CLIMATE INVESTMENT FUNDS

SCF/TFC.13/3
May 19, 2019

Meeting of the SCF Trust Fund Committee
Washington D.C.
Monday, June 3, 2019

Agenda Item 3

FUTURE DIRECTIONS OF THE STRATEGIC CLIMATE FUND

1. Introduction

1. At its meeting in June 2016 the Joint Meeting of the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF) Trust Fund Committees decided to continue to monitor the developments in the international climate finance architecture to inform the discussions on the sunset clauses of CTF and SCF in December 2018, at the earliest, and take a decision on this issue in June 2019.

2. At its meeting in January 2019 the Joint Meeting of the CTF and SCF Trust Fund Committees acknowledged the significant contribution of the CIF business model in driving scaled investments into clean energy, climate resilience and sustainable forest management over the past ten years. Members also emphasized the need to build on CIF's important legacy of success and to draw lessons from its proven business model as the climate finance architecture continues to develop. Moreover, the majority of members took the opportunity to note that triggering of the CTF and SCF sunset clauses in June 2019 would be premature given the track record of the CIF, the urgency of climate action and the continued need for effective delivery channels for climate finance.

3. In preparation for the June 2019 discussion on the future of the CIF, the CIF Administrative Unit (CIF AU) was requested to provide the Trust Fund Committees with the key considerations regarding the future of the CIF, including the sunset clauses of CTF and SCF, to better inform the Trust Fund Committees regarding options for future operations of the CIF. Given that decisions pertaining to SCF are the sole responsibility of the SCF Trust Fund Committee, a summary of the relevant information *vis-à-vis* SCF is presented in this document.

2. Background on the Sunset Clause of the Strategic Climate Fund

4. The Governance Framework Document[1] for the SCF provides the following guidance on the future operations of the SCF (Sunset Clause):

    - "56. Recognizing that the establishment of the SCF is not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture, the SCF will take necessary steps to conclude its operations once a new financial architecture is effective. The Trustee will not enter into any new agreement with contributors for contributions to the SCF once the agreement providing for the new financial architecture is effective. The SCF Trust Fund Committee will decide the date on which it will cease making allocations from the outstanding balance of the SCF.

    - 57. The Trustee will, in accordance with the Contribution Agreements, continue to administer the Trust Fund after the cessation of allocations by the SCF Trust Fund Committee until such date specified in the Contribution Agreements, in order to receive in the Trust Fund scheduled reflows of funds from outstanding SCF financing. Following the date so specified in the Contribution Agreements, the Trustee, on behalf of each contributor, will endeavor to transfer the contributor's share to another fund, which has a similar objective as the SCF as determined by the SCF Trust Fund Committee, or otherwise transfer or return the share to such other place, as agreed between the contributor and the Trustee under the Contribution Agreement.

[1] Paragraphs 56-58 of the SCF Governance Framework Document (adopted in November 2008 as amended in December 2011).

- 58. Notwithstanding paragraph 56 above, if the outcome of the UNFCCC negotiations so indicates, the SCF Trust Fund Committee, with the consent of the Trustee, may take necessary steps to continue the operations of the SCF, with modifications as appropriate."

5. The SCF Governance Framework Document points out that as a first step to conclude SCF's operations "once a new financial architecture is effective", the Trustee is expected to stop entering into any new agreements with contributors for contributions to the SCF "once the agreement providing for the new financial architecture is effective".

6. The terms "financial architecture" and "effective" used in both instances are neither defined in the context of the UNFCCC nor in any other subsidiary documents. Therefore, the SCF Trust Fund Committee would need to deliberate and decide when the climate "financial architecture" can be considered to be "effective" in order to determine when the SCF should take necessary steps to conclude its operation, or when the Trustee should no longer enter into any new agreement with contributors for contributions to the SCF.

7. Regarding reflows, the SCF Governance Framework Document provides that the Trustee will continue to manage the SCF trust fund in order to receive reflows until the date specified in the contribution agreements/arrangements ("Contribution Agreements") between the contributor and the Trustee ("Final Transfer Date"). After that date, the Trustee, on behalf of each grant and capital contributor, will endeavor to transfer the contributor's share to another fund which has a similar objective as the SCF as determined by the SCF Trust Fund Committee, or otherwise transfer or return the share to such other place, as agreed between the contributor and the Trustee under the Contribution Agreement.

8. In accordance with the provisions of the Contribution Agreements for grant and capital contributors to the SCF, these contributors may also make arrangements for the transfer or return of their shares upon written request any time before the Final Transfer Date.

