

THE CLIMATE INVESTMENT FUNDS

Business Guide



June 2010

Purpose

This business guide to the Climate Investment Funds aims to create awareness in the business community about the Climate Investment Funds and to cast light on the role, structure and current status of the CIF. A more ambitious aim is to provide private sector relevant information on the mechanics of the roll out process and how the private sector can get involved. This would better prepare the private sector and catalyse engagement – a critical feature of the funds. We hope that this initial guide will help along this route, but recognize that in view of the newness of the funds and the scattered sources of some information, will require further exploration to provide more practical information to the private sector.

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Any further comments should be sent to the contacts below and will be used in the refining of this document.

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1 | CLIMATE INVESTMENT FUNDS





1.1 OVERVIEW¹

The Climate Investment Funds (CIF) are a collaborative effort between the multilateral development banks (MDBs)² and countries to help developing countries transform to low-emissions and climate-resilient development. They aim to do this by bridging the financing and learning gap between now and a potential post-2012 global climate change agreement. The CIF Trust Funds are governed by committees and sub-committees with balanced representation of donors and recipient countries, and active observers from the UN, Global Environmental Facility (GEF), civil society, indigenous peoples and the private sector. Each of the funds has its distinct focus (see table 1).

The Funds were approved by the World Bank's Board of Directors on 1 July 2008, and since their inaugural meeting in October 2008 the funds have moved from a concept to early stage operations.

The Clean Technology Fund (CTF) provides scaled-up financing for demonstration, deployment, and transfer of low-emissions technologies that have significant potential for long-term greenhouse gas (GHG) emissions savings, principally to emerging economies and to regional groups. The CTF is designed to support 15–20 country and regional investment plans that meet the criteria of significant GHG emissions savings, demonstrating good potential for scale-up, development impact, and implementation readiness.

The Strategic Climate Fund (SCF) is designed to support developing countries in their efforts to achieve climate-resilient, low-emissions development through three targeted programs with dedicated funding to pilot new approaches to climate action:

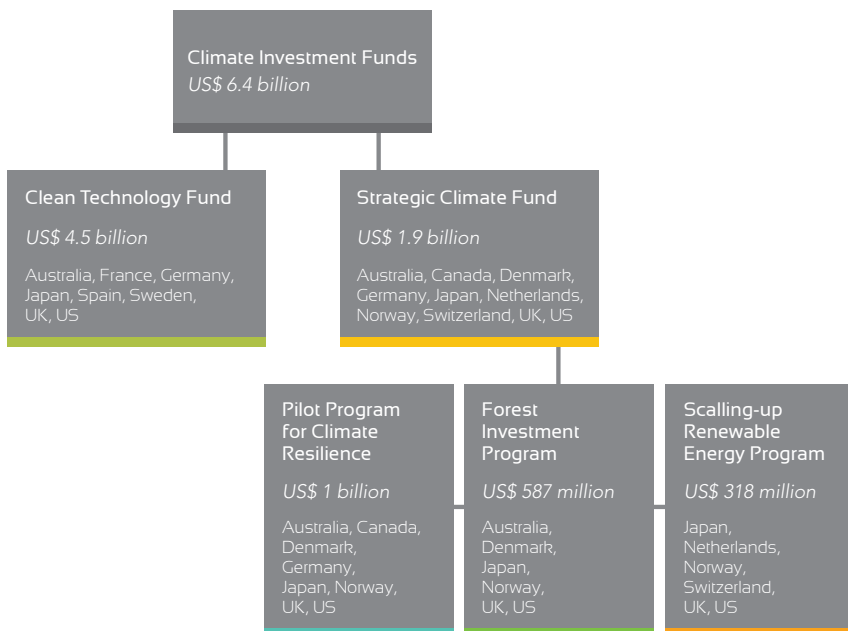
- **Pilot Program for Climate Resilience (PPCR):** Supports countries as they undertake scaled-up climate action and initiate steps toward transformational change by integrating climate resilience in their national development planning.
- **Forest Investment Program (FIP):** Provides financial and knowledge support for country-led initiatives to reduce GHG emissions from deforestation and forest degradation and to promote improved sustainable management of forests.
- **Scaling Up Renewable Energy Program in Low Income Countries (SREP):** Helps low-income countries adopt renewable energy solutions through a programmatic approach that involves government support for market creation, private sector implementation, and efficient energy use.

Investment programs for the CIF are being developed on a country-specific basis to achieve nationally defined objectives. They include: national programs and large-scale projects at the sectoral or sub-sectoral level; sub-national programs focused on a

particular province, state or municipality; regional programs when regional cooperation is required; and private sector or public-private partnerships.

The governance and organizational structure of CIF's two Trust Funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) include a Trust Fund Committee per fund, a shared MDB Committee, an Administrative Unit and a Trustee. Further details including the role of MDBs and linkages to other processes are described in Annex I.

Figure 1: CIF overview and status of financial pledges (as at 30 June 2010⁴ based on exchange rates on Sept. 25 2008, initial CIF pledging dates)



1.2 BUSINESS ENGAGEMENT

The private sector has a significant role to play in the reduction of greenhouse gas (GHG) emissions and in building resilience to climate change impacts. Business will need to provide the technological solutions that are needed to implement the roll out of the CIF funds. It is expected that a significant portion of the investments required globally for adaptation and mitigation will be through the private sector. Currently, for the CTF, the private sector share of the investment is projected at 37% based on the pipeline of projects in the Investment Plan.

In pursuing a strategy that will combine public sector reform and private sector action, the CIF seeks to provide the incentives necessary to engage private sector actions in achieving the objectives of the Trust Funds.

The private sector provides the bulk of the investment into clean technologies and the expertise on how investments are made. It is well positioned to bring business reality to the development of viable project models that have the attributes to channel CIF investments and can provide expertise on financial tools that can make these investments more attractive.

The CIF are relevant and can deliver benefits for a wide range of private sector companies operating in developing countries or planning to do so. This includes the energy sector; sectors with a high potential for energy efficiency improvements (e.g., building, industry, agriculture); the transport sector; the renewable energy sector; forest-related sectors; sectors highly prone to climate change impacts, such as infrastructure, agriculture and hydropower; and the financial sector.

Public sector programs to be financed by the CIF can have a longer term impact on the private sector operating in the respective countries. The Funds could also be the prototype for the future financing of clean technology projects. Participation of the private sector is key for designing practical models.

Business input into the design of the plans, programs and instruments is recognized by the CIF as extremely valuable. To enable input and make it attractive to business, the CIF have foreseen the following engagement opportunities for business:

- An observer role to the CIF meetings⁵.
- In consultations during joint missions and investment plan preparations.
- As part of the expert group providing recommendations on country-selection for the SCF programs.
- Partnership Forums.

