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Q & A : Climate Investment Funds

Why is the World Bank setting up the Climate Investment Funds?

The CIFs are being established by the Bank jointly with the Regional Development Banks (AfDB, AsDB, EBRD, and IDB) to promote international cooperation on climate change and support progress towards the future of the climate change regime. The CIFs seek to utilize the skills and capabilities of the multilateral development banks (MDBs) to mobilize new and additional resources at significant scale. The CIFs have the objective of providing experience and lessons in responding to the challenges of climate change through learning-by-doing. These new funds build on the experience gained from the World Bank's Clean Energy Investment Framework, which identified the need for increased financial resources and instruments to fill the financing gap to scale up clean energy investments and to integrate climate resilience into development assistance.

The CIFs consist of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The CTF seeks to fill a gap in the international architecture for development finance available at more concessional rates than standard terms used by the multilateral development banks and at a scale necessary to help provide incentives to developing countries to integrate nationally appropriate mitigation actions into sustainable development plans and investment decisions. The CTF is designed to promote scaled up demonstration, deployment and transfer of low-carbon technologies in power sector, transportation, and energy efficiency in buildings, industry and agriculture.

The SCF will provide financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge through targeted programs. The first program to be included in the SCF would pilot national level actions for enhancing climate resilience in a few highly vulnerable countries. Other programs under consideration include: support for energy efficient and renewable energy technologies to increase access to "green" energy in low income countries; and investments to reduce emissions from deforestation and forest degradation through sustainable forest management.

How were the CIFs designed?

The CIFs were designed on the basis of consultations with potential donors and recipients, the UN family, the Global Environment Facility, civil society organizations, and the private sector. The final design meeting took place in Potsdam, Germany on May 21-22, and the documents agreed at the meeting are available at www.worldbank.org/cif.

What is the design and governance structure of the CIFs?

There will be two trust funds under the CIFs. The Clean Technology Fund will provide scaled-up resources to invest in projects and programs that contribute to demonstration, deployment and transfer of low carbon technologies with a significant potential for long-



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term greenhouse gas savings. The Strategic Climate Fund will be broader and more flexible in scope and serve as an overarching fund that can support various programs to test innovative approaches to climate change. The first such program is aimed at increasing climate resilience in developing countries.

Each fund will have a Trust Fund Committee consisting of equal representation from donor and recipient countries. The CTF Trust Fund Committee will approve programming and project priorities, endorse further development of activities in investment plans for trust fund financing, approve trust fund financing for programs, projects and administrative budgets, and ensure monitoring and periodic independent evaluation of performance. For the Strategic Climate Fund, the Trust Fund Committee has the function of approving establishment of new programs. Approval of SCF program financing will be delegated to each program's respective Trust Fund Sub-Committee, which will also have equal representation of donor and recipients. Observers from organizations with a mandate related to the objectives of the funds will also be invited to meetings of the Trust Fund Committees and Sub-Committees. Decision-making will be on the basis of consensus.

What is the relationship between the work of the CIFs, international climate negotiations, and the Kyoto Protocol Adaptation Fund?

The CIFs are being established through an inclusive and consultative process in support of the Bali Action Plan. In designing the funds, care has been taken to recognize the primacy of the UNFCCC in climate negotiations and to support those negotiations. The CIFs are designed to provide lessons through learning-by-doing which will be shared with the UNFCCC. All funds and programs under the CIFs have a sunset clause in order not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime.

The Pilot Program for Climate Resilience (PPCR) is designed to deliver programmatic funding at scale in 5 to 10 countries to help transform national development planning to make it more climate resilient. Individual pilots will be country led and will build on National Adaptation Programs of Action (NAPAs) and other relevant country studies and strategies. The PPCR will be complementary to existing sources of adaptation funding and supportive of the evolving operation of the Adaptation Fund. The pilots will provide crucial lessons on how to integrate consideration of climate resilience in national development planning consistent with poverty reduction and sustainable development goals. The Board of the Adaptation Fund will be represented in its governance structure and will be involved in monitoring and assessing the lessons learned from the Pilot Program.



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Are the funds a new and additional source of funding?

