Climate Investment Funds

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ANNUAL UPDATE ON ADDITIONALITY OF CIF TO EXISTING MDB PORTFOLIOS

(SUBMISSION BY CIF MDBS)

Joint MDB Work on Climate Finance Tracking - Update

I. INTRODUCTION

1. While there is a wide agreement that rapid and successful deployment of international public finance is a critical first step in allowing developing countries to adapt to climate change and pursue actions that will allow them to move onto a low carbon development pathway, it is also widely recognized the need to track and report financial flows that support climate change mitigation and adaptation, to build trust and accountability with regard to climate finance commitments and monitor trends and progress in climate-related investment.

2. A comprehensive picture of the climate finance landscape is critical to this end and, ultimately, a prerequisite for ensuring the effective and productive use of available financial resources. This is essential to inform governments and policy makers on how to spend their money wisely.

3. Recognizing this need and the shortcomings of the existing tracking systems, the Vice Presidents of the Multilateral Development Banks (MDBs) agreed in late 2010 to undertake joint efforts leading towards a joint methodology for tracking climate change mitigation and adaptation finance. The objective was to agree on key reporting principles, eligibility for aggregation and transparency. A Joint MDB Working Group on climate finance tracking was established, with the African Development Bank (AfDB) leading efforts on adaptation and the Inter-American Development Bank (IaDB) leading efforts on mitigation.

4. The Joint MDB methodology for mitigation finance tracking along with the 2011 financing figures were disseminated during Rio+20 in mid-2012 and the Joint MDB methodology for adaptation finance along with the 2011 financing figures were disseminated at COP18 in late 2012.

5. Work is currently ongoing, with EBRD taking the lead role, to consolidate MDB's 2012 climate finance data and prepare the Joint MDB Climate Finance Report for 2012, which for the first time is expected to also include climate finance data from bilateral International Finance Institutions (IFI's), namely, AFD, JICA and KfW.[1]

II. MDB'S MITIGATION AND ADAPTATION FINANCE DATA 2011 AND 2012

6. The tables below present the mitigation and adaptation finance levels (in USD million) as well as the shares of external resources and CIF resources in total MDB mitigation and adaptation finance provided by the MDBs for fiscal year 2011 and 2012[2]. Data reported correspond to the financing of those components and sub-components within projects that provide mitigation and adaptation co-benefits (rather than the entire project cost). The MDBs intend to publish a similar report each year. Annex 1 contains the detailed disaggregated tables included in the Joint MDB Climate Finance Reports.

[1] KfW and AFD data is being incorporated and reported jointly with that of the other 6 MDB's under the premise that the bilateral IFI's have used the Joint MDB methodologies to track their climate finance.
[2] 2012 data is not final, and subject to revision in the internal review processes of the MDBs.

Table 1. MDB Mitigation and Adaptation Finance, 2011 and 2012 (USD millions)

MDB	Mitigation		Adaptation	
	2011	**2012**	**2011**	**2012**
AfDB	1,044	1.708	595	523
ADB	2,420	2,439	757	896
EBRD	3,532	3,139	194	205
EIB	2,487	3,536	285	179
IDB	1,869	1,762	291	442
IFC	1,681	1,594	na	na
WB	6,592	7,063	2,389	3,998
TOTAL	**19,634**	**21,129**	**1,104**	**6,242**

Table 2. Share of external resources (including CIF) in total MDB Mitigation and Adaptation Finance[3], 2011 and 2012

MDB	Mitigation		Adaptation	
	2011	**2012**	**2011**	**2012**
AfDB	17.7	14.4	0	15.5
ADB	9.3	13.8	22.7	7.6
EBRD	3.7	3.3	8	3.2
IDB	5.9%	6.1%	1.2%	1.8%
IFC	1	2.6	na	na
WB	6.3	12.7	3.6	4.7
TOTAL	**5.6**	**8.2**	**7.6**	**5.6**

III. RELEVANCE OF CIF FOR MDB'S CLIMATE FINANCE PORTFOLIOS

African Development Bank

7. AfDB recognizes that climate change provides an opportunity for Africa to adopt a development pathway that is climate resilient and less carbon-intensive—one that promotes clean, efficient energy technologies and the sustainable management of natural resources such as land, water and forests. Such a development pathway would help reduce the exposure of the vulnerable communities in Africa to the adverse impacts of climate change, while at the same time contribute to the global greenhouse gas emission reduction efforts. It is within this context that addressing the challenges of climate change on the continent is a core priority for the Bank.

