CLIMATE INVESTMENT FUNDS

JOINT CTF-SCF/TFC.15/3
November 2, 2015

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington, D.C.
Monday, November 9, 2015

Agenda Item 3

CLIMATE INVESTMENT FUNDS: ACCOMPLISHMENTS, TRANSFORMATIONAL IMPACT, AND ADDITIONALITY IN THE CLIMATE FINANCE ARCHITECTURE

Proposed Decision

The Joint meeting of the CTF and SCF Trust Fund Committees, having discussed the document CTFSCF/TFC.15/3, *Climate Investment Funds: an Assessment of Its Accomplishments, Transformational Impact, and Additionality in the Climate Finance Architecture*, agrees that

- MDBs have played and will continue to play a leading role in efficiently deploying scarce public resources and leveraging much larger private investments to implement mitigation and adaptation actions in developing countries; and
- concessional funding provided by the CIF to MDBs has been critical for the MDBs in delivering climate finance at scale.

The joint meeting recognizes the unique features of the CIF business model to pilot approaches and learn lessons for delivering climate finance at scale through the MDBs, notably through programmatic approaches seeking to mainstream low carbon development or climate resilience at the planning, policy and strategic levels to achieve transformative results in developing countries.

The joint meeting further recognizes that the CIF has initiated actions in recipient countries and at the global level that are already proving to be or could prove to be transformational at the level of institutions, policies, markets, technologies, and behavior change.

The joint meeting affirms that the principles agreed at its meeting in November 2014 of: a) supporting the continuity of climate finance flows and action on the ground and reducing funding gaps in the CIF operations; b) progressively taking measures to strengthen complementarity, coordination and cooperation within the climate finance architecture; and c) enhancing the programmatic approach and leverage of funds, should remain the basis for examining the additionality of the CIF in the climate finance architecture.

The joint meeting recognizes that various relevant mechanisms in the climate finance architecture should be used in accordance with their comparative advantage and value added. The joint meeting notes that the CTF Trust Fund Committee will be considering new financing modalities for the CTF.

The joint meeting recognizes the flexibility of the CIF business model and requests the CIF Administrative Unit, in collaboration with the MDBs, to conduct a more detailed gap analysis of the existing climate finance architecture and explore any potential role the CIF could play based on its comparative advantage and value added. The joint meeting would consider the gap analysis in conjunction with the discussion of the future of the CIF at its next meeting in May 2016.

Executive Summary

1. Established in 2008, the Climate Investment Funds (CIF) represent the first effort by the international community to place a significant amount of resources in a dedicated funding vehicle to support developing and emerging economies in adopting a low carbon and climate resilient development trajectory. As of June 30, 2015, the CIF has received approximately USD 8.1 billion in pledges to support large-scale, high impact, first-of-a-kind investments in renewable energy, energy efficiency, sustainable transport, climate resilience, and sustainable forest management in 72 pilot countries.

2. Although the climate finance landscape has evolved since the CIF was created, notably with the operationalization of the Green Climate Fund, the CIF remains the only climate finance instrument delivering concessional finance at scale with recognized results, and the only one with the infrastructure and experience needed to continue the momentum while other funds ramp up. With 300 projects in the pipeline and many more expected as new investment plans are developed, the CIF is driving transformational change across sectors and technologies at the country and global levels while mobilizing significant co- financing—an expected USD 58 billion—for much-needed investments in mitigation and adaptation.

3. The CIF's meaningful, lasting impact can be directly attributed to the CIF's way of doing business, which is unique in the climate finance landscape. The CIF is the only fund to support a programmatic approach through planning and investments that draws on the strengths of diverse stakeholders and leverages other climate and development actions to achieve national or sector-wide transformation. The CIF is also the only multilateral climate fund to work exclusively with multilateral development banks (MDBs) as implementing agencies. By partnering with MDBs to administer funds and support investment planning, the CIF ensures due diligence and high standards, while benefiting from the banks' ability to leverage substantial financing, mobilize other actors, and harmonize policy support. The CIF, in turn, provides MDBs with important concessional resources that can spur transformational impacts in recipient countries. Moreover, the CIF has provided a platform for governments to draw on the comparative strengths of different MDB partners to better coordinate the development and implementation of national investment plans.

4. The Independent Evaluation of the CIF (2014) also indicates the CIF is having an impact. Fieldwork, interviews, and the project lead surveys conducted for the report emphasized the importance of CIF funding in moving projects forward. Nearly three-quarters of CIF project leads indicated that their project would not have proceeded without the addition of CIF funding.[1] This figure may be even higher for private sector projects where at least one MDB reported that none

[1] http://climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_SCF_TFC_12_3_Independent_Evaluation_of_the_CIF.pdf

of its CIF private sector projects would have been able to reach financial close without the availability of CIF funds.