The World Business Council for Sustainable Development (WBCSD) was approached by the Administrative Unit of the CIF in early 2009 to facilitate the selection of private sector observers to the committees and sub-committees of the Funds. The WBCSD developed a selection process that provides credible, fixed-term observers who will deliver valuable and expert input to the CIF funds and feedback into the broader business community. The details on the selection process for business observers are presented in section 7 and a list of private sector observers as of March 2010 in Annex IV.

The ability for private sector observers to alternate across the funds assists in the creation of an observer “pool” of knowledge across the funds, improves incentives for continuity of engagement and overall learning.

Table 1: CIF at a glance

	Clean Technology Fund (CTF)	Strategic Climate Fund (SCF)		
		PPCR	FIP	SREP
Eligible technologies	Technology neutral	Technology neutral	Activities under REDD ⁶ ; activities	Proven renewable energy technologies
Focus areas	Power sector: renewable energy, fuel switching, increased efficiency in power generation, CCS-ready thermal power plants. Transportation: increased efficiency in transmission and distribution, and demand management programs. Energy efficiency: buildings, industry and agriculture	All sectors: low-carbon and climate-resilient investments	REDD+ initiatives	All proven renewable energy technologies
Eligible countries	<ul style="list-style-type: none"> – ODA eligibility – Active MDB country program 	<ul style="list-style-type: none"> – ODA eligibility – Active MDB country program 	<ul style="list-style-type: none"> – ODA eligibility – Active MDB country program 	<ul style="list-style-type: none"> – IDA eligibility⁷ – MDB concessional finance eligibility – Active MDB country program – Not receiving CTF financing
Focus countries/regions	15–20 countries: both developing countries and economies in transition	9 country programmes and 2 regional programmes have been identified as of April 2010	8 pilot countries initially, with potential for REDD+ and advanced level of readiness	6 pilot countries with Priority to low-income countries based on recommendation by an expert group







2 | **CLEAN TECHNOLOGY** FUND (CTF)







2.1 MAIN FEATURES

Purpose

The Clean Technology Fund (CTF) promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with significant potential for long-term greenhouse gas emissions savings.

Key sectors

- Power: Renewable energy and efficient technologies to reduce carbon intensity.
- Transport: Efficiency and modal shifts.
- Energy Efficiency: Buildings, industry and agriculture.

Scale

About US\$ 4.5 billion in concessional financing has been pledged by Australia, France, Germany, Japan, Spain, Sweden, the United Kingdom and the United States to help countries bring down costs of public and private investments in low-carbon development.

Measuring success

Influence country low-carbon development strategies; promote market transformation through policy reforms, economies of scale, enhanced competition, and private sector participation; realize employment, industrial growth, environmental and social co-benefits.

Geographical coverage

15 to 20 countries or regions were expected to receive CTF funds. A funding country must be ODA eligible and have an active MDB country program.

CTF workflow

When a country expresses interest in accessing CTF financing, the World Bank Group and the relevant regional development bank conducts a joint mission involving other relevant partners, including government, private sector experts and other stakeholders.

An investment plan will then be developed under the lead of the host country for CTF endorsement (see figure 2). Subsequently, a program or project would be developed pursuant to the investment plan and then will be submitted to the Trust Fund Committee (TFC) for approval.

2.2 COUNTRY INVESTMENT PLANS

Investment plans are country-owned. The plans describe how the funds will be used in major sectors of the economy, how they complement activities under other available programs and the financing plan. The Trust Fund Committee reviews each investment plan, and endorses a resource envelope for the investment plan, which is further developed into projects and programs for financing, based on relevant criteria.

As of the end of Nov. 30, 2010, 13 country plans and one regional investment plan have been endorsed by CTF (see table 2). These include support to wind and solar power projects, rapid bus transit and light rail, energy efficiency schemes and a low-carbon financial intermediary project.

Table 2: Approved investment plans under the CTF

Country-based				Regional
Asia	Africa	Americas	Europe & Central Asia	Middle East & North Africa
Indonesia Philippines Thailand Vietnam	Egypt Morocco South Africa Nigeria	Colombia Mexico	Kazakhstan Turkey Ukraine	Concentrated solar power in the region Covering: Algeria, Egypt, Jordan, Morocco, Tunisia

Figure 2: CTF workflow

Country driven	<ul style="list-style-type: none"> Request from country. Joint missions - MDBs, country participants including private sector and civil society. Investment plan.
TFC criteria	<ul style="list-style-type: none"> Trust Fund Committee (TFC) reviews investment plan. Agrees to envelope for programs/projects (P/P). Responsible MDB supports country in preparation of P/P.
MDB implementation	<ul style="list-style-type: none"> MDB submits pre-appraisal P/P to TCF for approval. MDB conducts appraisal, negotiates CTF legal agreements and submits to own board for P/P approval. MDB acquires funds from CIF Trustee and supports P/P implementation and evaluation by borrower. MDB conducts supervision, completion reporting and evaluation according to own policies and procedures. Review based on results measurement system.



2.3 POTENTIAL FOR PRIVATE SECTOR INVOLVEMENT

The transition to low-carbon development requires a combination of public and private initiatives. An attractive and stable business environment is important for small and medium-sized enterprises that are critical to growth and technology adoption. At the same time private sector initiatives have proven to be successful and have even set a trend for regulatory change.

Private sector investments are an integral part of country investment plans and the subsequent programs and projects. Investment programs are submitted by the MDBs and may consist of individual “large-scale” projects (which each use more than US\$ 50 million of CTF funds) or “envelopes” of smaller thematically linked projects. The programs should explain how the underlying sub-projects are expected to contribute towards the objective of achieving transformational outcomes in a sector, sub-sector, country or sub-national region. They should also demonstrate that the outcomes would not be possible without CTF support.

MDBs may use various financial instruments to meet the needs of the private sector (see examples of potential financial instruments available for CTF programs, p. 20). CTF resources may be combined with other instruments available on the market, such as GEF and other donor funds, and/or carbon credits as well as commercial funding sources. The pricing and terms of the CIF funds will be tailored to address the specific risk, market and structural aspects of each project and envelope. CTF financing is not uniformly offered to all private sector companies, but structured on a case-by-case basis and based on the investment criteria below.

Investment Criteria for Private Sector Programs

- Potential GHG emissions savings
- Cost-effectiveness
- Demonstration potential at scale
- Development impact
- Implementation potential
- Additional costs and risk premium
- Financial sustainability
- Effective utilization of concessional finance
- Mitigation of market distortions
- Risks

Examples of financial products for CTF private sector programs

Equity

Concessional funds may be needed when there is a high transaction cost due to the small size of the transaction; high perceived risk due to the investor's lack of experience in the targeted sector, or the untested nature of the technology and/or in commercializing its application in a developing country.

