CLIMATE INVESTMENT FUNDS

Joint CTF-SCF/16/3
May 26, 2016

Joint Meeting of the CTF and SCF Trust Fund Committees
Oaxaca, Mexico
June 15, 2016

Agenda Item 3

Strategic Directions for the Climate Investment Funds
(SUMMARY)

PROPOSED DECISION

The joint meeting of the CTF and SCF Trust Fund Committees reviewed the document JOINT CTF-SCF/TFC.15/3, *Strategic Directions for the CIF*, and notes the detailed and focused gap analysis conducted on how the CIF fits within the climate finance architecture (including, inter alia, the Green Climate Fund). The joint meeting also notes that the analysis took into account future opportunities and explored roles each CIF program could play based on its comparative advantage and value added.

The joint meeting agrees on the need to support the continuity of climate finance flows at scale in the near term and support actions on the ground in developing countries. The joint meeting also agrees to continue monitoring the developments in the international climate finance architecture over the next [X] years to make a decision on the sunset clause and, in particular, as to if and when the Trustee should stop receiving new contributions for the Clean Technology Fund and the Strategic Climate Fund at a future joint meeting.

The joint meeting requests the CIF Administrative Unit to further explore ways to enhance cooperation with the other entities and mechanisms in the climate finance architecture, in particular the Green Climate Fund.

The joint meeting invites the CTF Trust Fund Committee to consider the analysis presented in the Strategic Directions paper and discuss the value proposition for a new business model for the CTF, including the new financing modalities.

The SCF Sub-Committees may consider the analysis presented the Strategic Directions paper on the specific context, lessons learned, and continued value proposition of these three programs (FIP, SREP and PPCR).

Executive Summary

1. In 2008, the Climate Investment Funds (CIF) were created as an interim solution prior to the establishment of a new international climate finance architecture to spearhead funding for mitigation and adaptation activities at scale while unlocking private investments, specially mitigation, and while doing so establish solid learning on new investments approaches at national and global levels. Since then, the CIF has developed a proven track record to deliver investments and results on the ground with USD 8.3 billion in concessional climate finance expected to mobilize at least an additional USD 58 billion in co-financing from other sources to over 300 projects in 72 developing countries. Given that the Green Climate Fund (GCF)—the embodiment of the new financial architecture—is now operational, it is appropriate to take stock of the place of the CIF within the evolving climate finance landscape, and its continued value addition.

I. It is a new world with major challenges

2. The year 2015 ushered in a new context and new imperatives for global development, with international leaders coming together on the Addis Ababa Action Agenda for financing development, new Sustainable Development Goals (SDGs), and the Paris Agreement that pledges to keep global warming to well below 2°C by 2100 and make best efforts to limit warming to 1.5°C. With the Paris Agreement, 189 countries submitted "Intended Nationally Determined Contributions" (INDCs) to reduce greenhouse gas emissions and make economies resilient. The multilateral development banks (MDBs) also committed to raising the level of their ambition and investment volumes to further scale up climate action.

3. These are exciting, hopeful times but the challenge is significant. The world faces an enormous task in aligning financing flows and mobilizing new financing to deliver the scale of investment required for sustainable infrastructure, achieve the SDGs, and fulfill the ambition of the Paris Agreement to make all financial flows compatible with low carbon, resilient development. Countries will require assistance to translate INDCs into concrete policies and actions.

4. Targeted climate finance is crucial to offset costs and risks associated with low carbon, climate resilient investments. Yet gaps are evident in the availability of resources and effective delivery mechanisms to meet the needs of developing countries and the ambition to reduce warming well below 2°C. These include:

- Lack of access to affordable long-term capital;
- High commercial risk for investments in renewable energy;
- High non-financial risks across sectors: lack of information, technical capacity, and climate-compatible policy and regulatory environments;
- Need for sustained access to concessional sources to support MDBs in testing, improving, and demonstrating the financial viability of climate investment; and

- Short supply of investment-friendly instruments that climate finance can help to develop and pilot.

5. **There is a need to continue the momentum that the CIF has created.** The CIF has played a pivotal role in helping to increase the volume of climate investment going to developing and emerging economies, and has been instrumental in financing projects that would not have otherwise taken place. Given the scale of the challenge and the urgency to promote action on the ground in the short and medium-terms, there is a real risk that without the CIF the momentum that has been created will be stalled, particularly for projects that are aimed at accelerating the penetration of new technologies or adoption of new and alternative business models, and undermining the achievement by MDBs of their new climate targets.

6. With the CIF, there is an opportunity to maintain those unique characteristics of its business model that have been instrumental to scaling up climate finance at a critical juncture, while exploring paths to strengthen private sector engagement, and enhancing partnered learning and coordination with the GCF and other climate funds to ensure complementarity and avoid duplication. After eight years on the job, the CIF is tried, tested, and trusted and highly sought by developing countries for these attributes:

- Largest source of concessional climate finance approved to date
- The most risk-bearing instruments of any existing concessional climate fund
- Flexible delivery of private sector-oriented finance
- MDB partnership providing varied skillsets and ability to leverage financing, mobilize other actors, and provide broader policy support
- Learning by doing to adapt programming
- Programmatic approach to strategically plan and implement a series of investments that mutually reinforce each other and link to other activities

II. Future operations of the CIF

7. Operational experience and lessons learned to date suggest several opportunities to enhance CIF programs based on their comparative advantage and value added within the climate finance landscape.

8. For the **Clean Technology Fund (CTF)**, there is an opportunity to expand investments into frontier areas, such as energy storage, distributed generation, sustainable transport, and residential and industrial energy efficiency, where an additional push through collective, scaled MDB support could accelerate market development.

9. The CTF is also well-positioned to introduce a financing structure capable of independently raising funds from institutional investors in the capital markets. This approach would not only place

greater financial self-sufficiency at the heart of the CTF model but also encourage better matching of the economic characteristics of funded activities with appropriate financing—calibrating the trade-off between self-sufficiency and concessionality according to policy objectives.

10. For the targeted programs of the Strategic Climate Fund (SCF) – the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Scaling Up Renewable Energy in Low Income Countries Program (SREP) – there is demand to fund the implementation of programmatic investment plans in the new countries invited since 2014 to join the three programs. There are also opportunities to launch new private sector windows, learning from the experience of the earlier private sector set asides, to fill an immediate gap in concessional finance for private sector climate action, or to support strategic thematic programs targeting specific themes that are aligned with investment plans and INDCs.