3. Options with Regards to the Decision of SCF's Sunset Clause

9. Based on the SCF Governance Framework document, the SCF Trust Fund Committee can consider the following three options with regards to the SCF sunset clause:
    - **Trigger the Sunset Clause:** In accordance with Section 56 of the SCF Governance Framework Document, the SCF Trust Fund Committee could decide to trigger the sunset clause by noting that the climate financial architecture is considered "effective," and that SCF should take necessary steps to conclude its operations and decide on a date when the Trustee should no longer enter into any new contribution agreements for SCF.
    - **Postpone the Sunset Clause Decision:** The SCF Trust Fund Committee could decide to postpone the sunset clause decision until a more suitable time.

- **Remove the Sunset Clause from the SCF Governance Framework Document:** It is the prerogative of the SCF Trust Fund Committee to recommend changes to its Governance Framework Document and its articles therein. If the SCF Trust Fund Committee chooses to recommend removal of the sunset clause from the SCF Governance Framework Document[2], this would not impact its prerogative to decide at any point in time that new contributions should cease to be made to the SCF.

4. Urgency of Action and Recipient Countries Statement in Support for CIF

10. Countries and communities around the world are already experiencing increased climate change impacts – including droughts, floods, more intense and frequent natural disasters, and sea-level rise – and the poorest and most vulnerable are being hit the hardest. With each passing year, the risks of unabated climate change are mounting.

11. According to the latest IPCC report[3], the climate consequences of a 2° world are far greater than that of 1.5° and we are not on track for either. Even with the full implementation of the current pledges made under the Paris Agreement, the world is still on course to reach a temperature rise of more than 3°C by the end of the century. This climate trajectory disproportionally affects developing nations and threatens to make 140 million people internal migrants by 2050[4] and push more than 100 million people back into poverty by 2030[5].

12. Averting these crises will require levels of investment that runs into the trillions of dollars and the decisions we take over the next two to three years are crucial because of the unprecedented structural changes already underway. The world is expected to invest about USD$90 trillion on infrastructure in the period up to 2030, more than the entire current stock today. [6] The majority of this investment is expected to be in developing countries, and much of it will be programmed in the next few years, meaning there is now a narrow window of opportunity to ensure that this programming does not lock countries into a carbonized and climate vulnerable future.
    - In developing countries, implementing the NDCs will require a significant scaling up of investment. Implementing just the renewable energy components of the NDCs will require investing more than USD 1.7 trillion through 2030. [7] About USD 1.2 trillion will have to be mobilized to implement the unconditional targets, while a further USD 500 billion will be required in developing countries in the form of international finance to support the conditional targets.

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[2] Recommended amendments to any terms of the Governance Framework will become effective with the agreement of all current contributor countries to the SCF, all current recipient countries that have been allocated funding from the SCF, and the Trustee.

[3] https://www.ipcc.ch/sr15/
[4] http://www.worldbank.org/en/news/feature/2018/03/19/meet-the-human-faces-of-climate-migration
[5] http://www.worldbank.org/en/news/feature/2015/11/08/rapid-climate-informed-development-needed-to-keep-climate-change-from-pushing-more-than-100-million-people-into-poverty-by-2030
[6] https://newclimateeconomy.report/2018/executive-summary/
[7] https://www.irena.org/financeinvestment/Investment-Needs

- At the same time, the ambitious plans set forth under the Paris Agreement offer major opportunities for job creation, economic savings, competitiveness and market opportunities, and improved wellbeing for people worldwide. The NDCs of 21 emerging market economies alone represent $23 trillion by 2030 in investment opportunities. [8]

13. Large-scale and strategically deployed climate finance will help developing countries capture many of these economic benefits, while responding to their most pressing development challenges. The decade-long experience of the CIF's business model has demonstrated that flexible, predictable and programmatic concessional capital at scale can tackle key market and institutional failures, and other barriers to climate action. By lowering investment costs and risks, and by providing a collaborative platform for strategic and operational coordination, the SCF has enabled MDBs to address prevailing barriers to the commercialization of new technologies, engage private investors in first-of-a-kind projects, and contribute to transformational change. Furthermore, by enabling recipient countries to draw from MDBs' varied skillsets, CIF's business model has demonstrated its relevance in helping to identify and address the root causes determining the need for concessional financing, and its effectiveness in driving policy and long-lasting institutional changes.