Credit lines & loans (with incentives)

Credit lines and loans with incentive characteristics such as performance bonuses, or interest rate reductions, have been used to encourage local banks to develop lending programs for small-sized carbon mitigating investments, such as small-scale renewable energy projects and energy efficiency investments in housing, buildings and small businesses.

Subordinated debt (Mezzanine finance)

Refers to loans that, in case of payment defaults, have a lower repayment priority. This strengthens a project's equity position and enables a commercial bank to provide senior debt financing⁸. Subordinated debt is being tested with financial institutions to fill the "equity gap" that exists for many small renewable projects. It is used to cover the difference between the project costs a local bank is willing to cover and the costs the project sponsors are able to cover.

Guarantees

The guarantor agrees it will cover some, or all, of defaulted payment or repayment; guarantees are sought when payment or repayment flows are risky. Guarantees can be applied to support the development of the renewable energy sector, i.e., by enhancing the expected revenue stream from a power purchase agreement (PPA), extending loan tenors and improving the financial viability of a project.

Leasing

Donor funds could be used as performance incentives to encourage leasing companies and banks to engage in, or establish, a new line of business for clean energy equipment. Donor funds could also be used as guarantees to mitigate the risk of resale while a secondary market is being established for the clean energy equipment. Leasing can promote the change to cleaner technologies, especially for smaller scale upgrades by small and medium sized companies.

Risk sharing

Risk-sharing of a portfolio of sub-projects with a local bank or financial institution is an effective way to promote lending for energy efficiency and small scale renewable energy. A local bank funds the sub-project loans from its own account, MDBs guarantee a portion of the repayments from borrowers if a sub-project defaults.



2.4 EXAMPLES OF APPROVED PROGRAMS: PRIVATE SECTOR INCENTIVES

To date thirteen investment plans have been endorsed by the CTF. Below are some examples of the actions that will be supported, with particular emphasis on private sector initiatives.



EGYPT

The investment plan for Egypt including US\$ 300 million in CTF financing addresses the country's objective of meeting its rapid growth in energy demand with increased application of renewable resources, especially wind and solar, and an advanced urban transport system. The investment plan identifies two priority investment areas: wind energy and clean transport. CTF will co-finance a high-capacity transmission system from the wind farms; support private sector investments in wind power generation; accelerate Egypt's urban transport plans, including light rail and bus rapid transit development.



SOUTH AFRICA

The investment plan for South Africa is designed to use US\$ 500 million in CTF co-financing and mobilize further US\$ 1.8 billion. It will support a program of grid-connected solar thermal power, utility-scale wind power development, solar water heaters, and energy efficiency. It includes the first-ever commercial scale concentrated solar power plant in sub-Saharan Africa and the first utility-scale wind power plant in South Africa. These are expected to accelerate solar water heater (SWH) market penetration and development of a domestic SWH industry and catalyze substantial private sector investment in wind power. It would also increase energy efficiency investments through the expansion of bank lending to commercial and industrial sectors through lines of credit to commercial banks, contingent financing to foster energy service companies, and financial incentives or risk products to market leaders.



MOROCCO

The investment plan for Morocco opens the way for the country to establish the Fond de Developpement de l'Energie (FDE – Energy Development Fund), which is at the heart of the government's strategy to enhance energy security and pursue low-carbon growth. With CTF support of US\$ 150 million, the FDE is expected to mobilize financing in the range of US\$ 1.5–2 billion. The FDE may offer commercial, concessional or highly concessional financing packages, allowing financial closure for a number of private and/or publicly financed low-carbon projects that would otherwise struggle to be financed. Priority sectors will be electricity generation and energy conservation. As energy conservation investments are mostly done by the private sector, CTF funds will buy down risk to increase investor confidence.



TURKEY

The investment plan for Turkey aims to increase privately owned and operated energy production from indigenous renewable energy sources in the market-based framework of the Turkish Electricity Market Law, and enhance energy efficiency. The US\$ 250 million CTF co-financed projects, which will also mobilize resources from the European Bank for Reconstruction and Development (EBRD), IBRD, and International Finance Corporation (IFC), aim at using local financial institutions to act as an intermediary for the Funds to the private sector—a model expected to enable spreading the experience beyond the project boundaries. The benefits of the CTF financing will be lower interest rates and significantly longer tenor, to significantly increase the incentive to undertake these projects and to help banks and industry surmount barriers, increase lending for clean energy, and create a market for energy efficiency investments. The CTF will also help the development of smart-grid solutions to better integrate renewable resources into the national transmission grid.



MEXICO

The investment plan for Mexico consists of US\$ 500 million in CTF financing to promote measures on renewable energy, energy efficiency and more sustainable urban transport. These activities will support Mexico's commitment to reduce its GHG emissions by 50% below 2002 levels by 2050. The multi-year business plan identifies the programs that are proposed to be co-financed by the CTF jointly with the IBRD, IADB and IFC. The programs proposed for CTF support do not involve new technology per se, but involve technologies that are already available. The CTF financing will help overcome the institutional, regulatory, or cost barriers (especially upfront investment cost barriers) which must be overcome for large-scale deployment.





3 | STRATEGIC CLIMATE FUND (SCF)







3.1 MAIN FEATURES

Despite current climate change mitigation efforts, a certain degree of climate change is inevitable. Therefore an effective response to climate change should include both mitigation efforts to prevent climate change and adaptation action for those impacts of climate change that cannot be avoided.

Purpose

The Strategic Climate Fund (SCF) is designed to support developing countries in efforts to achieve climate-resilient, low-carbon development. Its structure is built on a series of targeted programs with dedicated funding to pilot new approaches to climate action, each with potential for scaled-up, transformational action aimed at a specific climate change challenge or sectoral response.

Through the targeted programs, the SCF is designed to:

- Provide experience and lessons through learning-by-doing.
- Channel new and additional financing for climate change.
- Provide incentives for scaled-up and transformational mitigation and adaptation action in the context of poverty reduction.
- Provide incentives to maintain, restore and enhance carbon-rich natural ecosystems.
- Maximize co-benefits of sustainable development.

