

CLIMATE INVESTMENT FUNDS

CTF/TFC.9/3
April 16, 2012

Meeting of the CTF Trust Fund Committee
Washington, DC
May 3, 2012

Agenda Item 3

SEMI-ANNUAL REPORT ON CTF OPERATIONS

Proposed Decision by CTF Trust Fund Committee

The Trust Fund Committee reviewed document CTF/TFC.9/3, *Semi-Annual Report on CTF Operations*, and takes note of the progress that has been made in developing and approving projects foreseen in the endorsed CTF investment plans. The Committee welcomes the use of the traffic light system as a tool to enhance CTF pipeline management, and encourages expeditious delivery of the projects at various stages of development and implementation.

I. INTRODUCTION

1. This report provides an update on the status of CTF operations, including progress made since the last semi-annual report presented to the Trust Fund Committee in November 2011. Section II of the report summarizes the current status of the CTF investment plans. Section III provides information on funding approvals by the Trust Fund Committee as of March 2012. Section IV presents the status of the CTF pipeline using the traffic light system for tracking project delivery. Section V offers some insights and lessons from the MDBs on factors that affect the development of CTF projects. Finally, Section VI summarizes project approval calendar for FY13 proposed by the MDBs.

II. STATUS OF CTF INVESTMENT PLANS

2. To date, 15 CTF investment plans have been endorsed by the Trust Fund Committee. Among them, 12 country plans and one regional plan were endorsed with funding allocations totaling US\$4.35 billion for Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Morocco, Philippines, South Africa, Thailand, Turkey, Ukraine, and Vietnam, and the regional program of concentrating solar power in the Middle East and North Africa covering Algeria, Egypt, Jordan, Morocco, and Tunisia.

3. Two additional investment plans were endorsed by the Trust Fund Committee without funding allocations for Nigeria in November 2010 and for India in November 2011. Funding of the projects and programs in these plans, with a combined request of US\$1.025 billion in CTF funding, will be contingent upon availability of funds beyond what is planned for in the current pipeline.

4. With the agreement of the Trust Fund Committee, the Government Chile has developed a CTF investment plan and has submitted it for consideration and endorsement by the Trust Fund Committee at its upcoming meeting in May 2012. The proposed investment plan for Chile requests US\$200 million in CTF funding.

5. Since October 2011, three endorsed investment plans have gone through major revisions. The revised investment plan for Morocco was endorsed by the Trust Fund Committee in November 2011, requesting the same funding allocation of US\$150 million as in the original plan. The revised investment plan for Thailand was endorsed in March 2012 with a funding allocation of US\$170 million, which reflects a decrease of US\$130 million in CTF funding as in the original plan. Finally, the revised investment plan for the Philippines was submitted to the Trust Fund Committee for endorsement in January 2012. At the request of several Trust Fund Committee members, the deadline for approving the decision of endorsement for the revised plan for the Philippines has been postponed until consultations with stakeholders by the Government and the ADB have been completed.

III. STATUS OF CTF FUNDING APPROVALS

6. As of March 2012, funding for 33 CTF projects¹ has been approved by the Trust Fund Committee, for a total of US\$1.92 billion. These projects are expected to leverage US\$14.12 billion in co-financing from the private sector, governments, MDBs, and other sources. Table 1 summarizes project funding approvals; more detailed information on these projects is provided in Annex 1 to this report.

Table 1: Summary of Funding Approvals of CTF Projects
(As of March 2012)

	Number	CTF Amount (\$ million)	Leveraged Funding (\$ million)
MDB approved projects			
Public Sector	10	1,162.6	7,701.9
Private Sector	11	329.2	2,286.6
Subtotal	21	1,491.8	9,988.5
TFC approved projects awaiting MDB approval			
Public Sector	2	225.0	2,457.5
Private Sector	10	203.4	1,673.1
Subtotal	12	428.4	4,130.6
Total	33	1,920.2	14,119.1

7. Out of the 33 projects for which funding has been approved by the Trust Fund Committee, 21 have reached the stage of MDB approval while 12 are yet to be approved by the MDB.

