CLIMATE INVESTMENT FUNDS

CTF/TFC.9/5/Rev.1
April 13, 2012

Meeting of the CTF Trust Fund Committee
Washington, D.C.
May 3, 2012

Agenda Item 5

OPTIONS FOR MANAGING THE DEVELOPMENT OF PROJECTS ARISING FROM NEW INVESTMENT PLANS

Proposed Decision by the CTF Trust Fund Committee

The Trust Fund Committee reviewed document CTF/TFC.9/5/Rev.1, *Options for Managing the Development of Projects arising from New Investment Plans,* and agrees that the following principles and procedures should guide the further development of projects and proposals foreseen in endorsed investment plans:

[to be completed on the basis of the discussions at the Trust Fund Committee meeting and the preferred option].

The Trust Fund Committee requests the CIF Administrative Unit to revise the agreed procedures for management of the CTF pipeline to take into account these considerations.

I. INTRODUCTION

1. At its meeting in November 2011, the CTF Trust Fund Committee requested the CIF Administrative Unit, in collaboration with the MDB Committee, to prepare, for consideration at its meeting in May 2012, a paper on options for managing the development of projects arising from new investment plans endorsed in or after November 2010, taking into account effectiveness, speed, and fairness. This paper has been prepared in response to the above request of the Trust Fund Committee.

2. This paper has been prepared in consultation with the MDB Committee, and each option strives to address the criteria of effectiveness, speed and fairness, recognizing that the weight assigned to each of these criteria might differ among the options. The options are not presented in any priority order and not all options received strong support from all the MDBs. The Trust Fund Committee is encouraged to solicit the views of the MDBs during its discussion of the options, recognizing that they are well placed to understand the potential consequences and feasibility of each of the options.

3. The Trust Fund Committee is invited to review these options and provide guidance on how to move forward in preparing projects foreseen in the CTF investment plans endorsed in or after November 2012.

II. NEW INVESTMENT PLANS

4. As of October 2010, the Trust Fund Committee endorsed 13 CTF investment plans (12 country and one regional plan) with an indicative funding allocation totaling US$4.35 billion to finance projects and programs identified in those plans. The projects and programs identified in those 13 investment plans are reflected in the current CTF pipeline. The pipeline has been updated regularly to reflect modifications and changes proposed by the countries and the MDBs, including those arising from revisions of the endorsed investment plans.

5. To date, one endorsed investment plan has been revised which has led to a decrease in the request for CTF funding. The Trust Fund Committee endorsed the revised investment plan for Thailand in March 2012, and agreed to an indicative envelope of up to US$170 million in CTF funding to finance the revised plan, thereby releasing US$130 million from the indicative allocation of US$300 million to the original investment plan for Thailand.

6. Since November 2010, the Trust Fund Committee has endorsed two new investment plans and agreed to consider a third new plan at its meeting in May 2012.

7. In November 2010, the Trust Fund Committee approved the following decision:

> "The CTF Trust Fund Committee reviewed document CTF/TFC.6/7, *CTF Investment Plan for Nigeria,* and endorses the plan as a basis for the further development of activities for CTF funding, subject to circulation of a revised version that takes into account comments made by the Trust Fund Committee at the meeting and those that may be submitted in writing by November 26, 2010.

The Trust Fund Committee also notes the request for US$250 million in CTF funding to finance the proposed projects and programs.

Recognizing that the resources pledged to the CTF have already been allocated to earlier investment plans, funding of the projects and programs in the investment plan will be contingent upon the availability of funds beyond what is planned for in the current pipeline.

The Trust Fund Committee requests donor countries to make every effort to mobilize additional resources for the CTF so that Nigeria, together with the African Development Bank and the World Bank Group, may move forward in developing the proposed projects and programs for approval of CTF funding by the CTF Trust Fund Committee when resources sufficient to finance any project and program in the plan become available either as a result of additional contributions to the CTF Trust Fund or through the release of resources from projects and programs included in earlier investment plans. The CIF Administrative Unit should inform the Trust Fund Committee, Nigeria and the MDB Committee by mail once such resources are available."

8. In November 2011, the Trust Fund Committee approved the following decision:

"The Trust Fund Committee reviewed the *CTF Investment Plan for India*. Discussions underlined, in particular, the importance of a clear demonstration of the additionality and strong monitoring and evaluation framework for the development policy loan proposed as part of the investment plan. The Committee takes note of the request for US$775 million in CTF resources and endorses the plan as a basis for the further development of activities for CTF funding. The Government of India and MDBs are requested to take into account in the further development of activities foreseen in the plan comments submitted by members by November 18, 2011.