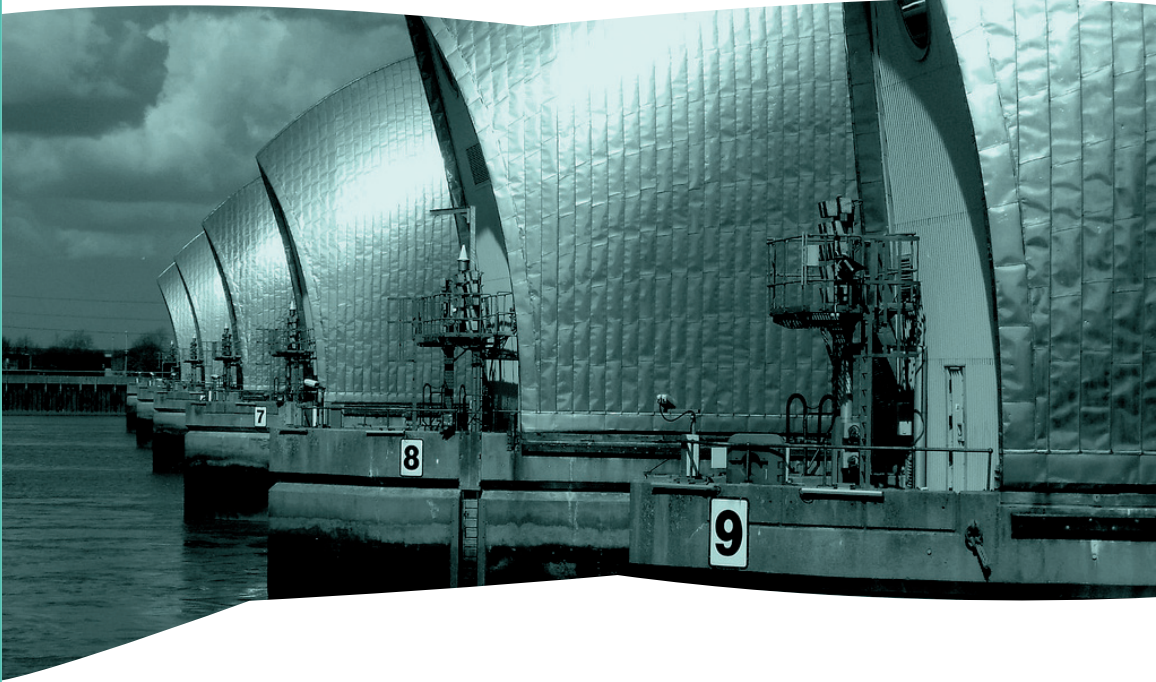
Currently the SCF consists of three thematic programs:

- Pilot Program for Climate Resilience (PPCR)
- Forest Investment Program (FIP)
- Scaling-up Renewable Energy Program in Low Income Countries (SREP)

Scale

About US\$ 1.9 billion in concessional financing has been pledged by Australia, Canada, Denmark, Germany, Japan, Korea, Netherlands, Norway, Spain, Switzerland, the United Kingdom and the United States.





4 | PILOT PROGRAM FOR **CLIMATE RESILIENCE** (PPCR)







4.1 MAIN FEATURES

Purpose

The Pilot Program for Climate Resilience (PPCR) is designed to pilot and demonstrate ways to integrate climate risk and resilience into developing countries' core development planning. It offers additional financial resources to help fund public and private sector investment for climate resilient development plans.

Additionally, the PPCR is designed to catalyze a transformational shift from the "business as usual" sector-by-sector and project-by-project approaches to climate resilience, and promotes a participatory approach for development of a broad-based strategy for achieving climate resilience at the national level in the medium and long term.

Scale

About US\$ 1 billion in concessional financing has been pledged by Australia, Canada, Denmark, Germany, Japan, Norway, Spain, the United Kingdom and the United States.

Geographical coverage

A funding country must be ODA eligible and have an active MDB country program. Nine countries and two regions have been selected for the implementation of pilots (see table 3).

PPCR Pilot programs

The pilot programs under the PPCR are country led, build on National Adaptation Programs of Action (NAPAs) and other development plans relevant to adaptation, and

Table 3: PPCR pilot programs

Country Programs	Regional Programs	
Bangladesh	Caribbean	Pacific
Bolivia	Dominica	Papua New Guinea
Cambodia	Grenada	Samoa
Mozambique	Haiti	Tonga
Nepal	Jamaica	
Niger	Saint Lucia	
Tajikistan	Saint Vincent & Grenadines	
Yemen		
Zambia		

are strategically aligned with other sources of adaptation finance, such as the Adaptation Fund, UNDP and other donor-funded activities.

Two types of investments are supported

- Funding for technical assistance to enable developing countries to build upon existing national work to integrate climate resilience into national and sectoral development plans.
- Funding public and private sector investments identified in national or sectoral development plans or strategies addressing climate resilience.

4.2 POTENTIAL FOR PRIVATE SECTOR INVOLVEMENT

The private sector is a key partner in understanding vulnerabilities and designing response options, as it is one of the main driving forces behind investment and economic development.

The private sector is exposed to direct risks and impacts related to climate change, including financial, credit, operational, environmental and reputational risks, as well as indirect risks and impacts. To adapt effectively to climate change, private sector companies need to have the knowledge, capacity and financial incentives necessary to undertake appropriate and timely climate change interventions. To this end, the PPCR programs will include an analysis of risks to the private sector.

The PPCR will provide financial support for investments into climate-resilient development on the ground, that would be of interest to and involve private sector. For example, the PPCR provides an opportunity for redesigning and addressing climate risk in existing and planned infrastructure for water storage serving water supply, irrigation, flood protection, and/or hydropower production, including for public-private partnerships in such operations. These areas are very relevant to infrastructure companies operating in developing countries.

PPCR supported actions may also include concessional financing, which countries can decide to take along with grant resources to attract private sector investments that may on their own not deliver the required rates of return, but where blending concessional loans with conventional financing to the private sector can help buy-down the additional



costs and risks of private sector investments that would bring significant contribution to increasing national climate resilience.

Some examples include:

- **Guarantees and risk mitigation** (e.g., first loss may be necessary to cover the risk of a bank lending to small scale farmers for water conserving irrigation technologies).
- **Monitoring and data collection programs** (e.g., weather and yield patterns in strategic agricultural crops where the benefits are both private and public but where only blending with concessional finance would provide a private company with the incentive to invest in the project).
- **Additional costs** that address climate uncertainties in public-private partnerships.

In the PPCR process, non-government interventions would be identified in order to adapt to climate change (e.g., the provision of finance to allow private sector stakeholders, such as small businesses, to adopt new technologies or make necessary investments). Private sector groups (e.g., through the local business council or directly with strategic players) are also expected to be a key component in the stakeholder consultations for the preparation of the initial joint mission by the respective government and MDBs. These processes are of relevance to a wide range of business, in particular those operating in infrastructure, agriculture, hydropower and other sectors in developing countries prone to climate change impacts.

4.3 PPCR WORKFLOW

The PPCR Sub-Committee (PPCR-SC) approves the programming priorities, operational criteria and financing modalities for the PPCR Program. It is comprised of up to six representatives from contributor countries; a matching number of representatives from eligible recipient countries; a representative from the Adaptation Fund Board; and other active observers in line with the governance structure of the CIF, including two from the private sector.

The PPCR is implemented in two phases. Planning for each stage will be carried out through country-led joint missions involving the MDBs and other development partners.