8. Twelve projects of the 33 projects are classified as public sector projects (i.e., implemented by the public sector arms of the MDBs), 21 are classified as private sector projects (i.e., implemented by the private sector arms of the MDBs). In terms of funding amount, the 12 public sector projects account for US\$1.39 billion in CTF funding, while the 21 private sector projects account for US\$533 million in CTF funding, suggesting that the average project size or loan amount for the public sector projects (US\$116 million) is much larger than that for the private sector projects (US\$25 million).

9. In addition to funding for projects, nine project preparation grants have been approved by the Trust Fund Committee, 7 of them during FY12. See Table 2 for a list of project preparation grants approved as of March 2012.

¹ For projects involving more than one MDB or having more than one phase, or programs with multiple projects, each loan, phase, or project is considered as a separate project for the purpose of counting.

Table 2: Summary of Project Preparation Grant Approvals
(As of March 2012)

Country	Project Title	MDB	Sector Class	Grant Amount (\$ million)	Approval Date
Egypt	200MW Wind Farm in the Gulf of Suez	AFDB	Public	1,000,000	Nov-10
Egypt	Kom Ombo Concentrated Solar Power Project	AFDB	Public	995,500	Jul-11
Indonesia	Global Climate Partnership Fund-Indonesia EE/RE Investment Program	ADB	Private	450,000	Mar-12
Kazakhstan	Renewable Energy Development Framework Facility-Kazakhs Railways	EBRD	Private	1,000,000	Apr-11
Philippines	Cebu Bus Rapid Transport Demonstration Project	IBRD	Public	1,000,000	Nov-11
Philippines	Renewable Energy Development	IBRD	Public	1,000,000	Nov-11
Ukraine	Energy Efficiency Project	IBRD	Public	1,000,000	Oct-11
Vietnam	Urban Transport - Hanoi	ADB	Public	1,000,000	Sep-11
Vietnam	Urban Transport - Ho Chi Minh City	ADB	Public	1,000,000	Sep-11
Total				8,445,500	

10. For FY12, the MDBs proposed in May 2011 a project approval calendar requesting US\$1.4 billion in CTF funding. As of March 2012, 5 projects have been submitted and approved by the Trust Fund Committee for US\$244 million in CTF funding.

11. For the initial 13 investment plans endorsed, total project funding approval represents 45.5 percent of the total funding allocations requested. The share of funding approval under each investment plan, however, varies a great deal, from under 15 percent in the Philippines, Ukraine, and Vietnam to over 80 percent in Mexico and Morocco and as high as 90 percent in South Africa (see Table 3).

Table 3: Status of Funding Approval of Investment Plans
(As of March 2012)

	Country/Region	IP Endorsement Date	Funding Allocation (Million \$)	Funding Approved (Million \$)	% of Funding Approved
1	Colombia	Mar-10	150	37.5	25.0%
2	Egypt	Jan-09	300	150.0	50.0%
3	Indonesia	Mar-10	400	125.0	31.3%
4	Kazakhstan	Mar-10	200	71.7	35.9%
5	MENA-CSP	Dec-09	750	197.0	26.3%
6	Mexico	Jan-09	500	414.0	82.8%
7	Morocco	Oct-11	150	125.0	83.3%
8	Philippines	Dec-09	250	30.0	12.0%
9	South Africa	Oct-09	500	450.0	90.0%
10	Thailand	Feb-12	170	70.0	41.2%
11	Turkey	Jan-09	250	171.7	68.7%
12	Ukraine	Mar-10	350	48.3	13.8%
13	Vietnam	Dec-09	250	30.0	12.0%
	Total		4,220	1,920.2	45.5%

Note: For Morocco and Thailand, the dates and funding allocations are associated with the revised investment plans.