8. Climate finance continues to play a key role in making low carbon and climate resilient investments bankable by lowering the cost of capital and buffering risks both for sovereign and non-sovereign operations. Tables 3 and 4 below and the project examples in Box.1 illustrate that without concessional climate finance, and in this case CIF, AfDB would most likely only be able to deliver half of its 2011 and 2012 levels of mitigation finance and its levels of adaptation

[3] As illustrated in the tables on Annex 1 total MDB Mitigation and Adaptation Finance means finance provided with MDB's own resources + finance provided with external resources channeled/implemented by the MDB's.

finance would have decreased by 20 percent in 2012 vis-à-vis 2011. This in turn would have impacted the share of climate finance provided by AfDB in terms of its total financing, which was of 20 percent in 2011 and 34 percent in 2012.

9. Table 4 takes the analysis one step further by illustrating that not only from 2006 to 2010 (pre-CIF) the levels of investment by AfDB in renewable energy (RE) and energy efficiency (EE) were significantly lower, but also the critical role that CIF resources play in promoting RE investments through AfDB in African countries. Finance provided through CIF projects (both CIF and AfDB's internal resources) for RE/EE represented 92 and 89 percent of the total finance provided by AfDB for RE projects, in 2011 and 2012, respectively.

Table 3. Share of CIF projects in total AfDB's Mitigation and Adaptation Finance, 2011 and 2012

	2011			2012		
	Total	**CIF projects**	**%**	**Total**	**CIF projects**	**%**
Adaptation	596	0	0	523	100	19.1
Mitigation	925	508	55	1708	913	53.5

Table 4. Share of CIF projects in total AfDB's RE/EE Finance, 2011 and 2012

RE/EE	**Total**	**CIF**	**%**
2006-2010	**275**	**0**	0
2011	**553**	**508**	92
2012	**1028**	**913**	89

Box 1. Project Examples from AfDB

Morocco CTF Ouarzazate I Concentrated Solar Power Project

The additionality brought by the CIF/CTF resources is linked to the reduction of the cost of investment, and ultimately bringing the kWh tariff down too. The CTF and AfDB/World Bank loans are critical to enhance the financial viability of this project. In the absence of the CTF funds, the resulting cost increase would place pressure on fiscal subsidies or burden electricity consumers in the unlikely case that additional costs were passed on to consumers. Furthermore, the CTF funds will also enable the Moroccan Solar Energy Agency (MASEN) to take greater calculated risks and look toward achieving breakthroughs; to push boundaries in terms of development that go beyond what many private companies would be willing to undertake.

The project is also expected to have a transformative effect on Morocco and the region. Implementing this priority project in Morocco's energy strategy will be a major step towards achieving the Kingdom's clearly stated ambition to master large-scale solar energy production so as to diversify its energy sources, help curb green-house gas emissions, and create a local

industry capable of providing locally-manufactured inputs to the solar energy programme. A key objective is to install CSP at a scale that sufficiently tests and demonstrates the storage technology component, triggers important cost reductions, and fosters associated economic benefits, such as local manufacturing industries, improved energy security, and a shift away from fossil fuels; as well as test a business model that could attract and increase private-sector backing and enhance the availability of capital and 'know-how' to support the development of a CSP portfolio.

Kenya SREP Menengai Geothermal Development Project

The additionality brought by the CIF/SREP resources is linked to the removal of risks and barriers, to the establishment of an enabling environment for private sector participation and the development of Kenya's full geothermal potential. The relatively low cost geothermal energy is likely to make Kenya a preferred destination for investors bringing with it the attendant benefits such as (i) increased fiscal revenue and improved economic development to the country and to the region, (ii) increased rate of access to electricity in the countries and (iii) create the required reliable base load capacity.

The project is expected to be transformative given its focus on gradually changing the base source of electricity from hydropower to geothermal power, also a renewable energy and more sustainable than the drought-prone hydro-based system. By accelerating geothermal development, the contribution from renewable energy sources to the national grid will dramatically increase. This will translate into lower electricity tariffs given that expensive emergency power from thermal will be replaced by geothermal energy.

Since most of the geothermal resources are located in under-developed areas it is also expected that various co-benefits be available for local communities such as: electricity generation; opening up of the areas through infrastructure development such as roads and water; opportunity for direct utilization of geothermal heat and condensate for industrial and agricultural based activities leading to employment creation and income generation; increased security in the areas as a result of the economic activities and social amenities. These activities are expected to transform the life of women (e.g., water supply from geothermal development will lift the burden of searching for water from long distances, improve farming activities through irrigation leading to food security).

