CLIMATE INVESTMENT FUNDS

CTF/TFC.13/8
June 4, 2014

Meeting of the CTF Trust Fund Committee
Montego Bay, Jamaica
June 26, 2014

Agenda Item 8

OPTIONS FOR THE USE OF POTENTIAL NEW FUNDS UNDER THE CTF

PROPOSED DECISION

The CTF Trust Fund Committee reviewed document CTF/TFC.13/8, *Options for the Use of Potential New Funds under the CTF*, and welcomes the proposed options.

The Committee agrees that the following should be pursued should additional funds be made available to the CIF:

[i. Option 1: Selecting new countries]

[ii. Option 2: Expanding programs of the current CTF countries]

[iii. Option 3: Expanding Dedicated Private Sector Programs]

[iv. Option 4: Financing over-programming shortfalls]

The Committee requests the CIF Administrative Unit to keep it informed of the availability of new resources so the Committee can agree if and when it is appropriate to expedite the implementation of any option.

I. INTRODUCTION

1. At the CTF Trust Fund Committee meeting in October 2013, the Committee agreed that it was not selecting new CTF countries at this stage and that it was not asking for any expression of interest or new investment plans. Furthermore, the Committee agreed to reconsider at its next meeting in June 2014 the paper entitled *Approaches and Criteria for Considering Potential New Pilot Countries* and invited the CIF Administrative Unit and the MDBs to prepare additional information that could guide any assessment of country requests if new resources were to be made available.

2. This document has been prepared by the CIF Administrative Unit, in collaboration with the MDBs, in response to the request of the CTF Trust Fund Committee. It provides additional information and analysis and proposes four options for the use of potential new resources under the CTF should they become available.

3. The four options proposed are as follows:

> Option 1: Inviting new eligible countries to express interest to participate in the CTF and selecting new CTF countries to develop investment plans for CTF financing.
>
> Option 2: Expanding programs of the current CTF countries by supporting a second phase of their investment plans.
>
> Option 3: Expanding the dedicated private sector programs (DPSP) beyond Phase I and Phase II.
>
> Option 4: Financing the shortfalls of resources for the current CTF pipeline under the endorsed investment plans.

4. Indicative ranges of resources are provided for illustrative purposes for each of the proposed options.

Option 1: Selecting New Countries

5. New countries could be invited to participate in the CTF. Eligible countries would be invited to express interest to participate in the CTF. The existing eligibility criteria will apply, i.e., ODA eligibility and an active MDB country program. Countries that have received CTF allocations through country-based investment plans or have benefited from, or are eligible under the SREP, would not be invited to express interest.

6. Similar to the approach adopted by the SREP,[1] a list of eligible countries and specific criteria for selecting new countries could be approved by the Trust Fund Committee. Once the Committee approves the list of eligible countries and the criteria for selecting new countries, the eligible countries would be invited to express interest by providing relevant information that would assist the selection of new countries. The Trust Fund Committee may choose to establish

[1] *Criteria and Process for Selecting New Pilot Countries under the SREP*, February 26, 2014.

an independent expert group (as is the case for the SREP) to provide assessments and recommendations or undertake the assessments by itself based on the submitted expressions of interest and other public information deemed as pertinent for the selection of new countries.

7. Up to 10 new countries could be identified and considered for participating in the CTF. It is worth noting that in early 2013, five new countries had already indicated their interest to develop CTF country-based programs, namely, Costa Rica, Jordan, Pakistan, Peru, and Uruguay. The Trust Fund Committee at its meeting in May 2013 took note of their expressions of interest but did not take a specific decision.

8. Similar to the current CTF countries, with the support the CTF, the new countries could pilot the demonstration, deployment, and dissemination of clean technologies particularly in the energy and transport sectors. The CTF could support transformational changes in the energy sector by initiating a shift away from dependence on fossil fuels toward renewable resources of energy, such as solar, wind, geothermal, and bio-energy; by promoting energy efficiency in industry, buildings, and appliances; and by curbing the growth of greenhouse gas emissions from road transport through strengthening of relevant institutions, investing in vehicle fuel efficiency, and supporting mass transit systems.