Recognizing that the resources for the pledged CTF resources are already allocated to earlier investment plans and that the endorsed investment plan for Nigeria is yet to be funded, the Committee agrees that CTF funding for the projects and programs proposed in the investment plan will be contingent upon the availability of funds beyond what is planned in the current pipeline.

The Trust Funds Committee requests the contributors and other countries, MDBs, and other development partners to seek to mobilize the additional resources so that the Governments of Nigeria and India, working in the collaboration with the MDBs, may move forward to develop the proposed projects and programs for approval of CTF funding."

9. Furthermore, the Trust Fund Committee at its meeting in November 2011 agreed to the following:

> "The Trust Fund Committee welcomes the presentation by the representative of the Government of Chile on the status of the preparation of an investment plan for Chile. The Committee agrees that the Government of Chile and the MDBs may proceed to prepare an investment plan with a view to submitting it to the Trust Fund Committee for endorsement. The Committee takes note that the Government of Chile expects to submit an investment plan for consideration at its next meeting in May 2012. The Committee recognizes that CTF funding for project proposals in the investment plan will be contingent upon the availability of funds beyond what is planned for in the current pipeline.
>
> In this regard, the Trust Fund Committee confirms the call for the contributors and other countries, MDBs, and other development partners to seek to mobilize additional resources to fund all unfunded investment plans."

10. The Chile investment plan has since been developed, and it will be submitted to the Trust Fund Committee for endorsement at its meeting in May 2012, with a request for US$200 million in CTF funding.

III. NEW CONTRIBUTIONS AND RELEASED FUNDS

11. Pledges and contributions made to the CTF in 2008-2010 totaled $4.543 billion.[1] Subsequently, as of March 30, 2012, new contributions have made to the CTF by the Government of the U.K. (US$ eq. 214 million[2]) and the Government of Canada (US$ eq. 202 million[3]). Together, total pledges and contributions to the CTF amount to US$4.805 billion.[4]

12. In accordance with the guidelines approved by the Trust Fund Committee for management of the pipeline,[5] funds may be released for reprogramming as a result of revisions of the previously endorsed investment plans or project cancelations. Under the guidelines, the Trust Fund Committee may consider a range of options for reprogramming the released funds, including reserving the released funds for new investment plans.

13. As noted above, US$130 million has been released as a result of the revision of the investment plan for Thailand. There is, therefore, potentially up to approximately US$ eq. 546 million available for programming, without considering fluctuation in foreign exchange rates, outside the total envelope for the first 13 investment plans.

IV. OPTIONS FOR MANAGING THE CTF PIPELINE

14. Four options are proposed here for consideration by the Trust Fund Committee for addressing how best to allocate resources to the three additional investment plans for Nigeria,

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[1] Valued on the basis of exchange rates as of September 25, 2008.
[2] Valued on the basis of exchange rates as of March 30, 2012.
[3] Valued on the basis of exchange rates as of March 30, 2012.
[4] Valued on the basis of exchange rates as of March 30, 2012.
[5] See *CTF Guidelines for Management of Pipeline and Revisions to Investment Plans*, December 15, 2011, http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CTF_guidelines_for_pipeline_management_final.pdf. This document is merged from two related documents previously approved by the Trust Fund Committee.

India, and Chile (if endorsed by the Trust Fund Committee). All four options address the trigger for authorizing the countries and the MDBs to move forward in the preparation of new projects and programs foreseen in the investment plans. This is a programming decision which occurs upstream in the project cycle. It is not a decision that commits funds from the trust fund. It will be recalled that under the CTF to date programming has been on the basis of pledges to the trust fund to cover the costs of implementing such plans.

15. With regard to pipeline management and the commitment of resources, as one trust fund, the CTF cannot be sub-divided. Given the diverse nature of the contributions to the CTF (grants, capital, and loans) it is particularly important for sound financial management of the trust fund that the pipeline and commitment of resources are managed as one fund and that CTF resources are committed to projects only on the basis of funding availability and the quality and effectiveness of the project proposals submitted for funding approval.

16. Therefore, the four options proposed below should be viewed as triggers for beginning project preparation without any further commitment of resources. The commitment of resources occurs when a proposed project or program is at a pre-appraisal stage of development, and it is submitted by the country and the relevant MDB(s) to the Trust Fund Committee for approval of CTF financing. Trust Fund Committee approval is the trigger for the commitment of funds by the Trustee to the implementing MDB. Funds available for commitment are those funds held in the trust fund with no restrictions less the amount of funding decisions pending cash transfers.