14. The key ingredients of CIF's demonstrated success reside in the unique features of its business model, which include the following:
    a. A country-led and theme-driven programmatic approach enabling the design and implementation of strategically linked investments aligned with national, regional and global priorities.
    b. The delivery of finance through multiple MDBs operating together in a coordinated manner to implement a large and coherent package of interventions built around a common transformative vision.
    c. The scale, predictability, and flexibility of CIF concessional resources to address multiple barriers to climate-smart development, and effectively engage MDBs, government, and private actors.
    d. The risk appetite and the types of concessional, risk-taking instruments it offers.
    e. The possibility to engage in high-potential, middle income countries.
    f. An effective and efficient governance system, which allows constructive consultation and decision making by contributors, recipient countries, and implementing partners.
    g. A continuous learning and knowledge management platform that is agile and flexible to adapt to changing contextual realities.

15. The CIF business model and its role in the climate finance architecture has been clearly supported by recipient countries including, recently, though a joint statement released in April 2019 with the signature of 45 countries communicating a shared position on the future of CIF.

[8] https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/new+ifc+report+points+to+%2423+trillion+of+climate-smart+investment+opportunities+in+emerging+markets+by+2030

The 45 ministerial signatories stated the following:

> *"We, the signatories of this joint statement, submit the following position in support of the Climate Investment Funds (CIF) and strongly urge that it be adequately resourced to assist our governments in delivering on our sustainable development ambitions and nationally determined contributions".*[9]

16. Strong recipient country support for CIF is also reflected through separate communiques in which the G24 voiced their support of the future of CIF as a whole, including:

    - April 2016: *We also seek the urgent replenishment of the Climate Investments Funds.*[10]
    - April 2018: *We strongly urge that the Climate Investment Funds be adequately resourced in light of their vital role in scaling up concrete climate solutions in developing countries.*[11]

5. Short Term Options for Maximizing Use of SCF

17. Building on its track record, the SCF has the potential to continue driving innovative approaches to deploying climate finance on the ground to achieve greater benefits and transformational change.

18. **Unfunded Investment Plans and Strategic Programs for Climate Resilience**: In 2014-2015, the Sub-Committees of the three SCF programs invited an additional 25 countries into the SCF. Following their inclusion, these countries worked with MDBs and other key stakeholders to develop strong, country-led Investment Plans. As no new large funding envelope was made available for the investment components of these plans, countries and MDBs were urged to seek funding from other sources, in particular the Green Climate Fund (GCF).

19. Specifically, the Forest Investment Program (FIP) unfunded pipeline has a combined funding request of USD 215 million to support 20 projects that were identified within the FIP Investment Plans for Tunisia, Bangladesh, Zambia, Cambodia, Cameroon, Rwanda and Uganda. The Pilot Program for Climate Resilience (PPCR) funding gap for projects identified under the endorsed SPCRs for Bhutan, Ethiopia, Gambia, Honduras, Kyrgyz, Madagascar, Malawi, Philippines, Rwanda and Uganda, amounts to a combined funding request of USD 1.6 billion. The current funding gap in the Scaling Up Renewable Energy Program in Low Income Countries (SREP), considering the current reserve pipeline, is approximately USD 70 million for projects in Zambia, Cambodia, Lesotho, Ghana, Uganda, Nicaragua and Madagascar.

[9] See Annex 1 for the full statement
[10] https://www.imf.org/en/News/Articles/2015/09/28/04/51/cm041416
[11] https://www.g24.org/wp-content/uploads/2019/04/G-24-Communiqu%C3%A9_2019-April_Final.pdf

20. The CIF Administrative Unit, GCF Secretariat, and MDBs went through a joint process to assess the likelihood of the SCF unfunded pipeline being financed by GCF in the short to medium terms. This process brought to light the fact that the CIF and GCF have distinct business models. The CIF's model – and the basis on which the Investments Plans and project concepts were prepared - seeks to drive transformational change through a programmatic approach consisting, among other things, of providing countries and MDBs with the necessary upstream grant resources to fully prepare projects, where needed, along with the certainty of an envelope of concessional financial resources to finance those projects, an approach that has proven critical in incentivizing developing countries' to allocate resources from their MDB envelopes to such projects. The GCF's model is to receive projects in an advanced stage of preparation and with guaranteed co-financing from the MDB's own resources. These two factors have an impact on the ability of MDBs to submit SCF unfunded projects to the GCF.

21. Additional factors affecting MDB submissions to the GCF include the unclear alignment of SCF projects with GCF's strategic priorities, as well as the transaction costs associated with smaller projects. Smaller SCF unfunded projects might not be viable for GCF funding, given the high transaction costs associated with the process.

