs can play a critical role in supporting a bold transformation of the mobility system for climate action by leveraging private and national public capital to establish sustainable mobility solutions
 - Long-term, predictable and risk-appropriate financing can have maximum impact through its support for both investments at scale and policy and technical assistance activities, depending on demand
- Resilient transport interventions and policies can significantly reduce future losses in assets and well-being

Challenges Ahead: Urban

How do we support climate-smart cities in a context of rapid urbanization?

A summary of initial work undertaken thus far with CIF AU and MDBs



The Challenge

- For the first time in history, more people live in cities than in rural areas
 - 55% of the world's population now live in urban areas, increasing to 75% by 2050
- Cities are key drivers of emissions – in 2013, 64% of global primary energy use originated in urban areas
- 2/3 of world's population will be living with infrastructure & planning decisions made today
 - But a large share of urban growth in developing countries is unplanned and unstructured with significant economic, social, and environmental costs
- Rising sea levels, increased precipitation, inland and coastal flooding, more frequent and intense cyclones and storms, landslides, heat stress, drought, and water scarcity will all have significant adverse impacts on urban infrastructure systems and services, urban economies and populations

Challenges Ahead: Urban

How do we support climate-smart cities in a context of rapid urbanization?



The Opportunity

- Rapidly urbanizing areas present a unique opportunity to plan, develop, build, and manage cities that are ecologically and economically sustainable
- Both the urgency of urban climate action and scale of the infrastructure gap in the rapidly expanding cities and new secondary cities, create an opportunity for the MDBs, working in a coordinated way, to scale-up support to cities to achieve sustainable development patterns
- Climate finance and a business model based on a programmatic approach offers a suitable approach to help overcome barriers to mainstreaming climate considerations into strategic spatial planning and investment, and to demonstrate its transformational impacts in rapidly urbanizing areas
- Concessionality can also help overcome the barrier related to the myopic behavior of many by demonstrating the benefits of a strategic, longer term vision to planning and investment
- Concessionality can also de-risk catalytic, first-of-their-kind private sector investments to support low-carbon and climate resilient cities that may not otherwise be feasible for private investors across numerous sectors.

Challenges Ahead: Urban

How do we support climate-smart cities in a context of rapid urbanization?



One Potential Approach: Support multiple cities in developing countries around the world to transition to a low-carbon and climate-resilient urbanization pathway, leveraging the programmatic approach in three areas:

1. Rapid city diagnostics to identify existing barriers in the policy, regulatory, and economic incentive structures at the city level that may prevent effective climate actions and limit private investment
2. Preparation of climate-informed strategic spatial planning and other climate-smart strategic plans and project pipeline development
3. Implementation of catalytic investment projects in targeted cities; priority would be given to ambitious and transformational projects that require concessional finance, including a.) Green infrastructure design interventions, b.) Renewable energy and energy efficiency technologies, c.) Reducing the energy footprint of water supply and treatment systems, d.) Promoting integrated solid waste management solutions, e.) Enhancing the alignment of spatial and infrastructure planning in a sustainable and climate-informed way

Next Steps

- The CIF Administrative Unit and MDBs are prepared to elaborate on thematic areas in which transformational impact could be achieved through the CIF business model moving forward
- Guidance from the Trust Fund Committee on next steps will be appreciated to prepare the discussions on the future of the CIF to be held in June 2019



Thank You!



10 YEARS OF CLIMATE ACTION

climateinvestmentfunds.org



Program results and outcomes- CTF

- ❖ **Largest multilateral fund** dedicated to climate mitigation
- ❖ Scaled-up financing to **developing countries** for the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse-gas emissions savings
- ❖ **\$5.5 billion** towards the development and implementation of low-carbon investment plans in **15** middle income countries, **1** regional program, and **3** phases of Dedicated Private Sector Program
- ❖ Large-scale investments in **energy efficiency** (industrial, commercial, residential sectors); **renewable energy** (solar, geothermal, wind); **sustainable transport** (public transit, hybrid buses, green logistics)