- **Phase 1** helps countries develop a Strategic Program for Climate Resilience, including an underlying investment program.
- **Phase 2** supports implementation of the Strategic Program and its investments.

Immediate outcomes of the PPCR program should include:

- Increased capacity to integrate climate resilience into country and/or sectoral strategies.
- More inclusive strategies for climate resilient growth and development.
- Increased awareness of vulnerabilities and potential impacts of climate change among governments and non-government stakeholders, including the private sector.
- Scaling-up of investment for broader interventions and programming for integrating climate resilience into national/sectoral, private sector and/or sub-national level development plans and budgeting.
- Improved coordination among key stakeholders to implement country-specific climate resilient programs.



4.4 LINKAGES TO OTHER PROCESSES

The PPCR has been designed to provide lessons over the next few years that might be taken up by countries, the development community, and the international climate change regime, including the Adaptation Fund (AF). The AF Board is represented in the PPCR-SC.

A range of UN agencies are supporting activities to promote climate resilience, including in agriculture and fisheries, food security, disaster risk management, health services, natural resource management, and development of institutional and human capacity for the management of climate risks. Close alignment of the PPCR program and the UN adaptation programs will be ensured.

PPCR resources will complement other multilateral financial mechanisms, such as the GEF and the Adaptation Fund, and bilateral sources of financing, and will seek co-financing where appropriate. Within LDCs, it will build on the existing national adaptation plans of action and the experiences gained in their formulation.

In addition, the experience of the GEF in financing adaptive measures through the Strategic Program for Adaptation, the Least Developed Countries Fund and the Strategic Climate Change Fund should be taken into account in developing countries' strategic programs under the PPCR.





5 | FOREST INVESTMENT PROGRAM (FIP)







5.1 MAIN FEATURES

Deforestation and forest degradation are the second leading cause of climate change. They account for approximately 18% of global GHG emissions and over a third of emissions from developing countries.⁹

Purpose

The Forest Investment Program (FIP) is designed to significantly increase investments to help countries reduce GHG emissions from deforestation and forest degradation, and promote improved sustainable management of forests and enhancement of forest carbon stocks (REDD+). The FIP is also a vehicle to build on experience and create new means for broad-scale sharing of knowledge on REDD+.

The FIP promotes transformational change by strengthening multi-stakeholder ownership at national and local levels, and providing scaled-up forest financing to catalyze shifts from business-as-usual policies and development paths. At the implementation level, it is a vehicle to pilot replicable models of effective forest management.

The FIP complements other mechanisms in forest aid architecture by providing up-front financing to countries to support their readiness strategies to reduce emissions from REDD. It is designed to implement a small number of country-led and -owned pilot programs to support:

- Investments which build institutional capacity, forest governance and information.
- Investments in forest mitigation efforts, including forest ecosystem services.
- Investments outside the forest sector necessary to reduce the pressure on forests.

Scale

About US\$ 587 million in concessional financing has been pledged by Australia, Denmark, Japan, Norway, Spain, the United Kingdom and the United States.

Geographical coverage

A funding country must be ODA eligible and have an active MDB country program.

5.2 PRIVATE SECTOR INVOLVEMENT

The FIP is designed to support large-scale investments and leverage additional financial resources, including private sector finance. It provides up-front bridge financing for readiness reforms and public and private investments. The FIP also aims to develop investment strategies, programs and projects for working with, and leveraging resources

from, the private sector, including financial institutions, in effective implementation of REDD+ investment strategies, programs and projects.

Therefore companies operating in the forest sector and sectors that impact forests, including agriculture, husbandry, and tourism, in developing countries will be key partners in FIP programs. In some cases they may also be the recipient of financial incentives that are to be designed.

5.3 FIP WORKFLOW

The FIP Sub-Committee approves the programming priorities, operational criteria and financing modalities for the FIP. It is comprised of six representatives from contributor countries and six representatives from eligible recipient countries. It also has active observer representatives from the Forest Carbon Partnership Facility (FCPF) secretariat, GEF, UNFCCC, UN-REDD technical secretariat, four civil society observers, four indigenous peoples observers, and four observers from the private sector and two alternates.

An Expert Group was established by the FIP-Subcommittee to make recommendations on the selection of country or regional pilots for the FIP. The FIP-SC has provided to the Expert Group elaborated selection criteria and guidance. The Expert Group made recommendations at the March 2010 and June 2010 meetings of the FIP-SC, based on which 8 pilot countries were selected. These are Brazil, Burkina Faso, Democratic Republic of Congo, Ghana, Indonesia, Laos, Mexico and Peru.

The FIP workflow is presented in table 5.

5.4 LINKAGES TO OTHER PROCESSES

The FIP aims to complement and cooperate closely with other forest-related initiatives, such as the FCPF of the World Bank and the UN-REDD Programme, and with the efforts of the Global Environment Facility. It will cooperate with bi- and multi-lateral agencies and relevant stakeholders, including indigenous peoples, local communities, civil society, and the private sector. The FIP will proactively communicate the lessons learned in its implementation to the UNFCCC and other relevant stakeholders and initiatives, and incorporate lessons learned from others.







6 | SCALING-UP RENEWABLE ENERGY PROGRAM IN LOW INCOME COUNTRIES (SREP)







6.1 MAIN FEATURES

Low-income countries face a dual challenge of increasing the availability of electricity and other energy services needed for economic development and providing access to electricity in a climate smart manner for the 1.5 billion people who currently depend on biomass fuels for energy services.¹⁰

The majority of the low-income countries and populations are in sub-Saharan Africa and Asia, with electricity access of about 25 and 52 percent respectively. The funds will focus on all regions including Latin America and the Caribbean, and the Pacific.

Purpose

The SREP aims to demonstrate in a small number of low-income countries how to initiate energy sector transformation by helping them adopt renewable energy solutions at a programmatic level and by increasing energy access through renewables. The SREP should help transform government policy, remove barriers and improve capital availability.

The SREP will act as a catalyst for the transformation of the renewables market by obtaining government support for market creation, private sector implementation, and productive energy use. The SREP is country-led and builds on national policies and other existing energy initiatives.

Scale

About US\$ 318 million in financing has been pledged by Australia (tbc), Japan, Korea, Netherlands, Norway, Switzerland, Spain, the United Kingdom and the United States.

Geographical coverage

A small number of low-income countries that are IDA eligible, with an active MDB country program, and not receiving funding from the CTF.

Focus sectors

The SREP should provide financing for renewable energy generation and use of energy using proven “new” renewable energy technologies, namely solar, wind, bio-energy, and geothermal, as well as hydropower with capacities normally not to exceed 10 MW per facility.