Yes, they are new and additional to existing levels of ODA. It is expected that most donors will include contributions to the CIFs in their ODA reporting.

What is the division of labor between the CIFs and other multilateral financial institutions, in particular the Global Environment Facility (GEF)?

The CIFs will complement existing bilateral and multilateral financial mechanisms, and the operations of the funds will be coordinated with the programs of other financial mechanisms. In particular, a key feature of CIFs programming will be engagement by the MDBs at the country level with UN and bilateral development and investment agencies, with a view to mobilizing co-financing and ensuring harmonized policy support.

The GEF is the financial mechanism of the UNFCCC and is a primary source of grant financing for actions under the Convention (e.g., national communications). A strong replenishment of the GEF will contribute to promoting a strong climate change regime, and the Bank is, and continues to be, fully supportive of the GEF-5 replenishment. The CIFs will build upon GEF activities to pilot and demonstrate: innovative technologies; barrier removal to transform markets; and capacity building, in particular the creation of an enabling environment, including establishment of codes, norms and standards.

What financial instruments will be used to make financing available to developing countries?

The CTF will utilize a range of concessional financing instruments, such as grants, concessional loans, and risk mitigation instruments, such as guarantees. The grant element in CTF financing will be tailored to the identifiable additional costs of low-carbon investments, or risk premium, necessary to make a project viable. The idea would be to assess each situation on a case-by-case basis to determine what is needed in terms of the instrument and level of concessional financing to achieve desired outcomes. For example, projects with low marginal abatement costs might require only a small proportion of concessional financing or a guarantee, while a technology with higher risks and costs might require larger amounts of concessional finance to make the investment financially attractive.

For the PPCR, grant funding will be available to enable pilot countries to build upon existing national work, including the UNFCCC national communications and NAPAs, to integrate climate resilience into core development plans and finance. The bulk of this first phase of work should be completed within about one year of a country beginning the program. A second type of support will provide additional financial resources to help fund public and private sector investments identified in the climate resilient development plans. Significant investment resources will be available through the PPCR in the form of grants with the option of additional highly concessional lending that can be blended with existing sources of concessional funding and national resources to increase the



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climate resilience of existing development priorities. Practical piloting of climate resilient development at the national scale is a core learning component of the PPCR.

What is the expected role of the private sector?

As the foundation of economic growth, the private sector has a significant role to play in climate change mitigation and adaptation. In pursuing a strategy that will combine public sector and private sector action, the CIFs will, working through the private sector arms of the MDBs, seek to provide incentives for the private sector to participate in achieving the objectives of the funds. Experience has shown that private sector initiatives can successfully proceed and at times even be a trend setter for subsequent regulatory change. Private sector initiatives will seek to achieve scale-up by demonstrating and creating a track record with initial investments.

How much money is expected to flow into the Funds and how many countries will benefit?

Discussions with potential donors are ongoing, with an initial target size of US\$5 billion,

It is difficult to predict at this point how much money might be made available under other programs under the Strategic Climate Fund (work will be on-going towards programs on greening of energy access and sustainable forest management). Funding targets for other programs will be agreed during design of the programs based on an analysis of the funding needs and donor interest.

Country access to the CIFs will be based on two criteria: ODA-eligibility as defined by OECD/DAC, and the presence of an active MDB country program. In the CTF, which is to provide financing at scale for transformational actions, investments will be prioritized on the basis of criteria, such as potential for GHG emissions savings, demonstration potential, development impact and implementation potential. In the PPCR, advice will be sought from an expert group on the selection of an appropriately balanced group of countries for this pilot.

When will the funds be operational/available?

We expect to convene the first Partnership Forum and to set up the Trust Fund Committees in the last quarter of 2008, with some initial approvals for financing possibly by the end of 2008.

What is the CTF definition of “clean technology”?

A clean technology is defined as one which reduces GHG emissions to the atmosphere and therefore, the carbon-equivalent intensity of economic development. Thus, the CTF would support the following: renewable energy; enhanced efficiency of energy usage; improved transport sector efficiency and modal shifts; and the improved efficiency of energy supply. With respect to the improved efficiency of energy supply, clean



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technology will have to meet one of the following two criteria (a) there are highly cost effective opportunities for significant GHG emissions reductions and/or (b) there is potential for developing readiness for carbon capture and storage.