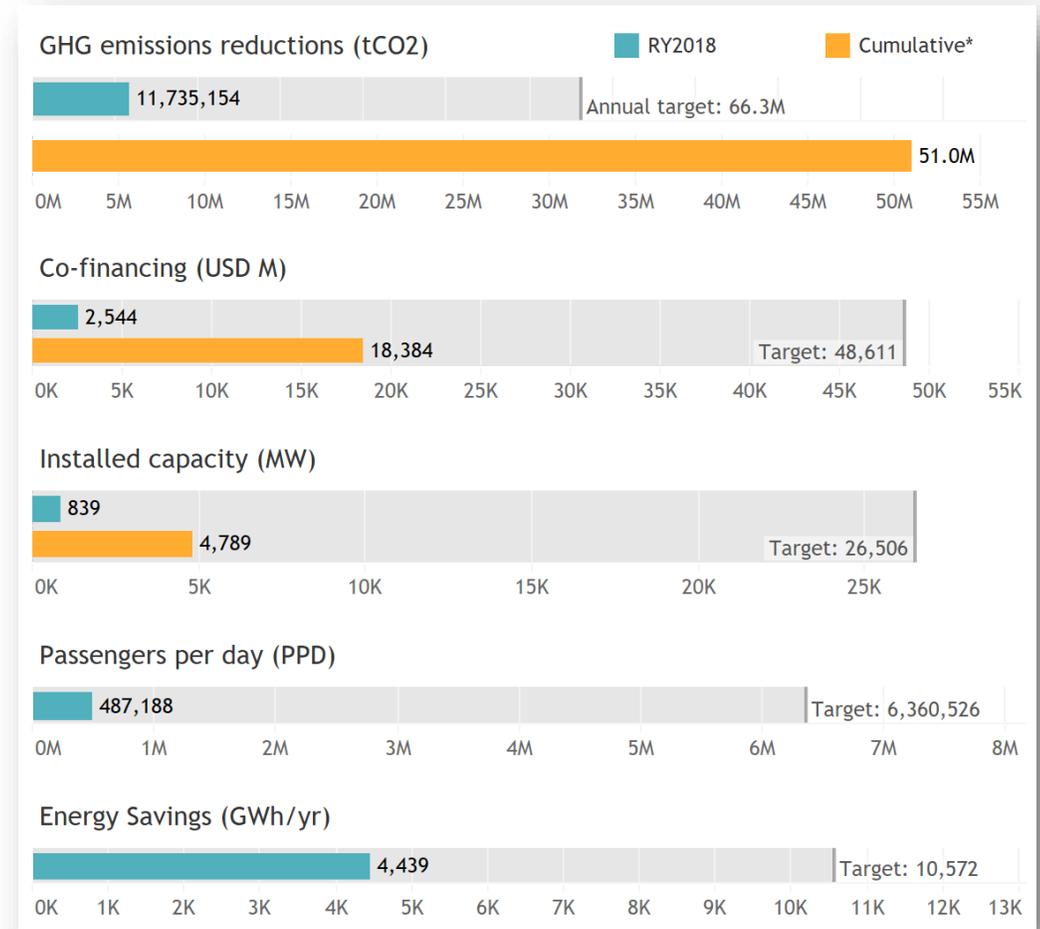
Highlights

Concentrated solar power (Morocco, South Africa)

- ✓ About 15 percent of the current global capacity;
- ✓ Contributed to the global cost reduction in the CSP technologies

Geothermal (Chile, Mexico, Turkey, Nicaragua, and Eastern Caribbean)

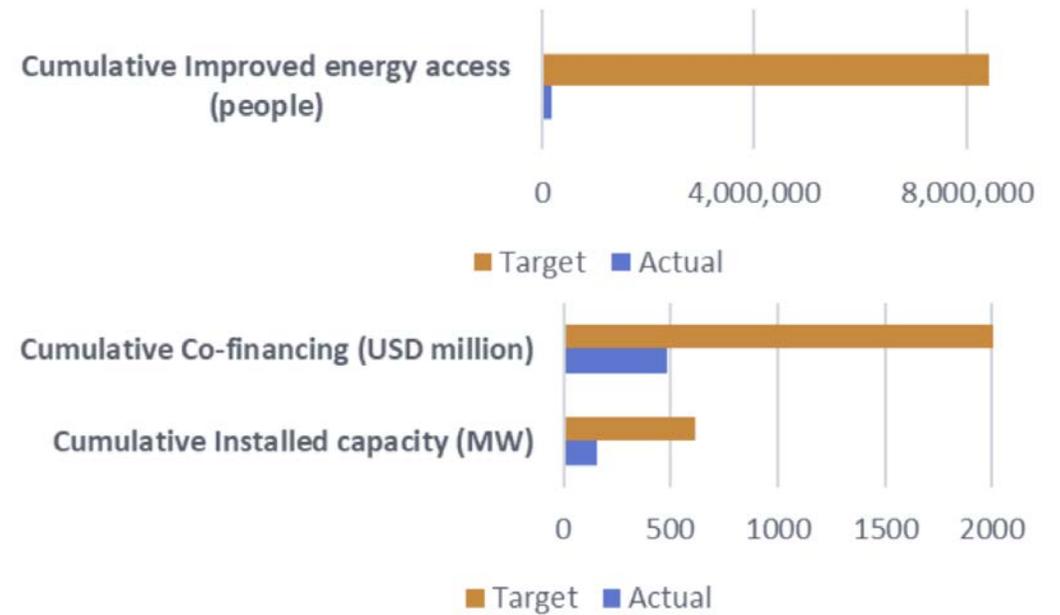
- ✓ About 17 percent of the current global capacity
- ✓ Risk bearing financing directed at mitigating upstream technology risks and investment barriers