PPCR Niger's Climate Information Development and Forecasting Project

Niger's existing early warning system does not have a decision-making tool adapted to climate risks the country faces such as drought, floods, crop enemies and climate-related diseases. It is imperative for this climate-vulnerable country to establish a multi-hazard early warning system for climate change. The resources provided by PPCR will support the mainstreaming of climate information in development actions, the development and dissemination of climate scenarios and products to end users, the build-up of capacity in climate data processing, the preparation of a vulnerability map of agro-pastoral activities in the country's district councils, and the improvement of the early warning system to make it multi-hazard.

The project is expected to be transformative for the beneficiary communities not only because of the expected increase in food security by increasing the application and use of climate information and reducing annual variation in cereal production; and have a national catalytic role by promoting the preparation of a vulnerability assessment tool and map to be published in 2016, the establishment of a national risk management platform (expected to be operational in 2015) and of an early warning dissemination network covering all networks in 2014.

Asian Development Bank

10. The economic growth and social transformation of countries in Asia and the Pacific over the past half century has been unprecedented. It has lifted millions out of poverty, improved access to education and healthcare, and overall quality of life. Unfortunately, it has also led to significant environmental degradation, unprecedented demand for energy, and soaring carbon emissions contributing to climate change.

11. The region will require billions of dollars to transition to low-carbon growth paths and adapt to the unavoidable impacts of climate change. To respond to this challenge, ADB's climate change initiatives are creating access and incentives for financing and investments to help make mitigation and adaptation actions more competitive and affordable to developing countries. In this effort, ADB is mobilizing concessional resources through a number of mitigation and adaptation funds, including CIF.

12. Figures in Table 5 show that CIF constitutes a significant amount of climate change financing for ADB. Total approved CIF resources for 2011 and 2012 were 31 percent of total approved external climate change finance resources. CTF resources make up 27 percent of total external climate financing sources for mitigation, while PPCR resources make up 39 percent of total external climate financing sources for adaptation.

Table 5. Breakdown of ADB Climate Investments

ADB	MDB Resources Approved ($millions)			External Resources Approved ($millions)			CIF Resources Approved ($millions)				
	Investments and technical assistance	Mitigation	Adaptation	Investments and technical assistance	Mitigation	Adaptation	Investments and technical assistance	CTF	PPCR	FIP	SREP
2011	2,781	2,196	585	311	139	172	15	2	13	0.225	0.375
2012	2,931	2,103	828	404	336	68	208	124	82	0	2
Total	5,713	4,300	1,413	715	475	240	223	126	94	0.225	2

13. ADB's Clean Energy Program[4] is backed by almost two decades of various interventions in the sector. The CEP established clean energy lending targets, initially at $1 billion a year by 2008 and then increasing to $2 billion a year by 2013. In 2012, ADB investment in clean energy was $2.3 billion, making this the second year in a row that ADB's clean energy investments have surpassed $2 billion annually. Although CTF financing is only a fraction of ADB's total investments in the sector, CTF interventions have promoted dialogue on policy and regulatory reforms in some sectors of ADB's client countries. It promotes the scaling-up of renewable energy generation and will demonstrate potential efficiency of a modal shift in public transportation through innovative financing. The CTF has also been useful in funding programs and projects that encourage private sector participation by reducing market risks/barriers. It creates an economically-viable environment, opening up opportunities for local and international partnerships, and promoting environmentally sustainable activities.

Box 2. Project Examples from ADB

Thailand: Renewable Energy Investments (wind, solar, waste-to-energy)

CTF and ADB financing will support the implementation of candidate projects located in various provinces within the country. This program is expected to demonstrate the commercial viability of private sector utility-scale energy generation projects and will bridge the gap between perceived and actual risks associated with investments in a relatively new industry. It will serve as a catalyst towards encouraged participation of other private sector developers, investors, and financial institutions in subsequent power development projects utilizing solar, wind, and WTE technologies.

Developmental impacts include the diversification of Thailand's energy mix through the addition of RE-based generating capacity and viability demonstration of utility-scale private sector RE power generation projects. Other co-benefits include improved air quality, minimal waste, reduced noise, a lower carbon footprint, and employment opportunities which has a direct effect on local poverty reduction within the vicinity of individual projects.

Philippines: Energy Efficient Electric Vehicles Project

E-vehicles are known to be efficient and generate no harmful air and noise pollution. The Philippine Government perceives e-vehicle technology as an opportunity to improve its energy security by reducing the country's dependency on oil. The government envisions a transformation of the public transportation's "base of the pyramid," the tricycles, through technology leapfrogging.

However, given the result of ADB's pilot project on e-trikes, large scale adoption would only be feasible with the establishment of a local e-trike industry. This will eliminate technology risks for broader adoption of electric vehicles. With these lessons from the pilot, the government plans to scale up the program and use CTF financing blended with ADB's investment to fill the

[4] ADB's Clean Energy Program identifies and promotes cost-effective energy efficiency improvements, expands the use of renewable energy, facilitates the introduction of new clean energy technologies, and gives incentives for the public and private sectors to invest in these areas.

gap needed to lower the cost of transforming the energy use by the tricycles. The role of CTF fund is beyond concessional financing—use of CTF funds have allowed the Government to "Think Big" and commit to invest in 100,000 locally made electric vehicles by 2016.