9. Assuming an average indicative allocation USD 300 million in CTF funding per country,[2] USD 2.4-3.0 billion would be required to support 8 to 10 new countries to participate in the CTF.

Option 2: Expanding Programs of the Current CTF Countries

10. Current CTF countries with endorsed country investment plans that have made significant progress with the implementation of the current plans could be invited to develop a second phase investment plan for CTF funding.

11. A number of current CTF countries with endorsed investment plans have requested additional allocations to expand their CTF programs. To date, the Trust Fund Committee has endorsed only one request for expansion of an existing CTF program. In November 2012, the Trust Fund Committee endorsed a second phase investment plan for Turkey, with an additional allocation of USD 140 million, thereby expanding the Turkey CTF funding from USD 250 million under the original investment plan endorsed in January 2009 to USD 390 million with the additional allocation.

12. In May 2013, the Trust Fund Committee agreed that "second-stage plans from any country that has made significant progress in the implementation of its endorsed investment plan may be proposed and endorsed for inclusion in the pipeline." However, aside from Turkey, requests for funding for a second phase investment plans from other CTF countries have not been endorsed mainly due to resource constraints.

[2] The indicative allocation for the existing country investment plans ranges from USD 150 million to USD 500 million, with the exception of India, which requested USD 775 million in CTF funding (first phase).

13. Mexico, for example, submitted a second phase investment plan last October to the Trust Fund Committee with a request for USD 300 million in additional CTF allocation. The proposed second phase investment plan for Mexico will support transformative activities in six areas beyond the endorsed investment plan currently under implementation: (a) green freight transport; (b) sustainable urban transport; (c) clean energy financing and risk mitigation facility; (d) electricity generation from forest residues; (e) energy efficiency in the residential sector; and (f) energy efficiency in the agriculture sector. The additional CTF funding would leverage over USD 1.4 billion in co-financing from public and private sources and would result in emissions reduction of more than 60 million tons of CO_2e.

14. The Trust Fund Committee at its meeting in October 2013 took note of the funding request by Mexico for a second phase investment plan. While recognizing the quality of the plan, the Committee did not endorse it, but agreed that it "would be happy to consider the plan for endorsement in the future if additional funding becomes available."

15. Another example is India. When submitting its CTF investment plan for endorsement in November 2011, the Government of India also elaborated activities that could be financed in a subsequent phase, including nine projects/programs, totaling USD 1.475 billion in CTF funding. These activities range from end-use energy efficiency to improvement of electric power systems, sustainable urban transport, and private sector finance in clean energy.

16. Furthermore, a number of other existing CTF countries, such as Indonesia, have indicated interest and intention to expand their CTF programs should additional resources become available.

17. The Trust Fund Committee could consider selecting six to eight existing CTF countries (aside from Turkey) that have made significant progress in implementing their endorsed investment plans and demonstrating transformative impact for potential funding for a second phase investment plan should additional resources become available. The progress of implementation could be measured in terms of rate of funding approval by the Trust Fund Committee, MDB approval, and disbursement.

18. Assuming an average of USD 300 million in additional CTF allocation for each of the six to eight countries, USD 1.8-2.4 billion would be required to support a second phase funding for these CTF countries.

Option 3: Expanding Dedicated Private Sector Programs

19. This option proposes to finance the expansion of the current dedicated private sector programs (DPSP) beyond the current level of available resources for the DPSP.

20. The Trust Fund Committee approved in October 2013 two program proposals with a total indicative allocation of USD 150 million, to be financed under the CTF through over-programming:

a) Utility-Scale Renewable Energy (initially focusing on geothermal), with an indicative allocation of USD 115 million; and

b) Renewable Energy Mini Grids and Distributed Power Generation, with an indicative allocation of USD 35 million.

21. Funding for two projects under the first program for Mexico and Chile was approved by the Trust Fund Committee in April 2014. The regional mini-grids program involving India, Indonesia and the Philippines was also approved by the Trust Fund Committee in May 2014.

