CLIMATE INVESTMENT FUNDS: CLEAN TECHNOLOGY FUND AND STRATEGIC CLIMATE FUND

1. The Executive Directors approved the establishment of the Clean Technology Fund and the Strategic Climate Fund, and the World Bank's role in oversight and management of the funds as: (a) Trustee of the CIF (the Clean Technology Fund and the Strategic Climate Fund); (b) host of the CIF Administrative Unit; and (c) an implementing agency through which the CIF would finance certain programs and projects (R2008-0131; IDA/R2008-0209, dated June 10, 2008).

2. **Chairman's Opening Remarks.** The Chairman discussed the importance of the World Bank's role in the international strategy to address global climate change and its impacts on economic development. He noted that these impacts were most evident in the developing world and that the Bank would continue its work to understand the impacts on vulnerable populations and to develop new approaches in sectors as far-ranging as agriculture and water management, transportation, urban development, biodiversity and energy access. He noted the concerns of many developing country leaders—that resources should not be diverted from traditional development assistance and that limits should not be imposed on growth at a time when many developing countries were starting to expand their growth and creating additional opportunities for their people—and said that the establishment of the proposed funds was a very constructive response to those concerns. The World Bank had worked closely with the regional development banks on these issues and would continue to do so in order to develop additional financing and increase collaboration on climate change issues. He commended the work of the Bank staff and expressed his appreciation to the Board for its strong support for the Bank's climate change agenda.

3. **Staff Introduction.** Staff welcomed Executive Directors' support of the Climate Investment Funds proposal, commenting that the expressions of support by all Chairs, given the development implications of climate change and the need to fill an interim financing gap pending agreement on the future of the climate regime, was encouraging. Staff appreciated the recognition from many Chairs of the extensive series of consultations that were conducted in the design of the Climate Investment Funds (CIF), recognizing the complexity of building consensus for such an initiative leading to an inclusive and balanced governance structure. Staff said that the CIF design recognized that the United Nations Framework Convention on Climate Change (UNFCCC) was the appropriate forum for climate change negotiations and for agreeing on guiding principles for climate change action. The Bank believed that the CIF would demonstrate new approaches and provide lessons to contribute to the negotiations under the Bali Action Plan. The sunset clause ensured that the CIF would not prejudice ongoing deliberations regarding the future of the climate change regime, including its financial architecture.

4. The Strategic Climate Fund (SCF) and its Pilot Program on Climate Resilience (PPCR) would provide crucial additional resources to test new approaches and create new knowledge for effective adaptation. The Clean Technology Fund (CTF) would provide additional funds for programs in developing countries that would contribute to demonstration, deployment and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas emission savings through increased energy efficiency and deployment of new technologies and approaches. Staff emphasized that poverty reduction and economic growth continued to be the primary mission of the World Bank Group. The CIF would support the strategy of implementing climate change mitigation and adaptation considerations into the development process.

5. **An Important Role.** A large number of speakers expressed support for the Climate Investment Funds. One of these speakers said that climate change was now among the most urgent agenda items facing the international community. Given the risks associated with climate change for sustainable development and poverty reduction, the World Bank Group had a crucial stake in tackling this global challenge. With its development mandate, the Bank Group was well placed to assist developing countries' transition to a low carbon development path, especially their efforts to reduce green house gases (GHG), as well as to help the most vulnerable, poorest countries increase their climate resilience. He commended

the World Bank Group's recent efforts to scale up climate action in developing countries, including the Clean Energy Investment Framework (CEIF) and the Strategic Framework for Climate Change and Development (SFCCD). He said that the CIF was a very important mechanism to provide concessional, scaled-up finance to complement existing multilateral and bilateral assistance on climate change by fully utilizing existing MDBs' operational policies and procedures.

6. Many speakers highlighted the need to maintain the priorities of economic growth and poverty reduction, increased access to energy, and adaptation to climate variability.