14. PPCR has rapidly become the largest source of external co-financing for ADB's current adaptation program. PPCR has supported blended as well as stand-alone projects/programs in ADB that enabled countries to promote transformational change and scaled-up actions on adaptation and climate resilience. In blended projects/programs, PPCR has been instrumental in mobilizing significant sums of ADB and other donor financing which provided an opportunity for the pilot countries to embed climate risk management and adaptation measures in their projects which may have been difficult if PPCR resources were not available.

15. Significant PPCR funding have also been provided for capacity building, information generation, and development of knowledge products, both under Phase 1 and in varying amounts under Phase 2, including project preparation grants. These resources have been very useful for countries not only to assess and build capacity of mainstreaming adaptation in the development planning process and generate information but also to pilot-test innovative approaches and participatory mechanisms to engage stakeholders, CSOs and communities in designing and implementing adaptation projects.

Box 3. Project Examples from ADB

Nepal: Integrating Risk Management in Development

ADB is supporting the Government of Nepal to integrate climate change adaptation into its development strategies with two projects funded by PPCR. The project Mainstreaming Climate Change Risk Management in Development ($7.2 million), launched in June 2012, is providing technical assistance to a number of government departments responsible for rural and urban infrastructure investments to upgrade design standards for greater resilience to projected climate change impacts. The project will also roll out a district level climate change training program where district development committee planning officers will be trained on community based vulnerability assessment, risk assessment and adaptation planning to enable them to develop community adaptation plans.

The project Building Climate Resilience of Watersheds in Mountain Eco-Regions ($33.8 million), scheduled for approval by mid-2013, will ensure mountain communities in the Karnali River Basin, one of the country's most climate sensitive and disaster prone regions, will have reliable access to water for drinking and irrigation. Participatory watershed planning will improve water storage and reduce environmental problems that trigger frequent small-scale disasters that are particularly devastating for poor, remote populations. Both projects incorporate strategies for capturing best practices and lessons learned to share knowledge on adaptation and disaster risk reduction in Nepal and in the region.

Tajikistan: Building Capacity for Climate Resilience

Under the $6 million technical assistance project in Tajikistan funded by PPCR, a management information system will be established to store and share existing and newly generated data, including disaster risks. Training on how to generate and use climate data and information will be provided to local experts involved in hydro-meteorological data measurements and to the new experts engaged by the Hydromet Forecast Department. National and local plans will be formulated to devise measures to reduce climate vulnerability to climate extreme events and manage disaster risk. Additional technical skills will be sustained through enhanced higher education curricula comprising climate science and glaciology modules.

In addition, an investment project of approximately $20 million funded by PPCR is being prepared to reduce losses associated with droughts, floods, landslides and other climate induced extreme events in the Pyanj river basin through flood protection, early warning systems and risk transfer mechanisms. The project also involves climate proofing infrastructure for irrigation, drainage, and water supply and storage.

European Bank for Reconstruction and Development

16. EBRD's mandate is to promote transition to a market-based framework in its region. Concessional finance is not normally considered conducive to this, and its use is governed by special internal guidelines, which specify very clearly when the use of concessionality is permitted. The following three principles govern the utilization of investment grants and concessional finance:

a) Subsidiarity – use of investment grants and concessional finance will be focused on transition objectives that cannot be achieved with market-conforming instruments alone.

b) Leverage – the grant or concessional finance should be used to support a process of reform or behaviour change on the part of the client that promotes agreed transition objectives.

c) Sustainability – the grant or concessional finance should address impediments to projects that are expected to become financially sustainable (without such support) over time.

17. An independent assessment of the justification under these guidelines is undertaken by the Office of the Chief Economist (OCE), and the operation is rated by OCE according to its compliance with the mandate. Until now, all CTF-supported operations have been rated 'good' or 'excellent' within this assessment process, indicating strong additionality despite the use of concessional finance.