Table 6: SREP workflow

Steps/actions required	Responsible party
1. Number of projects to be financed	SREP-SC
2. Expression of interest	Eligible countries
3. List of countries for pilot programs	Expert group
4. Selection of pilot countries	SREP-SC
5. Scoping and joint programming mission	MDBs, bi- and multi-lateral, and other development partners, UN agency, with respective governments and in consultation with other stakeholders, including the private sector
6. Proposal for pre-investment support and technical assistance	Concerned country
7. SREP investment plan	Respective governments and the concerned MDBs (via an MDB program)
8. Submission of SREP investment plan to SREP-SC	Governments as part of MDB program
9. Implementation of investment plan	MDBs
10. Monitoring and evaluation	MDBs and national-level steering committees

SREP WORKFLOW

The SREP Sub-Committee (SREP-SC) approved the programming priorities, operational criteria and financing modalities. Selection of the country or regional programs is made on the basis of recommendations provided by an Expert Group established by the SREP-SC. Once a country's participation in the SREP program is confirmed, the relevant MDBs will conduct a joint mission to consult the government on the design of a country program and to prepare a SREP funding plan. The workflow is presented (see table 7). Since the program was launched relatively recently, so far no SREP funding plans have been approved. Based on the current level of funding, the SREP SC has approved 6 SREP pilot countries in June 2010. These are Ethiopia, Honduras, Kenya, Maldives, Mali and Nepal.



6.2 PRIVATE SECTOR INVOLVEMENT

Recognizing the significant role the private sector has in promoting renewable energy, the SREP promotes both public and private sector actions to remove barriers that might otherwise inhibit scaled-up private sector investments.

The SREP should utilize a range of financial instruments that are already available in MDBs, including:

- Investment financing using equity and debt financing, capital cost buy-down, production incentives or other financial instruments to make renewable energy investments and related transmission and distribution investments financially viable.
- Credit enhancement or risk mitigation that leverages trade finance and short-term working capital finance to renewable energy suppliers, provides partial risk coverage to investors that lack adequate credit history, limited collateral for securitizing the renewable energy loans or other risks.
- Grants and loans that can be on-lent through domestic financial institutions, including micro-finance institutions for renewable energy investments.
- Results based financing which includes a number of performance based mechanisms such as Output Based Aid (OBA), advance market commitments, provider payment incentives, performance-based inter fiscal transfers and conditional cash transfers.

Private-sector groups (e.g., through the local business council or directly with strategic players) are expected to be a key component in the stakeholder consultations for the preparation of the initial joint mission by the respective government and MDB. Further, the SREP-SC has two representatives from the private sector.

The SREP is of particular interest to companies operating in or willing to get into the renewable energy sector in low-income countries and for suppliers of renewable energy technologies. It is also of relevance to financial institutions in the relevant sectors and countries.





7 | PROCESS FOR SELECTION OF **PRIVATE SECTOR OBSERVERS** TO CIF GOVERNING BODIES





The WBCSD was approached by the Administrative Unit of the CIF in early 2009 to facilitate the selection of private sector observers to the committees and sub-committees of the CIF, including their targeted programs. The WBCSD developed a selection process to provide credible, fixed-term observers who could provide viable input to the CIF funds and feedback into the broader business community.

As an interim measure while the selection process was put in place, temporary observers were provided to the May 2009 CIF meetings in Washington.

- **Creation of an Advisory Body:** In order to create a transparent, equitable and fair process, the WBCSD decided to establish an independent Advisory Board (AB) to develop the criteria for selection and to select the observers (see Annex III for details). The AB was comprised of five respected climate, intergovernmental and business experts. The AB developed guidelines, and terms of reference and application procedures and deadlines for the respective funds. In view of the specialized nature of the FIP sub-committee, a separate FIP AB was established.
- **Communication:** The call for applications was widely distributed through WBCSD networks, Climate L, the business and industry organizations admitted to the UNFCCC, the International Chamber of Commerce (ICC) and the CIF Administrative Unit networks. A specific web page was created and regularly updated with the relevant information for the self-selection process and on the funds.
- **Selection process:** Following the deadline, the applications were checked for eligibility, and organized and classified by WBCSD. This information together with supporting documentation was shared with the AB, which then made its recommendations following a teleconference.
- **Round 1 - CTF, SCF & PPCR (May–August 2009):** The initial selection process for the three funds – CTF, SCF and PPCR took three months, with the call for applications being open for three working weeks. Ten applications were received and two candidates for the CTF and SCF recommended. It was decided to extend the deadline for the PPCR because the candidates did not fulfill the requested criteria.
- **Round 2 - FIP & SREP & PPCR (Dec 2009–Feb 2010):** The implementation of the selection of private sector observers for the FIP and SREP was strategically delayed due to Copenhagen. The difficulties in drawing attention to the call for applications at this time, compounded by the unavailability of climate experts was thought to adversely affect a credible process. It was also necessary to create a separate AB for the FIP and to re-convene the earlier AB with a new chair.

The selection processes for the FIP and SREP followed the same principles as developed for round 1. While the call for applications for FIP was opened for one month, the process for the SREP was shortened in order to try and attain the deadlines provided by the Administrative Unit, with the call for applications being reduced to two weeks.

There were five eligible candidates for the FIP and three were recommended as observers/alternates. There were nine eligible candidates for the SREP and three have been recommended as observers/alternates. For the PPCR, following the extension, two eligible applications were received and have been recommended by the AB as observers.

A full list of private sector observers may be found in Annex IV.

For more information on the selection process see www.wbcsd.org/web/cif.htm







8 | ANNEXES





ANNEX I: CIF GOVERNANCE AND LINKAGES TO OTHER PROCESSES

CIF governance structure

The governance and organizational structure of CIF's two Trust Funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) include a Trust Fund Committee, a shared MDB Committee, an Administrative Unit and a Trustee.

- The Trust Fund Committee (TFC) is organized with equal representation of contributor and recipient countries.
 - The CTF TFC oversees the Fund's operations, provides strategic direction, and approves and oversees its programs and projects.
 - The SCF TFC approves the establishment of its targeted programs and advises on strategic direction. Each of the SCF's targeted programs is governed by its own Sub-Committee. Decisions of the TFC and Sub-Committees are made by consensus.
- Observers from the UN, GEF, UNFCCC, civil society, indigenous people and the private sector are invited to participate in meetings of the TFCs and Sub-Committees. Observers for each TFC and Sub-Committee are chosen through a self-selection process managed by the constituency concerned, as presented in detail later in this document.
- The Multilateral Development Banks (MDB) Committee facilitates collaboration, coordination and the exchange of information, knowledge, and experience among MDB partners.
- The Administrative Unit supports the work of the CIF, the TFCs and other committees. It is housed in the World Bank Group's Washington, DC offices and is comprised of a small professional and administrative staff.
- The IBRD serves as the Trustee for the CIF. In this capacity, the IBRD established both the CTF and SCF Trust Funds which receive donor contributions and make commitments and transfers of CIF resources, with the approval of the TFCs. Each MDB is responsible for the use of funds transferred by the Trustee and should periodically report on the financial operations to the Trustee.
- The Partnership Forum is an annual meeting of the stakeholders of the CIF, including: contributor and eligible recipient countries, MDBs, UN organizations, GEF, UNFCCC, the Adaptation Fund, bilateral development agencies, representatives of civil society,

indigenous peoples, the private sector, and scientific and technical experts. It is co-chaired by the World Bank Vice President for Sustainable Development and a country representative elected by countries participating in the Forum. The purpose of the meeting is to discuss the strategic direction, results and impacts of the CIF. The Partnership Forum will provide an opportunity for independent scientific, technical and other advice on major issues of implementation of projects that integrate climate change and development, as well as an opportunity to share cutting edge knowledge concerning climate change challenges. It will be a meeting for dialogue and consultation and will not lead to written outcomes.