Will the CIFs fund nuclear plants and/or coal powered generating stations?

The Bank has not funded any nuclear power investments since 1959 nor has it funded any investments directly related to supporting the production of nuclear power since that time. The Bank has no plans to change this position at this time. Historically, Bank engagement on nuclear issues has been limited: the only involvement of the Bank during the 1990s was to assess the technical, economic, and financial impact of closure of nuclear power plants in our client countries.

The Bank's current position on nuclear power dates back to 1996 when management determined that the Bank would not finance nuclear power technology based on the following: (i) nuclear power was not a least cost option at that time in client countries; (ii) there were alternative funding sources for nuclear power, including export credit agencies (ECAs); (iii) the controversial nature of long term nuclear waste disposal; and (iv) the Bank did not have staff with the necessary qualifications.

As to coal, we note from projections by the International Energy Agency (IEA) and other similar entities that fossil fuel, including coal, is expected to play a major role in the provision of primary energy up to 2030. Recognizing the important role electricity plays in supporting economic growth and poverty alleviation, it is expected that continued use of coal will be an important component of meeting these development objectives.

The negative impact of environmental externalities is recognized by the Bank, and the Bank is analyzing ways in which this can be addressed, including: (1) the inclusion of such costs in project analysis; (2) the development of funds to buy-down the incremental cost associated with higher-cost, low carbon options; (3) incorporation of robust analysis of alternatives as part of environmental assessment; (4) providing financing for the preparation of low carbon options; and (5) providing advisory services to help break down the barriers to entry for renewable energy and energy efficiency investments. The Bank has successfully implemented components of this approach to date thus enabling us to meet our 2005 Bonn commitment to increase support for renewable energy and energy efficiency projects by 20% per year through to 2009. We have also supported the use of cleaner coal technologies in countries where coal is an important low cost electricity supply option, by upgrading the use to more efficient technologies.

The UNFCCC principle of common but differentiated responsibilities is an important one for the CIFs, and it is recognized that developed countries must be the first to take actions to reduce GHG emissions. For developing countries, the immediate goal should be to undertake nationally appropriate mitigation action in the context of sustainable development, supported and enabled by technology, financing and capacity building.



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The CTF could, therefore, finance coal technologies where (a) there are highly cost effective opportunities for significant GHG emissions reductions and/or (b) there is potential for developing readiness for carbon capture and storage.

There was initial talk of a “Forest Investment Fund.” Is this also happening?

At the Potsdam meeting in May, it was agreed that within the framework of the SCF, a forest investment fund/program should be established by the end of 2008 to mobilize significantly increased funds to reduce deforestation and forest degradation and to promote improved sustainable forest management, leading to emission reductions and the protection of carbon reservoirs. The forest investment program will be developed on the basis of broad and transparent consultations. The design process will take into account country-led priority strategies for the containment of deforestation and degradation and build upon complementarities between existing forest initiatives. Work will also advance on a program to support investments in low income countries for energy efficiency, renewable energy and access to modern sustainable energy.

How will CTF programs be developed with countries?

- The starting point will be country request for joint mission of World Bank Group and regional development bank to prepare an investment plan for use of CTF resources in the country.
- Investment plan will highlight how it is embedded in national development plans or programs that include nationally-defined low-carbon objectives.
- Investment selection criteria will address: potential GHG emissions savings, demonstration potential, development impact and implementation potential.
- Country access: ODA-eligible and active MDB country program.

How will CTF programs be processed?

- The investment plan, including potential pipeline of projects and notional resource envelope, will be submitted to the Trust Fund Committee which will endorse further development of activities in the investment plan for trust fund financing. Thereafter, project development and preparation will proceed.
- Prior to appraisal, MDB will seek approval from the Trust Fund Committee for allocation of CTF financing for each investment operation.
- Each MDB will apply its own policies and procedures for investment project preparation, approval and implementation, including environmental and social safeguards. CTF co-financing through IBRD/IDA will be submitted to the Board for approval. Regional vice-presidencies will be responsible for CTF programming and investment lending and supervision, as part of their country sector operations.