5. The CIF could be instrumental to achieving the USD 100 billion annual goal for climate finance by empowering wider, systematic transformation through five key pathways:

I. Institutions

6. In recipient countries, strong institutions with the mandate and capacity to plan, enable, and manage policies and investments that support climate-smart development are an essential building block of low carbon, climate resilient societies. The CIF has initiated institutional changes through multi-stakeholder coordination and capacity development that are already generating positive returns for recipient countries and have the potential to create meaningful long-term impact.

II. Policies

7. A key aspect of the CIF programmatic approach is to link investments to policy and regulatory reforms supported directly by the CIF or through complementary interventions led by the MDBs with support from other sources. By linking policies and investments through the public and private sectors, CIF-financed activities are contributing to strengthening the enabling environment that is critical to achieve transformational change. This is happening both directly, as a result of CIF financing for policy or regulatory work, and indirectly, such as when CIF-financed investments test the effectiveness of new regulations.

III. Markets

8. The creation of viable commercially-oriented markets is an essential prerequisite to ensure transformation toward low carbon, climate resilient development in both developed and developing countries. CIF-financed interventions are targeting barriers inhibiting the development of viable markets, in particular for renewable energy and energy efficiency. These include, among others, lack of familiarity among investors with new technologies and the risks they present, lack of access to financing at needed terms (lower rate, longer tenor), and high upfront capital costs.

IV. Technologies

9. The adoption and large-scale deployment of technologies for low carbon development and climate resilience are key aspects of transformational change in recipient countries. The CIF is the only existing climate fund that provides large-scale funding to specific technologies. There is evidence that the CIF is already exerting transformational change on technology deployment in a number of recipient countries by providing gap-filling finance at a critical juncture to move markets, by supporting the first use of key technologies in a country, and by facilitating MDB

cooperation in supporting the deployment of technologies at scale at the national and global levels.

V. Behavior Change

10. The CIF supports actions that are intrinsic to achieving transformation toward climate-smart development by influencing behavior change among a range of stakeholders at both the fund and national levels. Evidence of behavior change ranges from strong country ownership of CIF investment plans; to implicit and explicit recognition by governments of the contributions of non-state actors to the climate change agenda (e.g., by involving non-state actors in participatory processes to develop investment plans and monitor their progress); to growing awareness among the private sector of the benefits of taking actions to increase climate resilience; to an increased recognition by governments and MDBs of the ways in which climate change affects men and women differently and the importance of incorporating gender considerations into project design.

Looking Ahead: Additionallity of the CIF

11. The additionality of the CIF in the climate finance architecture is examined through the principles agreed at the joint meeting of the CTF-SCF Trust Fund Committees in November 2014, namely:

a) Supporting the continuity of climate finance flows and action on the ground and reducing funding gaps in the CIF operations;
b) Progressively taking measures to strengthen complementarity, coordination, and cooperation within the climate finance architecture; and
c) Enhancing the programmatic approach and leverage of funds.

12. For the medium term, these principles suggest the following role for the CIF in the climate finance architecture:

a) **The CIF as a key mechanism to continue the delivery of urgently needed climate finance:** Experience from the CIF, MDBs, and other multilateral climate funds shows that deploying finance for climate-smart development takes time. Momentum must not be lost on the climate and development gains that countries are making with CIF and MDB support. The CIF should be maintained to ensure that the project development infrastructure that has been established can continue to play a key role, along with other mechanisms in the climate finance architecture, in promoting scale of climate action in developing countries. Moreover, the CIF has an existing pipeline of unfunded projects that continues to grow with the expansion of the SCF programs.

b) **The CIF remains critical for scaling-up MDB climate investments:** The CIF business model of operating through MDBs has proven to be effective in initiating transformational impacts on the ground. The continued availability of concessional resources from the CIF, which enable MDBs to broaden and deepen their climate work beyond what could be achieved with their own resources, will be important to enabling MDBs to realize their ambitious climate investment targets announced in October 2015.

c) **Specialization of the CTF:** Initial work has been carried out to explore new financing modalities for the CTF that would reinforce the CTF capital structure and enable the CTF to be more flexible and responsive in the use of its instruments. Two options have been identified that would enable the continuation of the CTF: a more traditional option of moving CTF into a pattern of periodic replenishments, perhaps supplemented with continuing low-cost borrowing from sovereign Sponsors; and the more innovative option of mobilizing a further equity capital infusion from sovereign (and possibly other) Sponsors, and leveraging the equity position modestly to implement a self-sustaining pricing and financial management regimen and build out the aspects of the CTF business that can most efficiently deliver into MDBs' operations the cost- and risk-reducing benefits of its public sponsorship. These options are outlined in the paper CTF/TFC.16/5 *Alternative Financing Models and Options to Increase Resource Availability in the CTF* and will be considered by the CTF Trust Fund Committee at its meeting in November 2015.

d) **Exploring the Flexibility of CIF:** The flexibility of the CIF can be further explored going forward to fill in gaps or address priority areas through, for example, thematic programs and a pipeline development facility. A thorough gap analysis of the climate finance landscape including an elaboration of potential options for modifying CIF programs could be prepared for the consideration of the joint meeting in mid-2016.