- (Energy savings) Target ANNUAL
- (GHG reductions/ Co-financing/ Installed capacity) Targets CUMULATIVE
- (m-PPD) Million passengers per day UPON IMPLEMENTATION

Program results and outcomes- SREP

- ❖ **SREP** is empowering transformation in developing countries by demonstrating the economic, social, and environmental viability of renewable energy. Its investments are creating new economic opportunities and increase energy access through renewable energy in low income countries.
- ❖ **\$745 million** towards the development and implementation of investment plans (IPs) in **27** pilot countries (with 21 IPs endorsed as of June 2018).
- ❖ **SREP long-term concessional finance** has played a major role in enabling MDBs and recipient countries to pursue projects that might not otherwise have been considered bankable and were otherwise unlikely to have been pursued at all (or within a reasonable timeframe).
- ❖ **SREP** has been critical supporting the **testing of business models and first of its kind demonstration projects** that can serve as the basis for future scaling.



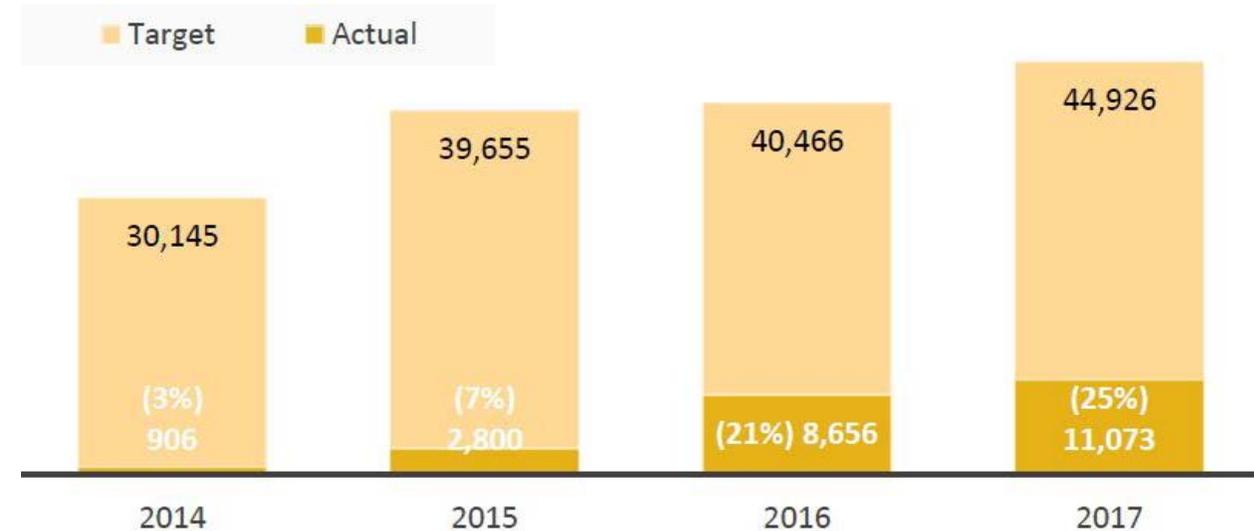
Highlights

- ✓ **Menengai Geothermal Development Project (Kenya)** : Concessional funds (USD 25 million) were identified as catalytic in unlocking investments in geothermal in Kenya, by helping to address early stage exploration risks, and prove resources available.
- ✓ **Renewable Energy Fund (Rwanda)**: With USD 50 million in SREP support (the largest project in SREP portfolio), the Fund is designed to overcome the barriers hindering the growth of off-grid electricity markets in a country where only around 15 percent of rural households have access to electricity. The project will directly benefit 1.8 million people, facilitate private sector participation, and accelerate the country's progress toward an ambitious goal of universal energy access by 2024
- ✓ **Mini-grids**: More than USD 200 million in allocated SREP funding and technical assistance grants is helping to develop markets for renewable energy mini-grid systems that can efficiently address energy access needs in 14 countries (Nepal, Mali and Haiti among the most advanced programs).

