

5. MOBILIZE CONCESSIONAL AND INNOVATIVE FINANCE (ACTION AREA 2)

87. **The resource challenge.** The resources needed to tackle climate change are unprecedented compared to existing development and global public goods financing. To stabilize atmospheric concentrations at levels that are considered reachable and manageable, the latest estimates suggest that the additional investment costs for mitigation just over the coming decades will be somewhere between US\$ 200 billion to over US\$ 1 trillion *per annum* (see Annex 5, Table A5: 1). This amount would be greater if, as a growing body of science indicates, even lower levels of greenhouse gas concentrations were needed to avoid catastrophic impacts. The economic costs estimates are of similar magnitude and will be partly offset in the form of energy savings and other potential benefits, such as improved public health from reduced air pollution. At least tens of US\$ billions per year should be added to finance the cost of adaptation due to the inevitable amount of warming that the world will experience, albeit the estimates of the adaptation cost are very incomplete and preliminary (see Annex 5, Table A5: 2).

88. Tackling climate change requires an unprecedented level of global cooperation in designing and enacting financial mechanisms that are effective, efficient, and equitable. A large share of these additional investments is estimated to take place in developing countries from private and public sources. While the global costs appear modest when compared to the expected global GDP and investment flows (falling between less than 1 percent and 3 percent for most estimates), it depends on how they are distributed—there could be a significant burden for many economies. As the Growth Report (2008) highlights, reducing GDP growth by 1 or 2 percent means depriving an entire generation or more from a chance to overcome poverty, particularly for developing countries. Inaction is not an option given the probability of very severe to catastrophic effects.

89. **The importance of adequate global policy, and clear rules and signals.** Additional financial flows to developing countries under the current UNFCCC mechanisms cover only a tiny fraction of the estimated hundreds of billions of US dollars per year that would be needed to make the required investments. A review of existing sources, both for mitigation and adaptation (summarized in Annex 5, Table A5: 3) points to an annual amount on the order of US\$ 10 billion—against the gap of some hundreds of US\$ billions. Until an adequate global policy and a financial architecture that provides predictable and sufficient financing flows due to clear rules and long-term price signals is negotiated under the UNFCCC, it will be impossible to fully cover the financing gap. Therefore, the focus of the WBG—and other MDBs—has been on piloting, prototyping, and demonstration and learning through available instruments, such as the GEF and carbon funds, and leveraging resources with the help of these instruments.

90. **Focus on learning at scale.** Recognizing the critical importance of additional financing for developing countries, the Group respects the primacy of the ongoing negotiations. So, in the immediate future, it sees its key strength as supporting the development of the global financial architecture by learning from implementation experience. It will be doing so with involvement of all its institutions, including an increasing role of the IFC, MIGA, and the World Bank Treasury; as well as through stronger partnerships with the other MDBs, International Financial Institutions (IFIs), and the private sector; and collaborating with GEF and other partners. This will provide practical lessons and capacity for developing country clients and international financial institutions.

91. An important opportunity for significantly increased assistance to developing countries and learning is provided by the Climate Investments Funds portfolio (see Box 16). With an expected capitalization of up to US\$ 6 billion, the new CIF will build on progress made by many of the developing countries, with the objectives of scaling up investments in low-carbon technologies (Clean Technology Fund), and supporting various programs to test innovative approaches to climate action (Strategic Climate Fund—SCF). Recognizing the importance of climate risks and adaptation for poor countries, the first program under the SCF is the Pilot Program for Climate Resilience. Designed as an interim instrument, the CIF includes specific sunset clauses.

Box 16: Climate Investment Funds

Approved by the Group’s Board in July 2008, the CIF is an interim instrument with specific sunset clauses linked to agreements on the future of the climate change regime.

Funding and Governance. By combining significant concessional financing with International Financial Institutions, public and private sector flows, and other climate financing (such as carbon finance and GEF), the CIF will demonstrate how MDBs can help developing countries combine poverty reduction and growth objectives with climate action. Key features include Trust Fund Committees with a balanced representation of recipient and donor countries and project approval by MDB Boards. A Partnership Forum—a broad-based meeting of stakeholders, including donor and recipient countries, MDBs, the United Nations and UN agencies, the GEF, the UNFCCC, the Adaptation Fund, bilateral development agencies, NGOs, private sector entities, and scientific and technical experts—would be convened annually to provide a forum for dialogue on the strategic directions, results, and impacts of the CIF.

Clean Technology Fund. The CTF would provide scaled-up financing to contribute to demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas emissions savings. As country circumstances differ, investment programs would be developed on a country-specific basis to achieve nationally defined objectives. In order to maximize impact, the CTF would work with both the private and public sectors to bring sufficient technological know-how and capital to dramatically scale-up clean technology deployment, while remaining technology neutral. The CTF would build on and complement the GEF, and link to the capacity building programs of UNEP and UNDP. It would provide grant elements tailored to cover identifiable additional costs necessary to make projects viable. It would utilize a range of concessional financing instruments, such as grants and concessional loans as well as risk mitigation instruments, such as guarantees and equity.