Table 6. Breakdown of EBRD Climate Investments

EBRD	**MDB Resources Signed with Client**	**CIF Resources Signed with Client**
TFC Approved Only	**Investments and technical assistance**	**Investments and technical assistance**
2010	160	42
2011	63	17
2012	70	21
Total	*299*	*82*
EBRD Total in Period	*9,528*	*379*
Share of CTF Supported	*3%*	*22%*

Box 4. Project Examples from EBRD

Ukraine Sustainable Energy Lending Facility

EBRD is combining EBRD finance, CTF concessional co-finance, and technical assistance funds from the Global Environment Facility in a renewable energy lending facility supporting emerging small-/medium-size renewable energy project developers in Ukraine. The market is characterized by following barriers to access to finance:

- Lack of track record of successful projects by independent developers
- Lack of sophistication of small developers
- Emerging regulatory framework
- High perceived risks

In consequence, lending to these kind of projects has been unavailable, and no base of independent project developers on which the market could grow in the future would have emerged without the EBRD/CTF intervention.

The CTF element was critical to the establishment of the EBRD facility, since it allows the EBRD to use an exemption in its financing rules to increase its own share in the projects, and to use the CTF to plug the capital gap that is the result of the absence of local bank finance without fully utilizing the concessionality of the CTF in terms of pricing. Without the CTF, the facility could not have been established.

Inter-American Development Bank

18. The Inter-American Development Bank (IDB) developed in 2012 a Climate Change Action Plan (2012-2015) as a direct instrument to implement its Strategy for Climate Change. Given the scale of needed interventions and resources available to cover climate-related priorities in the LAC region, the Action Plan is focusing on the following three key priority areas:

a) Strengthening the IDB's involvement in adaptation, including increased financial resources to strengthen the resilience of natural systems, communities, businesses, and economies in the region to the impacts of climate change.

b) Supporting activities with the largest potential for GHG emissions reduction, including those from land use change and deforestation, transport, and power generation.

c) Promoting technology development, social engagement, and resource mobilization that encourage synergies between adaptation and mitigation actions

19. The strong commitment of the IDB to support climate change-related activities in the region is also represented by the increasing number of operations approved by the Bank in recent years. Between 2006 and 2012, the IDB financed more than USD 10.8 billion in climate change projects, including more than 2 billion in adaptation.

20. Promoting the access to international climate finance is one of the measures established in the IDB's climate change Action Plan. The resources from the CIFs have been instrumental in developing a larger portfolio of projects on climate change. Some of the projects co-financed through the CIF would not have happened without the CIF contribution. Between 2009 and 2012, the CIF approved USD 315 million in projects and programs to be executed by the IDB, which are expected to leverage USD 615 million of IDB resources, in addition to more than USD 3 billion of additional resources.

21. The box below describe some examples of CIF projects that would not have been possible without the CIF contribution.

Box 5. Project Examples from IDB

Bolivia: Climate resilience program for the water and sanitation systems of the metropolitan areas of La Paz and El Alto

The geographical location of Bolivia in the Andean region, combined with high levels of poverty, make it an extremely vulnerable country to climate change. The availability of water resources for various areas of the country is being affected by accelerated glacier melting, changes in the spatial and temporal distribution of precipitation and increased evapotranspiration. The overall objective of Bolivia's program is to increase the resilience of the entire water supply system of the cities of La Paz and El Alto. The specific objectives are: (i) to improve the continuity and quality of the water system in the metropolitan areas of La Paz and El Alto; (ii) to

allow the expansion of coverage; (iii) to generate experiences and lessons to integrate climate change in the planning, design, and implementation of water projects in high mountain environments; (iv) to start the preparation and implementation of a pilot project of an IWRM plan that is multipurpose, participatory, sustainable, resilient, and includes the gender dimension; and (v) lay the groundwork to have a climate resilient water system for the metropolitan areas of La Paz and El Alto.

To provide assurances that the metropolitan area of La Paz and El Alto and all water users in the river basin will continue enjoying a sustainable and resilient water provision, it is necessary to consider a group of actions including: (i) improving the current understanding of climate change impacts on water resources so that projects and programs can be designed to ensure the resilience to climate change in the water supply system; (ii) an assessment of the water supply current system reliability and how it will be affected by climate change over the next three decades; (iii) the conservation of the sources of the existing water supply through integrated river basin management plans; (iv) the search and development of new sources of water supply; (v) the implementation of regulations and education programs for users to ensure the rational use of the resource; and (vi) the improvement of the existing distribution systems and water usage to reduce losses.

Jamaica: Climate resilience program for water and agricultural systems within the Rio Minho region of south west Jamaica

The geographic location of Jamaica within the Caribbean Sea and the country's limited adaptive capacity presents significant challenges as it attempts to increase its resilience to the impacts of climate change. An important step in meeting this challenge is to ensure that all key policies, plans, regulations, and legislation, as well as regulatory institutions, provide the framework for individuals, communities, businesses, civil society, and government agencies to deliberately incorporate climate change risk reduction/adaptation strategies as a normal part of their planning, decision-making processes, which should be complemented by strategic adaptation interventions particularly at the watershed or river basin level.