Program results and outcomes- PPCR

- ❖ **PPCR** is the only adaptation financing window that adopts a programmatic approach to address climate risks and integrate resilience objectives in project design and implementation.
- ❖ **\$1.2** billion program supports **18 countries and 2 regions** to implement at scale innovative approaches and solutions to adapt to climate change and enhance resilience; **10 countries** supported to prepare SPCRs
- ❖ Scale, concessionality, and predictability of PPCR resources effectively engaged MDBs, government, and private sector to support the development and delivery of first-of-a-kind climate adaptation innovations and technologies

Number of people supported by PPCR from 2014 to 2017 (,000)

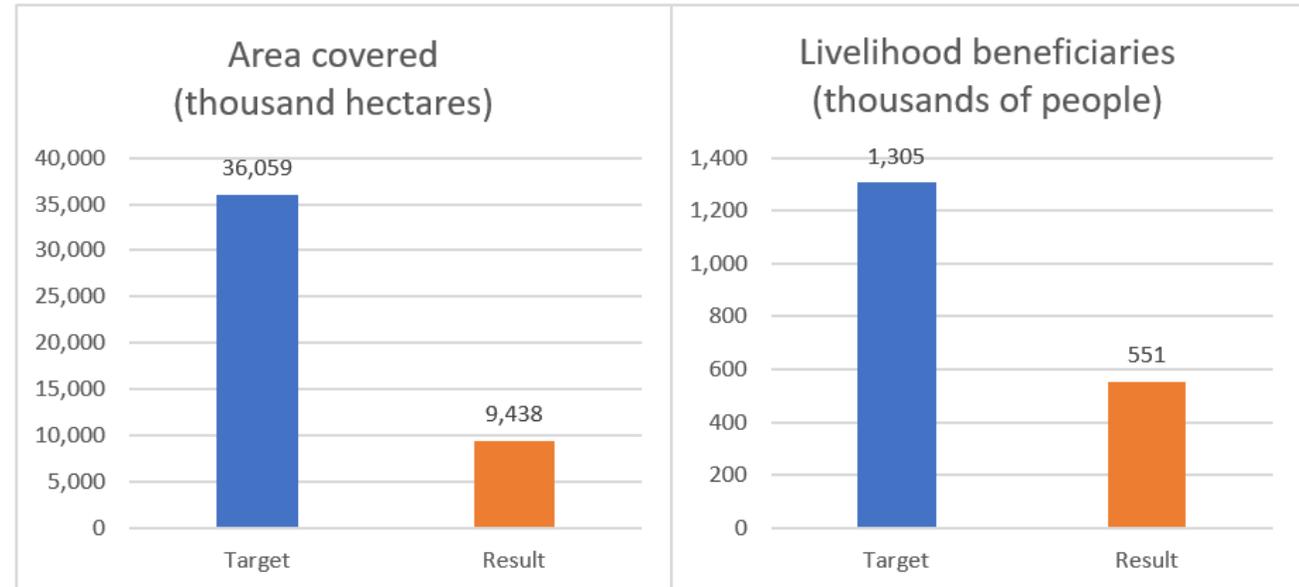


Highlights

- ✓ PPCR helped to integrate climate change in 320 local/community development plans or strategies, 79 sectoral plans or strategies, and 19 national development plans or strategies across 15 countries
- ✓ Supported more than 11 million people across 16 countries in coping with the adverse effects of climate change.
- ✓ Countries like Zambia, Mozambique, Cambodia, Bangladesh, and Nepal were able to improve capacity and institutional framework to integrate resilience objectives into strategies of vulnerable economic sectors.

Program results and outcomes- FIP

- ❖ The **\$750 million** FIP supports 14 countries and finances efforts to address the underlying causes of deforestation and forest degradation
- ❖ Examples of early impact include forest policy reforms, new financing approaches, and cross-institutional collaboration (Mexico, Lao PDR, Brazil, Burkina Faso); integration of forestry into broader climate policy (Mozambique); increased capacity of communities and Indigenous Peoples to engage on forestry reform (DGM).



Highlight

Dedicated Grant Mechanism

- ✓ **\$80 million** program that is empowering Indigenous People and Local Communities by giving them the responsibility to directly manage the funds and is resulting in high levels of trust and ownership.
- ✓ **208 sub-projects** that deliver outcomes efficiently, better meet community needs, have better inclusion of marginalized groups, and has better constituent representation, among other outcomes.