Role of the MDBs

The CIF are disbursed through the MDBs to support effective and flexible implementation of country-led programs and investments. The funds are designed to complement existing bilateral and multilateral financial mechanisms and their operations are coordinated with the programs of other financial institutions. An important feature of CIF's programming is the MDB engagement, under the leadership of the country, with the UN agencies and bilateral development and investment agencies, with a view to mobilizing co-financing and harmonizing policy support.

The CIF are intended as an interim measure for the MDBs to demonstrate what can be achieved through scaled-up financing blended with development finance. Activities financed by the Funds should be based on a country-led approach and should be integrated into country-owned development strategies. They should assist developing countries to build country-level knowledge, capacity and development project experience.

Linkages with other processes

The CIF are designed to complement activities of the GEF and the UN, including the climate change funds established under the UNFCCC and the Kyoto Protocol. They will operate in close cooperation with relevant institutions to maximize synergies and avoid overlaps. As noted earlier, the representatives of these institutions are invited as observers to the TFC meetings and are participants in the Partnership Forum.

Table 7: Comparison of CIF focus areas with other Funds

	CTF	SCF	GEF Trust Fund	Adaptation Fund (AF)
Eligible countries	ODA and MDB eligibility (15–20 countries to be covered – see Annex II)	ODA and MDB eligibility, priority to highly vulnerable LDCs (SREP: country not receiving CTF financing)	Developing countries and economies in transition ¹¹ eligible to borrow from the World Bank and technical assistance from UNDP	Emphasis on most vulnerable developing countries
Types of projects	Projects involving high abatement opportunities	<ul style="list-style-type: none"> – Technical assistance projects – Providing financial resources 	<ul style="list-style-type: none"> – Operational programs – Enabling activities – Short-term measures 	<ul style="list-style-type: none"> – Small-scale projects (<US\$ 1 million) – Regular projects (>US\$ 1 million)
Focus areas	<ul style="list-style-type: none"> – Power sector: renewable energy, fuel switching, increased efficiency in power generation, CCS-ready thermal power plants – Transportation: increased efficiency in transmission and distribution, and demand management programs – Energy efficiency: buildings, industry and agriculture 	<ul style="list-style-type: none"> – PPCR: climate resilience – SREP: renewable energy – FIP: forests related activities (REDD) 	<ul style="list-style-type: none"> – Biodiversity – Climate change – International waters – Land degradation – Ozone layer – Persistent organic Pollutants (POPs) 	Concrete adaptation projects and programs in developing countries ¹² that are particularly vulnerable to the adverse effects of climate change
Private sector involvement	Facilitating scaled up private sector involvement by reducing inherent/perceived risks	Facilitating scaled up private sector involvement by reducing risks	Encouraged to engage in the identification, financing and monitoring of projects	Private sector activities generate finance for the fund To be involved in the implementation of some projects

ANNEX II: COUNTRIES WITH APPROVED CIF PROGRAMS

Fund/ Program	CTF	PPCR	FIP	SREP
Algeria	REGIONAL			
Bangladesh				
Bolivia				
Brazil				
Burkina Faso				
Cambodia, Kingdom of				
Colombia				
Congo, Democratic Republic of				
Dominica		REGIONAL		
Egypt	& REGIONAL			
Ethiopia				
Ghana				
Grenada		REGIONAL		
Haiti		REGIONAL		
Honduras				
Indonesia				
Jamaica		REGIONAL		
Jordan	REGIONAL			
Kazakhstan				
Kenya				
Laos				
Maldives				
Mali				
Mexico				
Morocco	& REGIONAL			
Mozambique, Republic of				
Nepal				
Niger, Republic of				
Nigeria				
Papua New Guinea		REGIONAL		
Peru				
Philippines				
Saint Lucia		REGIONAL		
Saint Vincent & Grenadines		REGIONAL		
Samoa		REGIONAL		
South Africa				
Tajikistan, Republic of				
Thailand				
Tonga		REGIONAL		
Tunisia	REGIONAL			
Turkey				
Ukraine				
Vietnam				
Yemen				
Zambia				

ANNEX III: GENERAL PRINCIPLES FOR THE CIF PRIVATE SECTOR ADVISORY BOARD

Composition

The Advisory Boards is comprised of five experts in the fields of climate policy, mitigation and adaptation technologies and financing and intergovernmental processes. The chair will be an experienced, respected business individual with broad experience in the business elements of climate change, experience in the world of climate negotiations and proven skills in management.

Responsibilities

The main responsibilities of the Chair are:

- Revision of the terms of reference (ToR) for the selection processes and guidance on the criteria for the selection of candidates.
- Chairing the meeting for the selection of two observers for the committee /sub-committee.
- Possibility to have an active involvement in the annual Partnership Forum (multi-stakeholder meeting on the margins of the CIF meetings).
- Having his/her name included as a member of the Advisory Board in our communications as part of the self-selection process and on the website.
- Resolving any matters in dispute during the process and having the deciding voice.

The responsibilities of the Advisory Board are to decide on the recommended observers to the funds, and to resolve any matters related to this, per teleconference.

Principles

The advisory board agreed to adopt the following principles to guide their recommendations of candidates.

- Maximizing business interest —not having one organization on two sub-committees, provided there are good alternative candidates.
- Balancing the two organizations represented on each committee:
 - One could have broad communications/network, the other specific relevant expertise.
 - Each observer need not represent a global voice, but the choice of observers could complement each other to provide a balanced participation.

- Requiring a broad understanding of international processes and an interest and capacity in knowledge sharing and dissemination.
- Not proposing an inadequate candidate where there might be a lack of suitable candidates.