The principal objective of the Jamaica program is to mainstream climate change into the development plans and planning processes for two river basins, Rio Minho and Rio Bueno River Basins, located in the south-central section of the island, and to increase adaptation to the impacts of climate change by stakeholders in vulnerable sections of the two areas. Specifically the program will (i) create an enabling framework for mainstreaming climate change adaptation at the local and national levels; (ii) characterize the project area using baseline data and develop vulnerability assessments and adaptation plans for the prioritized sectors, the infrastructure and vulnerable communities in the project area; (iii) improve river basin planning and management to protect the recourse base of the area and safeguard livelihoods, through vulnerability assessment and integrated planning; and (iv) develop and implement integrated adaptation strategies (water, land, infrastructure) to address the anticipated impacts of climate change in the project area. The expected outcome of these measures will be the improvement of the livelihoods of over 65,000 people within farming communities through the implementation of climate sensitive adaptation strategies in river basin planning and management.

FIP Mexico Project: Financing Low Carbon Strategies in Forest Landscapes

The **Financing Low Carbon Strategies in Forest Landscapes** program was designed to fill a gap in access to finance for *ejidos* (communally owned land) and communities for alternative land use activities that reduce pressure on forests. The program is structured in two components: i) a dedicated **financing line** (US$10 M) accessible by communities and *ejidos* and their members to finance identified low carbon projects in forest landscapes, and ii) a **financial and technical assistance** (US$5 M) provided to build financial, technical and management capacity among target beneficiaries and enhance the viability of the projects. The project implementing agency, Financiera Rural (FR), is a national development finance institution aimed at increasing the supply of financial services in the rural sector.

The financing provided through FIP will serve as in incentive to change production patterns in forest landscapes in both forest and non-forest activities. The loan concessionality will be minimum, but targeted to those elements that are most critical to create effective incentives for *ejidos* and communities to access credit to scale up investments in low carbon projects. The concessionality provided will also address the perceived lack of income they will receive while these projects gain the maturity needed to take off. Hence it will serve as a bridge between subsidies and a market mechanism. Targeted design features for financial instruments may include terms, rates, collaterals, technical assistance packages, and linkage with other support programs.

The activities financed are expected to produce a greater amount of profit than traditional agriculture and livestock production in the longer term. Thus, the concession will no longer be necessary once the projects become viable and the *ejidos* and communities realize that their profits are sufficient to re-invest at normal commercial rates. Nonetheless, the loan concessionality will provide the tools that are needed for the pilot to take off and address one of the main underlying economic causes of deforestation and forest degradation in Mexico. It is expected that successful demonstration through this program will stimulate more financial institutions will enter the market thus providing more competitive financing conditions.

Table 7. Breakdown of IDB Climate Investments

IDB	Internal Resources		External Resources		CIF Resources		Total
	Mitigation	Adaptation	Mitigation	Adaptation	Mitigation	Adaptation	
2011	1,758.21	287.88	110.92	3.60	91.03	0.75	2,252
2012	1,655.51	433.50	106.83	8.05	71.01	71.01	2,346

International Finance Corporation

22. The private sector plays a critical role in development, driving growth and creating opportunities for people to escape poverty and improve their lives. IFC is the largest global development institution focused on the private sector, providing financing to help businesses employ more people and supply essential services, mobilizing capital from others, and delivering advisory services to improve the investment climate and promote sustainable development.

23. IFC's mandate is to develop markets and to use market- based financing as benchmarks. While IFC offers it's financing on commercial terms, it "blends" concessional funds alongside IFC's own to catalyze investments that otherwise might not happen. In these cases, and in the context of IFC, blended finance refers to financing provided to a project at below market terms, due to the complementary use of concessional funds with IFC's own resources (also known as 'blending')[5]. The Climate Investment Funds play an essential role in providing concessional climate finance that enables IFC to invest in high impact climate projects that would not happen because of existing barriers in the market.

24. All IFC investment operations are expected to show clear additionality and development impact. As part of its regular business, IFC often pushes the frontiers of private investment in emerging markets, and in so doing demonstrates the viability of commercial investments in developing countries**.** To justify use of blended financing, IFC's own additionality must be insufficient to catalyze the investment, and the project would not otherwise happen without such funding. Deploying and blending concessional climate funds alongside IFC funds can help to "de-risk" projects in the market where the demonstration effect will be significant, or where cost barriers are prohibitive, but expected to decline over time. Projects using blended financing, as the CIF-funded projects, are thus expected to involve a level of additionality and impact beyond that possible through IFC's regular operations.