22. Consequently, the World Bank is the only MDB seeking funding from GCF for five PPCR projects, one in Uganda, one in Madagascar, one in Kyrgyz Republic and two in Rwanda for a total funding request of USD 155 million. SCF countries continue to express interest in moving the projects forward, though there are currently few funding alternatives available for them.

23. **New Program Proposals**: The policy paper - *Strategic Directions for the CIF* (June 2019), presented to the Joint Meeting of the CTF and SCF Trust Fund Committees, presents new program proposals that seek to accelerate far-reaching transitions in energy, urban, and industrial systems. These new programs could be supported by a new SCF program architecture that aligns with the strategic objectives being considered, maximizes efficiency, minimizes fragmentation, and is cost effective in terms of governance and implementation.

24. Moreover, given that the SCF aims to provide financing to pilot new development approaches, or scale-up activities aimed at specific climate change challenges or sectoral responses, the channeling of new funding through SCF is well aligned with its overarching purpose and objectives.

25. The new CIF program proposals included in the *Strategic Directions for the CIF* paper are:

   - **Global Program for Large-Scale Integration of Renewable Energy:** Investment pathways consistent with a 2°C warming scenario will require the urgent and scaled demonstration of renewable energy (RE) integration solutions into power grids in a manner that maintains safety, reliability and security of supply. This Program would support first-of-its-kind investments in enabling technologies, infrastructure and other emerging innovations to achieve this, while also leading to significant GHG emission reductions, improved energy security, more resilient energy systems, and positive impacts on employment and inclusion.

   - **Global Program for Climate-Smart Urbanization:** Urban areas generate around 80% of global GDP and are home to more than half the global population. They remain the highest emitting locations and are exposed to significant climate-related threats. Reaching the world's climate and Sustainable Development Goals will therefore require an urgent overhaul of the current urban development paradigm. The CIF Global Program for Climate-Smart Urbanization would support a range of small to medium-size cities in developing countries, where urban form and urban infrastructure are not yet locked-in and where 60% of new urbanized land development is expected to take place through 2030. The Program can test and implement new urban development investment approaches that harness both strategic urban planning and scaled-up financing solutions to reduce barriers to urban climate action and enhance private sector participation.

- **Global Program for Accelerating the Low-carbon Transition in Industry:** The industrial sector accounts for about 38% of global total final energy use and is responsible for about 24% of total GHG emissions. Reaching the 2°C Scenario pathway will require collaborative efforts across industrial sectors and regions to decrease energy usage and CO_2 emissions. The CIF Global Program for Accelerating Low-Carbon Transition would aim to catalyze deep behavioral change and sustained impact in high-emitting sectors, including the chemicals and petrochemicals, iron and steel and aluminum manufacturing, pulp and paper, and glass manufacturing sectors. The Program would provide financial instruments to address barriers to investment in low-carbon, climate-resilient industry business models, as well as technical assistance for technology/facility project preparation, corporate capacity building and procurement initiatives, sectoral pathways and national policy development.

Annex 1: Recipient countries' position on the future of the Climate Investment Funds

We, the signatories of this joint statement, submit the following position in support of the Climate Investment Funds (CIF) and strongly urge that it be adequately resourced to assist our governments in delivering on our sustainable development ambitions and nationally determined contributions.

The latest IPCC report has provided the most recent, and sobering, analysis demonstrating that the climate consequences of a 2°C world are far greater than that of 1.5°C, and that we are not on track for either. Even with the full implementation of the current pledges made under the Paris Agreement, the world is still on course to reach a temperature rise of 3°C by the end of the century. This climate trajectory disproportionally affects our nations and threatens to make 140 million people internal migrants by 2050 and push more than 100 million people back into poverty by 2030.

Averting these crises requires ensuring that billions of dollars are invested in a resilient and low-carbon future, but current sources of financing fall far short of what is needed.

Positive change is happening however, and thanks to concerted efforts from governments, the private sector, non-governmental organizations, Multilateral Development Banks and multilateral climate funds over the past ten years, climate finance has helped stimulate transformational climate action in our countries. Targeted climate finance has decreased the cost of capital and risks of investment across key sectors, and driven significant investment flows into our clean energy, climate resilience and sustainable forest management sectors.

Critical resources from the Climate Investment Funds, delivered through its unique business model have been instrumental to this effort to drive scaled investment into climate solutions and catalyze transformational change across institutions, markets, sectors and communities.

As of January 2019, three hundred projects in 72 CIF recipient countries are leading to the generation of 26.5 GW of clean energy, 8.5 million people gaining improved access to energy, over 10,000 GWh being saved every year, 36 million ha of forests coming under improved management, and 45 million people will be better equipped to cope with the effects of climate change thanks to the CIF and its partners.