17. The four options are summarized below:

a) **Option 1:** There would be no distinction as to when pledges and contributions are made to the CTF. Under this option, once an investment plan is endorsed, all projects/programs proposed in an endorsed investment plan will be included in an inventory of potential projects/programs, and work may proceed on the preparation of such projects/programs under the inventory. A project/program would move from the inventory to the pipeline when it is actively under preparation.[6] Once prepared, any project/program may come to the CTF Trust Fund Committee for approval when funds in the trust fund are available for commitment and subject to the agreed criteria for managing the pipeline, regardless of the order in which the investment plan is endorsed.

b) **Option 2:** For purposes of programming, the CTF funding would be separated into two phases: Pledges made in 2008-2010 would be attributed to the first phase of funding while pledges made in 2011 and later would be attributed to a second phase of funding. Projects and programs under the first 13 investment plans would be notionally funded within the ceiling of resources pledged during phase I, while projects and programs under the three additional investment plans would notionally be funded within the ceiling of resources pledged during phase II. Two variations of this option are proposed for sequencing the further preparation of projects that would notionally draw from phase II resources.

[6] If this option is adopted, the CIF Administrative Unit and the MDB Committee will elaborate upon the criteria for moving from the inventory of the projects to the pipeline taking fully into account the procedures of the MDBs.

c) **Option 3:** This option is similar to option 2 but it provides that funds that are released under phase I due to investment plan revisions or project cancellations may be attributed to phase II available funding. As in option 2, there are two variations under this option relating to the sequencing of project preparation.

d) **Option 4:** Under this option, the CTF funding would again be notionally separated into two phases as in (b) and (c) above. Like option 1, once a phase II investment plan is endorsed, all projects/programs proposed in the endorsed plan will be included in an inventory of potential projects/programs, and work may proceed on the preparation of such projects/programs under the inventory. A project/program would move from the inventory to the pipeline when it is actively under preparation.[7] Once prepared, any project/program may come to the CTF Trust Fund Committee for approval when funds in the trust fund are available for commitment and subject to the agreed criteria for managing the pipeline, regardless of the order in which the investment plan is endorsed, but funds available for commitment would be measured against the funds attributed to phase II funding. As in options 2 and 3, the Trust Fund Committee would need to determine whether phase II can include funds that are released under phase I due to investment plan revisions or project cancellations may be attributed to phase II available funding.

18. Figure 1 shows the four proposed options schematically. Under all options, a single CTF Trust Fund and a single CTF pipeline will be maintained.

Figure 1: Proposed Options for Managing New Resources and Pipeline

Option 1	• Resources: all pledges and contributions to the CTF • Inventory of Projects: would include all projects identified in endorsed investment plans (IPs) • Pipeline of projects: would include all projects actively under preparation	
Option 2	Phase I • Resources: pledges and contributions made in 2008-2010 • Projects: identified in IPs endorsed before November 2010	Phase II • Resources: pledges and contributions made in 2011-present • Projects: identified in IPs endorsed in or after November 2010
Option 3	Phase I • Resources: pledges and contributions made in 2008-2010, minus released funds as appropriate • Projects: identified in IPs endorsed	Phase II • Resources: pledges and contributions made in 2011 - present, plus released funds from phase I as appropriate • Projects: identified in IPs endorsed in or after November 2010

[7] If this option is adopted, the CIF Administrative Unit and the MDB Committee will elaborate upon the criteria for moving from the inventory of the projects to the pipeline taking fully into account the procedures of the MDBs.

	before November 2010	

	Phase I	Phase II
Option 4	• Resources: pledges and contributions made in 2008-2010, minus released funds as appropriate • Inventory of projects: would include all projects identified in investment plans endorsed before November 2010 • Pipeline of projects: would include all phase II projects actively under preparation	• Resources: pledges and contributions made in 2011 - present, plus released funds from phase I as appropriate • Inventory of projects: would include all projects identified in investment plans endorsed in or after November 2010 • Pipeline of projects: would include all phase II projects actively under preparation

19. **Option 1:** Under this option, all pledges and contributions to the CTF would be co-mingled. No distinctions would be made as to when the pledges and contributions are made. Once any investment plan is endorsed, projects or programs identified in the endorsed investment plan would automatically be included in the CTF inventory of potential programs and projects. A program or project would move from the inventory to the pipeline when it is actively under preparation. Project preparation could begin after endorsement of the investment plan. The pipeline would be managed in accordance with the procedures and criteria outlined in the *CTF Guidelines for Management of Pipeline and Revisions to Investment Plans,* which would be applied to determine when projects would be presented to the CTF Trust Fund Committee for approval of funding. If this option were selected, project preparation could begin immediately under the investment plans for Nigeria, and India, and for Chile when its plan is endorsed by the Trust Fund Committee.