25. IFC's approach to blending concessional funds with its own is focused and measured, and is deployed selectively. IFC's approach is within strictly defined principles which ensure additionality and adherence to IFC's comparative advantages, and within a strong governance and monitoring and evaluation framework. The terms of each blended finance transaction is reviewed and approved by a separate Blended Finance Committee, which is independent from and different than the Investment Review Meeting to review and approve terms of the IFC investment. This foundation allows IFC to blend and deploy concessional funds efficiently.

26. IFC blends CIF funds alongside its own in order to catalyze investments with strong climate, social and development benefits that wouldn't happen otherwise; address market barriers by investing in projects that are not considered commercially viable today but have the potential to be in the future; and "fill the gap" in the market and demonstrate the business case for higher-risk projects leading to market transformation. Up to March 2013, IFC has blended almost US$100 million of CTF funds with over US$410 million of its own resources leveraging over US$1.64 billion of other co-financing (mainly from private sector).

[5] The term "concessional" has a particular definition in the context of ODA, and implies a minimum grant element of 25%. Many funds IFC blends with its own are sourced through donor's ODA budgets and are considered "concessional" by the donors. However, it is not always appropriate or necessary to provide a 25% implied subsidy to private sector projects, and IFC's approach to blending aims to minimize the subsidy element to only what is needed to catalyze the investment. IFC has chosen to use the term "blended finance" to describe use of these concessional funds to avoid confusion with the term "concessional finance" in the context of ODA.

27. The table below provides a breakdown of the use of Clean Technology Fund (CTF) financing blended with IFC's own resources.

Table 8. Breakdown of IFC CIF Investments

IFC - CTF Investment and Advisory Projects to date			
Types of Projects	**CTF (USD millions)**	**IFC (USD millions)**	**Other third party financing (USD millions)**
Real sector	64.2	246.23	1525.11
Financial Markets	35.5	164.409	116.53
TOTAL	**99.7**	**410.639**	**1,641.64**

Box 6: Project Example from IFC

Concentrated Solar Power Plants in South Africa
IFC has invested US$41.5 million in concessional funds from CTF alongside IFC's $143 million in the two CSP plants in South Africa. There is no operating track record for stand-alone parabolic trough technology CSP plants in emerging markets and no operating track record for solar tower technology CSP plants of capacity greater than 20MW, even in developed countries. CSP is also the most capital intensive RE technology and under South Africa's renewable energy Independent Power Producer (IPP) program, it requires the highest tariff. These factors result in high financing costs for a private sector CSP project. The CTF resources are helping lower-cost total financing package than would otherwise be possible under purely commercial terms and reduce the cost of CSP power generation for South Africa, which in turn will reduce the cost of CSP power to South African consumers. The projects will also help establish a track record of performance for future private sector CSP investors and developers, thereby lowering perceived risk for future CSP projects.

World Bank

28. At the World Bank, climate-related commitments surpassed USD10 billion, or 30 percent of IBRD/IDA lending commitments. The same share was 20 percent in FY11. About two-thirds of World Bank climate-related lending commitments were supporting mitigation in FY12 and funding for adaptation is growing. If we take account of the fact that the same activity can contribute to both adaptation and mitigation, total adaptation financing at the World Bank reached USD4.6 billion in FY12, or twice the FY11 amount, and total mitigation financing exceeded USD7 billion (slightly up from FY11).

29. The World Bank is demonstrating innovative ways to mobilize and leverage finance and markets for climate action. Climate finance plays a key role in providing resources to address risks and build readiness. The World Bank has successfully facilitated access to a menu of climate finance instruments, as seen by growing commitments to projects from the Climate

Investment Funds (CIF) and Global Environment Facility. Readiness support for market instruments (through the Forest Carbon Partnership Facility and the Partnership for Market Readiness) is also increasing, reflecting interests by countries for performance-based solutions for mitigation.

30. The **additionality of CIF funding** is discussed in every World Bank project proposal being submitted for CIF approval. The analysis is performed qualitatively or quantitatively to the extent possible. USD2.5 billion of CIF funding has been allocated for World Bank projects, which is expected to leverage approximately USD5.6 billion of additional financing just from IBRD/IDA and around USD12 billion from government, private sector, bilaterals, and other sources. Beyond these figures on additional financing, the use of CIF funding will lead to additionality in multiple ways.

a) **CTF and SREP**, the use of concessional funding is important to finance the viability gap which allows governments to test innovative business models that can have high replication and private sector engagement potential. For instance, the Morocco and South Africa CSP (concentrated solar power), as well as Indonesia Geothermal projects would unlikely have happened without viability gap funding from CTF. In Turkey, the use of these funds has allowed the scaling-up of existing financial intermediation model to cover industrial energy efficiency and certain renewable energy technologies. Furthermore, concessional funding will allow to pilot and subsequently scale-up innovative solutions in the Maldives, India, and Mexico.