IV. TRACKING PROJECT DELIVERY

12. In the last *Semi-Annual Report on CTF Operations* submitted to the Trust Fund Committee for its meeting in November 2012, a traffic light system was introduced as a tool to manage the CTF pipeline and to track progress of CTF project activities. Two key milestones of project delivery were included: CTF funding approval and MDB approval.

13. To track Trust Fund Committee funding approval, the following traffic lights are applied:²

Green: Within 3 months from the date of submission originally indicated to the currently expected date of submission to the Trust Fund Committee

Yellow: 3 to 9 months from the date of submission originally indicated to the currently expected date of submission to the Trust Fund Committee

Red: Above 9 months from the date of submission originally indicated to the currently expected date of submission to the Trust Fund Committee

14. To track MDB approval, the following traffic lights are applied for public sector projects:

² In accordance with the agreed measures to improve the operations of the CIF, the Trust Fund Committee will consider targets to monitor delivery of CTF projects (see document CTF/TFC.9/6). Should these targets be approved, the traffic light system will be updated to incorporate the agreed milestones and targets.

- Green: Within 9 months from the date of Trust Fund Committee approval to the (expected) date of MBD approval
- Yellow: 9 to 12 months from the date of Trust Fund Committee approval to the (expected) date of MBD approval
- Red: Above 12 months from the date of Trust Fund Committee approval to the (expected) date of MBD approval

15. For private sector programs, the respective traffic lights for tracking MDB approval are as follows:

- Green: Within 9 months from the date of Trust Fund Committee approval to the present date for at least one-third of the funds within the program for financial sector programs and within 18 months for infrastructure projects
- Yellow: 9 to 18 months from the date of Trust Fund Committee approval to the present date for at least one-third of the funds within the program for financial sector programs and under 27 months for infrastructure projects
- Red: Above 18 months from the date of Trust Fund Committee approval to the present date for at least one-third of the funds within the program for financial sector programs and above 27 months for infrastructure projects

16. The results of the two sets of traffic lights for project delivery are presented in Annex 2.

17. As of March 2012, 21 projects have reached the stage of MDB approval. For CTF funding approval, 15 were approved under a green light and 5 under a yellow light, and 1 under a red light. For MDB approval, 18 of these projects were approved under a green light and 3 under yellow.

18. Twelve projects have received CTF funding approval but are awaiting MDB approval. For CTF funding approval, 1 project was approved under a green light, 9 under yellow, and 2 under red. For MDB approval, the traffic light remains green for 3 projects, but has turned yellow for 4 projects and red for 5 projects.

19. For the remaining 63 projects in the pipeline yet to reach the stage of funding approval by the Trust Fund Committee, the traffic light for CTF funding approval has turned red for all but 4 projects.

20. The MDBs have been requested to provide information on the reasons for delays under “remarks” column in Annex 2. In addition, insights and lessons from the MDBs on factors that have led to delays in project development are shared below.

V. LESSONS LEARNED: FACTORS AFFECTING CTF PROJECT DEVELOPMENT

21. The CTF was the first mover among the CIF programs and there was an eagerness among pilot countries, MDBs, and contributor countries to move quickly with country programming once resources became available so as to build on the momentum generated through the CTF design process and country selection. The first 13 CTF investment plans were developed rapidly, ranging from less than 2 months to 16 months. MDBs were encouraged to work with countries to expedite the preparation of investment plans as per the design of the CTF to fill an immediate financing gap.

22. In many countries, the zeal of investment plan preparation has given way to on-the-ground realities. While several CTF projects were approved within a few months of investment plan endorsement and moved quickly from Trust Fund Committee approval to MDB approval to project implementation, the majority of projects in the CTF pipeline have taken longer than originally anticipated to materialize. Several investment plans have been revised recently or are being considered for revision to better reflect the situation in these countries two to three years on from the original investment plan preparation. From this experience of countries and MDBs in programming CTF resources, a number of factors have been identified which have contributed to longer progressing times. These are summarized below.