20. It should be noted that this option would deviate from the current practice of the CTF Trust Fund Committee in which project preparation under an endorsed plan has been based on having pledges to the trust fund sufficient to cover the costs of implementing such plans. This option would allow over programming of CTF resources, assuming that there will be some droppage in projects, more resources will be pledged, and/or other sources of climate financing will be identified to finance projects that might be submitted for CTF funding after CTF resources are fully committed. A number of MDBs are of the view that stronger pipeline management, together with the phased approaches to pledges outlined below, are a better means to address project development without the negative risks that might arise from over programming.

21. **Option 2:** Under this option, for purposes of identifying a trigger to begin project or program preparation, the CTF resources would be notionally divided into two phases of funding. Phase I would be comprised of pledges made in 2008-2010, which to a large extent have already been allocated indicatively to the 13 investment plans endorsed before November 2010. Phase II

would be comprised of new pledges and contributions made subsequent to those included in phase I (from 2011 onwards).

22. For the purpose of programming, there would be a clear distinction between phase I and phase II. Phase I projects and programs would be related to the pledges made to phase I (which have been allocated and as a result all phase I projects and programs are moving forward and have been included in the CTF pipeline), and phase II would include programs and projects arising from investment plans that were endorsed in or after November 2010, and which would move forward in step with the resources pledged to phase II. In terms of sequencing pipeline entry of phase II projects, two sub-options are proposed for consideration by the Trust Fund Committee. Both options assume that phase II will be limited to the endorsed or proposed investment plans for Chile, India, and Nigeria (i.e., no additional investment plans will be developed).

23. **Option 2a** would allow pipeline entry of phase II projects in the order of the date of endorsement of the investment plan, and each investment plan would receive full funding before moving on to the next plan. The number of projects allowed to enter the pipeline will depend on the availability of resources for programming under phase II. For example, if US$500 million of phase II resources are available for programming, all projects indentified in the Nigeria investment plan (for which US$250 million in CTF financing is requested) would enter the pipeline and project preparation could immediately begin. The remaining available resources of US$250 million could be allocated to projects identified in the India investment plan according to the priority agreed by the country in consultation with the MDBs. If and when additional resources become available for programming, the next priority project or batch of priority projects may enter the pipeline under the investment plan for India. Only after sufficient funds were pledged to fully finance India's investment plan would the development of projects begin under the investment plan for Chile.

24. **Option 2b** would allow pipeline entry of phase II projects in tranches of funding made available simultaneously to the three phase II investment plans in proportion to the overall funding requests. Tranched funding would be based on two principles: (a) that resources within a tranche would be distributed proportionally among the three investment plans, and (b) that when agreeing to a new tranche there are sufficient resources to provide substantial funding to all three plans.

25. A tranche of funding would be triggered by a recommendation from the MDB Committee, taking into account the availability of resources to fund activities in all three countries. The Trust Fund Committee would approve the release of a new tranche. Once a tranche is agreed, the country, in consultation with the MDBs, would decide which projects would be funded under each tranche, and project preparation for the agreed projects would begin.

26. For example, if approximately US$500 million of phase II resources are available for programming, US$100 million in CTF funding could be made available for projects under the investment plan for Nigeria, US$315 million could be made available for projects under the investment plan for India, and US$80 million could be made available under the investment plan for Chile. The exact amount of funding for any investment plan will need to be determined

taking into account the funding requirements of the project proposals, but the basic principle of proportional allocation will be followed. Funds remaining unallocated after the tranche and new contributions or additions to phase II would remain unallocated until there are sufficient funds available to justify a new tranche.

27. For purposes of illustrating how this option might be applied, Table 1 provides an example with three tranches of funding, assuming endorsement of the Chile investment plan with a request of US$200 million in CTF funding.