b) **PPCR** is leveraging action through strong linkages among PPCR investments. For example, the Mozambique Climate Resilience Hydromet Project is linked to the National Water Resources Development Project, while the Climate Change Technical Assistance Project is providing support for the development of key indicators and triggers for the Climate Change Development Policy Operation. In Tajikistan, the PPCR investment in Hydromet services is part of a regional investment initiative with funding from IDA.

c) **FIP** investments in Burkina Faso, Ghana, Indonesia, and Peru would not happen without the availability of concessional funding. FIP investments also allow for developing cross-sectorial approaches, which could not have been achieved in sectorial budgeting processes. For instance, FIP investments in Brazil facilitate access to the Low Carbon Agricultural Fund. In Mexico, FIP investments promote landscape-based approaches and harmonization of rural development policies through the harmonization of Forestry and Agriculture Databases. Similarly, in Ghana, FIP investments allow for the integration of forests management, sustainable cocoa production, and sustainable agriculture.

Table 9. Share of CIF projects in total WB's Mitigation and Adaptation Finance, 2011 and 2012

	FY2011			FY2012		
	Total (USD million)	**CIF projects** (USD million)	**%**	**Total** (USD million)	**CIF projects** (USD million)	**%**
Adaptation	2,389	33	1.4%	3,998	66	1.6%
Mitigation	6,592	50	0.8%	7,063	514	7.3%

Table 10. WB projects approved by CIF Committees, 2011-2013

CIF Approval Year	**CIF Funding** (USD million)	**IBRD/IDA Funding** (USD million)	**Other Sources** (e.g., government, private, bilaterals, etc.) (USD million)
2009	300	647	2,688
2010	575	771	1,578
2011	235	566	730
2012	103	574	401
2013	168	394	160
Total (USD million)	**1,381**	**2,952**	**5,557**

Annex 1. Climate Finance Data included in the Joint MDB Climate Finance Reports[6]

Table 1. MDB Mitigation Finance According to the Joint Approach, 2011 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	859	-	185	-
ADB	2,196	-	224	-
EBRD	3,400	-	132	-
EIB	2,487	-		-
IDB	1,284	457	134	3
IFC	1,664	-	17	-
WB	4,592	1,588	412	-
TOTAL	**16,482**	**2,045**	**1,104**	**3**

Table 2. MDB Mitigation Finance According to the MDBs' Methodologies (when Different), 2011 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	925	-	185	-
IDB	1,304	663	135	3
IFC	1,671	-	17	-
WB	5,379	1,588	412	-

[6] 2012 data is not final, and subject to revision in the internal review processes of the MDBs.

Table 3. Sector-disaggregated MDB Mitigation Finance According to the Joint Approach, 2011 (USD millions)

Sector	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
Energy	11,324	1,530	469	-
Transport	3,795	191	25	-
AFOLU	545	100	111	-
Others	818	224	500	3
TOTAL	**16,482**	**2,045**	**1,104**	**3**

Table 4. MDB Adaptation Finance According to the Joint Approach, 2011 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	593	-	2	-
ADB	585	-	172	-
EBRD	178	-	15.5	-
EIB	221	-	64	-
IDB	13	275	1	3
WB	2,080	224	85	-
TOTAL	**3,670**	**499**	**339.5**	**3**

Table 5. MDB Mitigation Finance According to the Joint Approach, 2012 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	2,103	0	336	0
ADB	1,463	0	245	0
EBRD	3,034	0	105	0
EIB	3,536	0	0	0
IDB	1,511	40	98	0
IFC	1,552	0	42	0
WB	4,976	1,189	898	0
TOTAL	**18,175**	**1,229**	**1,724**	**0**

Table 6. MDB Mitigation Finance According to the MDBs' Methodologies (when Different), 2012 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
IDB	1,505	0	98	0
IFC	1,624	0	42	0
WB	5,211	1,189	898	0

Table 7. Sector-disaggregated MDB Mitigation Finance According to the Joint Approach, 2012 (USD millions)

Sector	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
Energy	10,500	533	950	0
Transport	4,515	0	90	0
AFOLU	760	26	89	0
Others	2,401	671	595	0
TOTAL	**18,175**	**1,229**	**1,724**	**0**

Table 8. MDB Adaptation Finance According to the Joint Approach, 2012 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	828	0	68	0
ADB	302	139	81	0
EBRD	198	0	7	0
EIB	179	0	0	0
IDB	60	373	8	0
IFC	na	na	na	na
WB	2,601	1,209	188	0
TOTAL	**4,169**	**1,721**	**352**	**0**