22. Following additional contributions from the United Kingdom of USD 330 million to the CTF at the end of 2013, the CIF Administrative Unit and the MDBs have been working on a proposal for DPSP Phase II, which includes four programs: (a) expanding existing DPSP programs to all CIF countries; (b) adding a modified program for mezzanine finance; (c) expanding the utility-scale renewable energy program to additional technologies; and (d) adding a new program on energy efficiency and self-supply renewable energy program.

23. Although program concepts under discussion have focused on the utilization of the additional resources of USD 330 million intended to support DPSP Phase II, further expansion of the DPSP to a third phase could be considered, should additional resources become available, and DPSP Phase III could also include non-CIF countries.

24. Project ideas for DPSP Phase III could include further expansion of the utility-scale geothermal program, utility-scale solar photovoltaic, mini-grids, and small and medium grid-connected renewable energy. Potential pipeline under DPSP Phase III could be developed over the next 18 to 24 months, and an additional USD 500 million could be programmed.

Option 4: Financing Over-Programming Shortfalls

25. This option proposes to use new CTF resources, should they become available, to finance the possible shortfalls for the current CTF pipeline under the endorsed investment plans.

26. The Trust Fund Committee at its meeting in May 2013 endorsed the proposal to manage all projects and programs under the endorsed investment plans (Phase I and Phase II) under a single pipeline and to allow 30 percent over-programming. This has led to an additional USD 770 million of projects in the pipeline beyond the total pledged resources to the CTF.

27. The merged pipeline has allowed projects and programs under the endorsed investment plans from Chile, India, and Nigeria into the pipeline, which indeed spurred the development of CTF projects and accelerated the delivery of project proposals to the Trust Fund Committee for funding approval during the past year. Furthermore, over-programming has allowed the development and inclusion of DPSP Phase I in the pipeline.

28. The single pipeline and over-programming measures introduced last May under the CTF achieved their intended goals of accelerating project development and delivery. However, since very few projects and programs have been dropped from the CTF pipeline and previous stalled

projects have been replaced by new projects as part of the revision of the investment plans, there will likely be a shortfall of available CTF resources in late 2014 or early 2015 to fund projects and programs under the current CTF pipeline from the endorsed investment plans. According to the proposed FY15 project submission schedule and projected resource availability, we foresee that as much as USD 400-500 million additional resources would be needed for FY15 alone to enable funding commitment to projects proposed in the FY15 pipeline (see analysis in the Semi-Annual Operational Report).

II. SUMMARY AND CONCLUSION

29. Table 1 below summarizes the four options in this proposal, including potential number of countries that could benefit from the new resources and the indicative amount of funding required for illustrative purposes.

Table 1: Summary of Options for the Use of Potential New Resources

Options	Potential Number of Countries That Could Benefit	Indicative Funding Required (USD Billion)
1. New countries	8-10 new countries	2.4-3.0
2. Phase II investment plans for existing countries	6-8 existing CTF countries	1.8-2.4
3. DPSP Phase III	10-15 CIF and non-CIF countries	0.5
4. Shortfalls due to over-programming	Up to 16 existing CTF countries	0.8
Total		5.5-6.7

30. In total, USD 5.5-6.7 billion could be readily programmed if all four options were pursued. The Trust Fund Committee may choose to prioritize the options based on: (a) potential availability of new resources; (b) objectives and impact to be achieved; (c) urgency of funding needs; or (d) readiness for new funding.

31. In terms of priority, Option 4 is most urgent in order to support the continuous operation of the CTF. Without additional new resources, there is a real imminent risk that the CTF will not be able to fund the projects in the pipeline during FY15. For Option 3, as development of the DPSP pipeline is already under way, additional resources for the expansion of the DPSP could be readily programmed. Under Option 2, some countries, notably Mexico, are positioned to receive additional resources, should they become available, and start project preparation and implementation in a relatively short time horizon. Finally, Option 1 may bring many long-term benefits to the CTF, but it will likely take considerable amount of time and effort to identify new counties, develop investment plans by the new countries, and raise sufficient levels of new resources to finance the new investment plans.