

The Clean Technology Fund and Development Policy Operations

What are Development Policy Operations?*

- Used by many MDBs and bilaterals with some success*:
 - Development Policy Loans (DPLs) or Development Policy Operations (DPOs) in the World Bank
 - Policy-Based Loans (PBLs) or Programmatic Policy-Based Loans in IDB
 - Program Based Operations (PBOs) in AfDB
 - Policy-Based Loans (PBLs) in ADB
- Rapidly disbursing policy-based financing through loans or grants to help a borrower achieve a program outcome through policy or institutional reforms

Key Considerations in Providing DPOs

- Adequate macroeconomic framework
- Systematic treatment of fiduciary, poverty and social impact, risk management, and environmental issues.
- Upstream analytical work underpinning the program
- Consultations and participation
- Completion of agreed policies and institutional actions critical to the achievement of results of the program supported by the operation

Investment Lending vs. DPOs

Investment Lending	Development Policy Operation
Finances activities that create physical and social infrastructure	Supports policy and institutional actions that are usually part of a broader government policy or program
Disburses as costs are incurred	Disburses as actions are taken
Implementation: 5-10 years	Implementation: 1-3 years
Narrow (sub)sectoral scope	Economy-wide or sector-wide reform > for low carbon development, ability to reach scale
Sustained capacity-building with hands-on Bank staff participation	Country committed to reform, e.g. good track record, and capacity to design, implement and monitor programs

Transformation through Policy Reforms

- Policies to eliminate subsidies to dirty fuels are common in many countries or that mandate the purchase of renewable energy by public sector
- Policy and institutional reform required to facilitate the deployment of new technologies, for instance through the use of preferential feed-in tariffs for Renewable Energy, Energy Efficiency standards and streamlined regulatory process
- Provide incentives towards the use of low-carbon technologies and practices, for instance through carbon cap-and-trade or pollution reduction targets
- Address policy and/or technical barriers to specific technologies which continually fail to meet expected penetration rates
- Strengthen institutions for the design, implementation, monitoring and evaluation of climate change programs
- Coordination among institutions, ministries and donors

How to Address Attribution

- DPOs are assessed based on end-of-program outcomes (3-4 years) against baseline
- Climate Change/Low Carbon outcomes often not discernable in such a short span of time
- Challenge to come up with measurable outcome indicators in the short term that demonstrate policy actions are working
- For Low Carbon Development, monitorable indicators can be: reductions in GHG emissions relative to a baseline, additional capacity in MW, reductions in measured levels of deforestation, adoption of energy efficiency targets or energy savings in MWh

What would be the requirements for DPOs to be aligned to CTF Investment Criteria?

- potential for GHG reduction potential
- cost-effectiveness/cost-benefit
- demonstration potential at scale
- development impact
- implementation potential
- additional costs and risk premium
- innovation where relevant

Example: Morocco Energy Sector

DPL

- At the time (2007), Morocco was 95 % dependent on imports of fossil fuel despite significant renewable energy potential
- PDO is to strengthen Morocco's energy security, facilitate energy market integration in support of competitiveness of the economy, and develop sustainable energy reform.
 - development of domestic energy resources, efficient use of energy, and the formulation of a long-term energy import strategy;
 - foster competition in the energy market through regional system integration, liberalization of the high-voltage domestic electricity market, and open access of competitors in the petroleum downstream
 - to reduce Government subsidies for petroleum products.
- monitorable indicator : the attainment of power exchange capacity of 1400 MW with Europe and 1300 MW with Algeria by the end of the series, as a measure of the objective of opening the electricity market.

Himachal Pradesh DPL to Promote Inclusive Green Growth and Sustainable Development

- Will promote inclusive green growth across all engines of growth including energy, rural development, tourism and industrial development
- HP intends to install 10 GW of hydropower over 10 years
- Government of India had identified this as top priority in its Investment Plan approved by CTF Trust Fund Committee Nov 2011
- Designed as series of two DPLs: IBRD board approved \$100m in September 2012; will be presented to CTF Trust Fund Committee when triggers are met
- CTF Annex still to be developed

Himachal Pradesh DPL to Promote Inclusive Green Growth and Sustainable Development

- Financing the first comprehensive state program that will contribute to India's national objective to reduce its greenhouse gas emissions intensity
- Environmentally sustainable hydropower development: managing environmental risks at river basin level (cumulative impact assessments), and promoting full compliance of environmental flow requirements
- Socially sustainable hydropower: innovative benefit sharing policy based on annuity payments to households during lifetime of projects
- Indicators: reduction of state's GHG emissions intensity; avoided thermal generation in MWh; public disclosure of compliance with environmental flow requirements and cash transfers in at least one project

Conclusions

- DPO is an instrument that can enable low carbon development at scale
- Investment lending is crucial when piloting new technology / approach and to support capacity building at project level
- DPOs can be a complimentary approach when barriers to large scale transformation are policy or institutional deficiencies, or if there is a need for creating a favorable investment climate