Strategic Climate Fund (SCF). The SCF would provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge or sectoral response through targeted programs. The first program in the SCF would be *pilot national level actions for climate resilience* in a few highly vulnerable countries. Other programs under consideration would: support energy efficient and renewable energy technologies to increase energy access in low income countries, and investment to reduce deforestation and forest degradation and to promote improved sustainable forest management. An important objective is to maximize co-benefits of sustainable development, particularly in relation to the conservation of biodiversity, natural resources ecosystem services, and ecological processes.

World Bank’s Role. Together with other MDBs, the WBG will be responsible for implementing programs and projects financed by the CIF, following the normal programming and implementation procedures of its constituent entities. In addition, the Bank, on behalf of the WBG, will serve as Trustee for the two trust funds and will host a small Administrative Unit to administer the CIF. The World Bank, as Trustee, will enter into multi-donor trust fund administration agreements with donors and financial procedures agreements with each MDB for CIF funds. The IFC will also participate with a focus on innovative private sector projects with significant potential market impact.

Source: The WBG.

92. **Specific priorities for the WBG** in collaboration with other MDBs, the GEF, the UNDP, the UNFCCC Secretariat, and other partners, in the next three years will include the following (see also Pillars 3-4):

- *First and foremost the WBG will work toward good progress of IDA 15 and further increased levels of IDA replenishment.* This is critical for achieving the MDG targets, particularly in the context of increasing costs of development due to several factors, including climate change. At the same time, the implementation of IDA15, in conjunction with new and additional financing from the PPCR, other donor funds and the Adaptation Fund, will help establish IDA as the appropriate platform for strengthening climate resilience of the development processes in poor countries.
- *The WBG will advocate for continued strong financial flows to the GEF and work with the GEF on scaling up programmatic approaches and securing significant co-financing.* The WBG will work with the Adaptation Fund Board and other stakeholders to integrate lessons from the PPCR and from its experience in leveraging GEF financing into the activities financed by the Adaptation Fund, in addition to its role as a trustee.
- *Jointly with other MDBs, the WBG will strategically utilize the CIF to develop capacity in client countries to address climate action and development at scale.* The goal is to make the CTF operational by the end of CY2008, and the PPCR by end of FY09, with at least US\$ 6 billion in pledges to the CIF by the end of FY09 to be available to all participating MDBs. Additional work will be undertaken to access the need and modalities for other potential windows under the SCF, such as the Forest Investment Program, Renewable Energy Access, and Pre-Commercial Technologies, including CCS.
- *The WBG will better use its existing arsenal of instruments to support development projects with mitigation and/or adaptation co-benefits through customized “product packaging”.* The IBRD/IDA/IFC/MIGA committed about US\$ 1.4 billion in loans, credits, equity investments and guarantees to its members and to private business for low-carbon projects in FY07, including GEF and CF resources. Going forward, IBRD’s loans, partial risk guarantees, partial credit guarantees, and policy-based guarantees, MIGA’s political risk guarantees, and IFC’s equity, loan, and risk-management products have a potential to be customized to finance pro-development low carbon and adaptation investments. These instruments can be further packaged with the GEF, Carbon Finance, and, as recent experience shows, Montreal Protocol funds.¹⁴ A significant potential for packaging is expected for the CIF. A summary of instruments and their current or potential applications is given in Annex 5 (Table A5: 4). Several new financial products addressing specific barriers to climate investment are described in Chapters 6 and 7.
- *The WBG will strengthen technical assistance programs to generate demand for, and help prepare, climate-friendly projects.* Information, knowledge, enabling policy framework, and extensive TA support are among the key “barrier removal” activities for economically viable investments, such as energy efficiency. The development of climate friendly projects is usually more expensive and lengthier compared to the “business as usual” alternatives. For some categories of projects, there could be an arrangement when additional preparation funds might be “borrowed” until (and if) the project becomes fully economical. Furthermore, with an increasing number of instrument and product offerings, there is a growing need for helping consolidate the offerings at the recipient level so that clients could access the most

¹⁴ Montreal Protocol finances the phase-out of ozone-depleting substances but the supported investments also have considerable GHG reduction benefits through energy efficiency and other process improvements.

attractive financing instrument or package for a given project with low transaction costs. To address this, the WBG will prepare a training program and guidance materials on the use of different products, work on creating a “one-stop” source of access to a full menu of the WBG financial product offerings, and increase the outreach about its menu of products.

- *In collaboration with other development partners, the WBG will contribute to the design of a global financial architecture for climate action*, by both providing lessons of practical experience and undertaking analytical work. The WBG will start systematically documenting and disseminating lessons from its use of climate instruments, including a systematic collection, analysis and reporting of data on the incremental costs of those WBG-supported programs that have used these instruments. The WBG will compile and share findings and lessons from country-and-sector specific assessments of incremental costs of climate actions in development programs which are being undertaken for several countries as part of the economics of adaptation programs and low carbon growth country studies. It will also mobilize its research capabilities for evaluating alternative global climate policy and financial options and sustainable mechanisms for financing adaptation and mitigation in developing countries.
- *Responding to a major concern by developing countries about a potential reallocation of core development aid and the need for better monitoring*, the WBG will work with the UNFCCC Secretariat, the UN Statistical Division, and the Development Assistance Committee (DAC) of the OECD on developing consistent monitoring and reporting of financial flows to support developing countries’ efforts in mitigation and adaptation, including provision of new and additional financing for meeting the incremental costs imposed by climate change (see also chapter 9).