Table 1: Funding for New Investment Plans in Tranches
(Million US$)[8]

	Total funding request	Percentage of tranche to be allocated to country	1st Tranche (approx. US$500 mil)	2nd Tranche	3rd Tranche
Nigeria	250	20%	100	75	75
India	775	64%	315	230	230
Chile	200	16%	80	60	60
Total	1,225	100%	495	365	365

28. **Option 3** is similar to option 2, with the variation of allowing funds that may be released due to revisions of investment plans or cancellation of projects in phase I to be included in the resources available under phase II. Under option 3, funds released from phase I could be included within the resources available to trigger programming under phase II, if so decided by the Trust Fund Committee on case by case basis, along with phase II pledges.

29. **Options 3a and 3b** are the same as options 2a and 2b, except for the provision of allowing the released resources to be attributed to phase II.

30. **Option 4**, like options 2 and 3, would divide the resources into phases and the principles described under option 1 would apply. Projects or programs identified in the three endorsed investment plans would be included in the phase 2 inventory of potential programs and projects. A program or project would move from the inventory to the pipeline notionally associated with phase 2 when it is actively under preparation. Project preparation could begin after endorsement of the investment plan. The pipeline would be managed in accordance with the procedures and criteria outlined in the *CTF Guidelines for Management of Pipeline and Revisions to Investment Plans,* which would be applied to determine when projects would be presented to the CTF Trust Fund Committee for approval of funding. As in options 2 and 3, the Trust Fund Committee would need to determine whether phase II can include funds that are released under phase I due to investment plan revisions or project cancellations may be attributed to phase II available funding.

[8] Calculations and numbers have been rounded to facilitate presentation.

V. OTHER CONSIDERATIONS

31. If any of the options that call for a phased approach based on pledges is adopted, it is recommended that the Trust Fund Committee, through its monitoring of the pipeline and project approvals, consider the need to revisit the phased approach in two years if it finds that there are funds not being effectively utilized.

VI. PROS AND CONS OF THE PROPOSED OPTIONS

32. The options for managing new resources and pipeline outlined in Section IV have their respective pros and cons. Table 2 provides a preliminary list of the advantages and disadvantages of each option relative to other options.

Table 2: Assessment of Proposed Options

	Potential Advantages	Potential Disadvantages
Option 1	• Streamlines pipeline • Allows fast-moving projects to move forward • Promotes efficient use of resources and leads to faster results	• Introducing uncertainties and unpredictability of funding for projects already in the pipeline, which may erode confidence of recipient countries in the CTF • Disincentive to teams to seek to resolve problems that may arise in project preparation if funding is unpredictable – give up preparation rather than resolve issues • May be perceived as "unfair" to countries that view their indicative allocation as a guarantee of resources
Option 2a	• Maintains expectations of phase I resources and pipeline • Rewards those phase II countries that took initiative to prepare investment plans • Provides assurance that new contributions will be used to finance additional plans and activities	• May result in slow delivery in the event of non-readiness of phase II projects under one investment plan • Investment plans endorsed late in phase II may not receive resources
Option 2b	• Maintains expectations of phase I resources and pipeline • Provides balance and equity to the three countries with unfunded, but endorsed, investment plans • Provides assurance that new contributions will be used to finance additional plans and activities	• May result in slow delivery in the event of non-readiness of phase II projects, albeit to a lesser extent than Option 2a • Investment plans endorsed in phase II may be disadvantaged compared to phase I even if they are ready for funding earlier

Option 3a	• Partially maintains expectations of phase I resources and pipeline • Rewards those phase II countries that took initiative to prepare investment plans Provides assurance that new contributions will be used to finance additional plans and activities	• May result in slow delivery in the event of non-readiness of phase II projects • Investment plans endorsed late in phase II may not receive resources, albeit to a slightly lesser extent than Option 2a
Option 3b	• Partially maintains expectations of phase I resources and pipeline • Provides balance and equity to the three countries with unfunded, but endorsed, investment plans Provides assurance that new contributions will be used to finance additional plans and activities	• May favor phase II projects at the expense of phase I projects in the event of shortfall of resources as a result of non-payment or delay in payment of phase I pledges
Option 4	• Fully or partially maintains expectations of phase I resources and pipeline (depending upon determination as to whether phase II may include some funds from phase I) • Provides assurance that new contributions will be used to finance additional plans and activities • Allows fast-moving projects to move forward • Promotes efficient use of resources and leads to faster results	• Introduces unpredictably for countries in phase II as to whether funding will be available once projects are prepared, which may erode confidence of recipient countries in the CTF • Disincentive to teams to seek to resolve problems that may arise in project preparation if funding is unpredictable – give up preparation rather than resolve issues • May be perceived as “unfair” to countries whose projects are prepared after all CTF funds have been committed