It is our view that we must build on these significant results and maintain CIF's proven business model as a key component of the climate finance architecture moving forward. We also assert that the architecture must be optimized to harness the comparative advantage of each of the multilateral climate funds, including the Green Climate Fund, to maximize the complementarity and impact of climate finance in our countries.

Echoing similar calls made by the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development in April 2016, April 2017 and October 2017, we strongly urge that the CIF be adequately resourced in light of the vital role it has played, and continues to play, in helping secure the safety and sustained prosperity of our peoples in a climate changing world.

Signatories (45):

- Armenia: Garegin Baghramyan, First Deputy Minister of Energy Infrastructures and Natural Resources
- Bangladesh: Shahab Uddin, Minister of Environment, Forest and Climate Change
- Benin: Jean-Claude Houssou, Minister of Energy
- Bhutan: Thinley Namgyel, Secretary, Gross National Happiness Commission
- Brazil: Yana Dumaresq Sobral Alves, Assistant Deputy Minister of Economy
- Burkina Faso: Batio Bassiere, Minister of Environment, Green Economy and Climate Change
- Bolivia: Carlos René Ortuño Yáñez, Minister of Environment and Water
- Cambodia: Aun Pornmoniroth, Deputy Prime Minister, Minister of Economy and Finance
- Colombia: Gloria Alonso Másmela, Minister of Planning
- Cote d'Ivoire: Joseph Séka Seka, Minister of Environment and Sustainable Development
- Democratic Republic of Congo: Henri Yav Mulang, Minister of Finance
- Egypt: Sahar Nasr, Minister of Investment and International Cooperation
- Ghana: John-Peter Amewu, Minister of Energy
- Guyana: Raphael Gregory Conwright Trotman, Minister of Natural Resources

- Honduras: José Antonio Galdames, Secretary of State, Ministry of Energy, Natural Resources, Environment and Mining
- India: Government of India
- Jamaica: Daryl Vaz, Minister without Portfolio, Ministry of Economic Growth and Job Creation
- Kenya: Henry K. Rotich, Cabinet Secretary, National Treasury and Planning
- Kiribati: Teuea Toatu, Minister for Finance and Economic Development
- Kyrgyzstan: Kubatbek Boronov, First Vice Prime Minister
- Lao People's Democratic Republic: Phouangparisak Pravongviengkham, Deputy Minister of Agriculture and Forestry
- Liberia: Gesler E. Murray, Minister of Mines and Energy
- Madagascar**:** Alexandre Georget, Minister of Environment and Sustainable Development
- Malawi: Goodall E. Gondwe, Minister of Finance, Economic Planning and Development
- Mali: Sambou Wague, Minister of Energy and Water
- Mexico: Carlos Urzúa, Secretary of Finance and Public Credit
- Mongolia: Tserenpil Davaasuren, Minister of Energy
- Mozambique: Celso Ismael Correia, Minister of Land, Environment and Rural Development
- Niger: Kane Aichatou Boulama, Minister of Planning
- Nigeria: Suleiman Hassan Zarma, Minister of Environment
- Papua New Guinea: John Pundari, Minister for Environment, Conservation and Climate Change
- Philippines: Roy Cimatu, Secretary, Department of Environment and Natural Resources
- Samoa: Sili Epa Tuioti, Minister of Finance
- Solomon Islands: Bradley Tovosia, Minister for Mines, Energy & Rural Electrification
- South Africa: Nomvula Mokonyane, Minister of Environmental Affairs
- Saint Lucia: Caroline Eugene, Permanent Secretary, Ministry of Sustainable Development, Energy, Science and Technology
- Tajikistan: Gulmahmadzoda Davlatsho, Chairman, Committee of Environmental Protection

- Tonga: Poasi Mataele Tei, Minister for Meteorology, Energy, Information, Disaster Management, Enviornment, Climate Change and Communications
- Tunisia: Mokhtar Hammami, Minister of Local Affairs and the Environment
- Turkey: Bulent Aksu, Deputy Minister of Treasury and Finance
- Uganda: Sam Cheptoris, Minister for Water and Environment
- Ukraine: Ostap Semerak, Minister of Ecology and Natural Resources
- Vanuatu: Ham Liñi Vanuaroroa, Deputy Prime Minister
- Vietnam: Trần Hồng Hà, Minister of Natural Resources and Environment
- Zambia: Alexander Chiteme, Minister for National Development Planning