23. *Country readiness and conditions for transformation were not in place in all CTF countries at the start.* There was a general assumption that because CTF pilot countries were middle-income countries and in many cases had robust low carbon development pipelines, the country programming and project preparation would move quickly. In practice this has not always been the case. Concessional financing supports countries to invest in low carbon development, but transformation of an economy cannot occur without policy and regulatory measures that create an enabling environment for investment, especially for the private sector. While countries, supported by MDBs through CTF and other programming, are indeed working toward implementing appropriate policy and regulatory frameworks, this process takes time and should not be rushed. Extensive support and consultation may be necessary to bring stakeholders on board, design policy mechanisms that are appropriate to the technology and country context, and strengthen the capacity of government and stakeholders for effective implementation. In many countries, policy measures that were expected to precede investments were not yet in place at the time of investment plan preparation, and assumptions made about timelines for policy implementation have not borne out. As a result, many projects have not progressed at the pace projected at the time of endorsement of the investment plan.

24. *Trade-offs may be required between fast start and transformation.* The CTF aims to finance complex and innovative projects, which naturally take more time to prepare and implement. Many CTF projects are targeting technologies that represent first use in a country and may also be new to the MDBs. Moreover, CTF is supporting many large and complex infrastructure projects, which often require extensive due diligence for environmental and social safeguards, demand behavioral change among stakeholders, or tackle entrenched barriers. Desired leverage targets for CTF investments may also require other investors or lenders to be on board, which can add time to the process. The inherent risks and challenges of “transformational” projects necessitate careful preparation, which may be perceived as slow project development.

25. *MDB pipeline – to blend or not to blend.* Using the existing MDB pipeline may have the advantage of building a CTF pipeline quickly and leveraging MDB resources, but it may not always be optimal in achieving the strategic objectives of the CTF, including transformative change at the country level. By contrast, building a new pipeline takes a considerable amount of time and engagement of the country. In some cases, when the investment plans were endorsed, MDB pipelines were full. Both MDBs and countries had programming commitments, borrowing limits and headroom caps that precluded or constrained fast project approvals. In other cases, existing projects could not always be blended with CTF funding due to MDB or country processes. In still other cases, countries have changed their positions on MDB borrowing as in Thailand. The Government of Thailand made the decision to limit MDB borrowing based on its ability to raise capital through other means and revised its investment plan to reallocate resources in favor of the private sector.

26. *CIF procedures extend project processing cycles.* While all stakeholders in the CIF are eager to implement projects and demonstrate results, in practice, Trust Fund Committee approval procedures entail additional steps, which can extend MDB project processing. This experience was shared in the paper which looked at experience with private sector projects (*Climate Investment Funds: Lessons Learned from Private Sector Interventions through MDB Intermediaries*, document CTF-SCF/TFC.7/Inf.4, October 24, 2011). It noted that actual approval time for private sector projects has taken two to three times longer than anticipated (4 to 6 weeks instead of 2 weeks), with significant back and forth between Trust Fund Committee members and MDB staff being the norm.

VI. PROPOSED PROJECT APPROVAL CALENDAR FOR FY13

27. A project approval calendar for FY13 has been proposed by the MDB Committee (Annex 3). It is projected that projects and programs requesting US\$1.49 billion in CTF funding for 45 projects will be submitted to the Trust Fund Committee for approval in FY13.

28. Based on the Trustee's resources schedule as of February 2012, expected additional contributions for FY13 will amount to US\$715.1 million. Adding the projected balance of FY12, the total amount of available resources for programming in FY13 is US\$1.46 billion.

29. In the event a shortfall of resource, the CIF Administrative Unit and the MDB Committee will review the pipeline and prioritize projects for funding request according to the agreed pipeline management criteria. An updated pipeline and approval calendar will be shared with the Trust Fund Committee through the semi-annual operational report.