Private Sector Advisory Boards to the CIF (February 2010)

Advisory Board	Position	Name	Title
CTF, SCF, PPCR 1 May–Nov 2009	Chair	Egil Myklebust	Former CEO NorskHydro, SAS
CTF, SCF, PPCR, SREP 29 January 2010	Chair	Steve Lennon	Managing Director, Corporate Services Division, ESKOM
		Brigitte Cuendet	Program Manager, State Secretariat for Economic Affairs (SECO)
		Richard Baron	Deputy head for energy efficiency and environment, IEA
		Wanna Tanunchaiwatana	Manager, Technology, UNFCCC
		William Kojo Agyemang-Bonsu	UNFCCC Focal Point/CDM-DNA, Ghana Energy Resources and Climate Change Unit Environmental Protection Agency
FIP 1 January 2010	Chair	George Weyerhauser	Partner, Houghton Cascade
		Brigitte Cuendet	Program Manager, State Secretariat for Economic Affairs (SECO)
		Maria Sanz-Sanchez	Programme Officer, ATS, UNFCCC
		Tony La Vina	Dean, Ateneo School of Government, The Philippines
		Stewart McGinnis	Head, Forest Programme, International Union for Conservation of Nature (IUCN)

ANNEX IV: PRIVATE SECTOR OBSERVERS TO THE CIF

As of 1 March 2010

1. Clean Technology Fund

- World Business Council for Sustainable Development (WBCSD), Geneva, Switzerland
Marc Stuart, EcoSecurities – marc@ecosecurities.com
- Global Wind Energy Council (GWEC), Brussels, Belgium
Steve Sawyer (alternate BCSE/Lisa Jacobson) – steve.sawyer@gwec.net
- Business Council for Sustainable Energy (BCSE), Washington, USA
Lisa Jacobsen (Alternate) – ljacobson@bcse.org

2. Strategic Climate Fund

- International Chamber of Commerce (ICC), Paris, France
Granville Martin, JPMorgan Chase – granville.j.martin@jpmchase.com
- MEDA, Waterloo, Canada
Elizabeth Wallace – ceg_wallace@yahoo.co.uk

3. Pilot Program for Climate Resilience (PPCR)

- World Business Council for Sustainable Development, Geneva, Switzerland
Celine Herwijer, PricewaterhouseCoopers – celine.herweijer@uk.pwc.com
- BEA International, Nairobi, Kenya
Patrick Karani – pkarani@beainternational.org

4. Forest Investment Program

- Associação Brasileira das Empresas de Mercado de Carbono (ABEMC), São Paulo, Brazil
Marco Antonio Fujihara, KEY ASSOCIADOS – mfujihara@keyassociados.com.br
- World Business Council for Sustainable Development (WBCSD), Geneva, Switzerland
James Griffiths – griffiths@wbcscd.org
- Environment Business Australia, Sydney, Australia
Marisa Meizlish/Ben Guillon, New Forests – mmeizlish@newforests-us.com
or bguillon@newforests-us.com

5. Scaling-up Renewable Energy Program in Low-Income Countries (SREP)

- Carbon Finance Working Group, Addis Ababa, Ethiopia
Ambachew Fekadeneh Admassie, Ethan Biofuels – frentals@ethionet.et
or abi_fek@yahoo.com
- Climate Technology Initiative Private Financing Advisory Network (CTI PFAN), Mie, Japan
Peter Storey – peter.storey@ppl-int.com
- International Renewable Energy Alliance (REN Alliance) and International Hydropower Association (IHA), London, United Kingdom
Richard Taylor – gt@hydropower.org or rmt@hydropower.org

6. Overall process

Barbara Black – black@wbcsd.org
Maria Mendiluce – mendiluce@wbcsd.org





LIST OF **ACRONYMS**

AB	Advisory Board
ABEMC	Associação Brasileira das Empresas de Mercado de Carbono
AF	Adaptation Fund
BCSE	Business Council for Sustainable Energy
CIF	Climate Investment Funds
CTF	Clean Technology Fund
CTI PFAN	Climate Technology Initiative Private Financing Advisory Network
EBRD	European Bank for Reconstruction and Development
FCPF	Forest Carbon Partnership Facility
FDE	Energy Development Fund
FIP	Forest Investment Program
FIP-SC	Forest Investment Program Sub-Committee
GEF	Global Environment Facility
GHG	greenhouse gas emissions
IBRD	International Bank for Reconstruction and Development
ICC	International Chamber of Commerce
IFC	International Finance Corporation
IDA	International Development Association
IHA	International Hydropower Association
IUCN	International Union for Conservation of Nature
LDCs	least developed countries
MDB	multilateral development banks
ODA	official development assistance
PPCR	Pilot Program for Climate Resilience
PPCR-SC	Pilot Program for Climate Resilience Sub-Committee
REDD	Reducing Emissions from Deforestation and Forest Degradation
REN Alliance	International Renewable Energy Alliance
SC	sub-committee
SCF	Strategic Climate Fund
SECO	State Secretariat for Economic Affairs
SREP	Scaling-up Renewable Energy Program in Low-Income Countries
SREP-SC	Scaling-up Renewable Energy Program Sub-Committee
TFC	Trust Fund Committee
ToR	Terms of Reference
UNFCCC	UN Framework Convention on Climate Change
WBCSD	World Business Council for Sustainable Development



LIST OF ENDNOTES

- (1) For more information please see www.climateinvestmentfunds.org
- (2) Participating MDBs include the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and the World Bank Group.
- (3) The negotiations under the UNFCCC are, among other things, looking at the creation of institutional architecture to support action on mitigation of climate change and adaptation to climate change impacts, as well as scaling-up of deployment and transfer of technology.
- (4) http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/CIF%20Pledging%20table%20as%20of%201-31-10_revised.pdf
- (5) It was agreed by the CIF Funds that observers may: request the floor during discussions of the Trust Fund Committee to make verbal interventions; request that co-chairs add agenda items to the provisional agenda; and recommend external experts to speak on a specific agenda item to the Trust Fund Committee or the co-chairs. The observers are responsible for preparing and gathering input from the constituency; representing the interests of the constituency and disseminating information broadly to the private sector.
- (6) Reducing Emissions from Deforestation and Forest Degradation in Developing Countries.
- (7) Established in 1960, IDA aims to reduce poverty by providing interest-free credits and grants for programs that boost economic growth, reduce inequalities and improve people's living conditions.
- (8) A class of debt that has priority with respect to interest and principal over other classes of debt and equity. In the event of financial difficulties or liquidation of the borrower's assets, holders of senior debt will have a priority claim. Because senior debt has a relatively secure claim, it is less risky from the point of view of the lender and it pays a lower rate of interest compared with debt of the same issuer having a subordinate claim.
- (9) FIP design document, page 2, paragraph 2 at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/FIP_Final_Design_Document_July_7.pdf
- (10) SREP design document, paragraph 1 at: http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/SREP_design_Document.pdf
- (11) Having ratified the concerned treaty.
- (12) In developing countries that are Parties to the Kyoto Protocol.