7. A number of speakers said that the funded projects would have to demonstrate a strong impact on the low-carbon development path. They said that the Bank's role should reflect both candid policy dialogue with countries as well as financing. In this respect, specific attention would have to be paid to energy efficiency, rationale of harmful energy consumption subsidies, and the optimization of the energy mix.

8. Some speakers said that CIF activities should be consistent with country-owned low-carbon growth strategies.

9. Many speakers expressed their appreciation to Bank Management and staff for the extensive negotiations and consultations in support of the Climate Investment Funds proposals. Some of these speakers favorably noted that many of the important issues that were raised during the design period were incorporated into the final document. A speaker also noted the very substantial interventions by Board colleagues during this process and said that this would lead to improved Board effectiveness.

10. A speaker asked how the Bank could prevent its growing climate change agenda from compromising the Bank's important work in the agriculture energy and infrastructure sectors.

11. Staff said that there was a great synergy and multiple benefits that would come from the Bank's support of the climate change agenda. That Bank Group would continue to work on combining these products with traditional IBRD and IFC products to support innovative work in the energy and infrastructure sectors.

12. **Accountability to the World Bank Board.** A number of speakers emphasized that the Bank should remain accountable for the policies approved by the Bank's Board and that the CIF-financed projects should be consistent with the approved policies and country-based models of the Bank and other MDBs. One of these speakers sought more clarity on the relationship between the Trust Fund Committees and the Bank's Board.

13. Staff said that a core design of the CIF was to utilize the skills and capabilities of the multilateral development banks (MDBs) and to ensure alignment with their development programs by building on the structures and normal processes of the MDBs. Each MDB would remain accountable to its governing body and would apply its own policies and procedures in project and program preparation, approval and implementation. Programming would be integrated in the Bank's country sector dialogue. In the case of IBRD/IDA, programs and projects would be approved by the Board. In the case of IFC, all projects financed with CIF funds would be submitted to an internal credit committee, which would be responsible for ensuring that projects complied with CIF and approved proposal requirements. Projects that blended CIF funds and IFC funds would be approved by the IFC Board.

14. A speaker cautioned against creating a heavy administrative and burdensome structure.

15. Staff said that a corollary of building upon the skills, capabilities and policies and procedures of the MDBs was ensuring a "light" administrative structure.

16. **New and Additional Resources.** A number of speakers stressed the importance of the Funds providing new and additional resources that supplemented existing ODA flows otherwise available for developing countries so as not to displace or offset commitments to alleviate poverty and spur economic

growth. Some speakers questioned how the provision of new and additional resources would be monitored.

17. Several speakers noted the magnitude of need in developing countries for climate change-related programs and projects. One of these speakers welcomed the substantial increase in available funds devoted to climate change that had been provided by several donors, while another speaker urged commitment of more resources and expedited intervention mechanisms as the effects of climate change were already having devastating effects in most developing countries.

18. Staff said that the Bank would continue to work with OECD/DAC, the agency responsible for monitoring overseas development assistance, to report to the Trust Fund Committees of the CIF as information and analysis of aid flows were made available. This would also be available to the Board.

19. A number of speakers noted that "true additionality" could only be ensured if the MDBs scaled-up their overall lending volumes.

20. Staff assured the Board that this aspect of additionality would also be monitored and reported under the SFCCD.

21. A number of speakers expressed their expectation that the Bank would maintain a balance between its response to mitigation and adaptation and would ensure that the needs of low income countries were met.

22. Staff said the CIF would complement existing bilateral and multilateral financial mechanisms and the operations of the funds would be coordinated with the programs of other financial mechanisms, including the Adaptation Fund, GEF, the GEF-managed LDCF and SCCF, and IDA. Together, these funding mechanisms would serve to address both adaptation and mitigation. Programs under the Strategic Climate Fund would have a particular focus on the climate change challenges faced by low income countries.

23. **Conditionality.** A large number of speakers discussed conditionality.

24. A number of speakers requested assurances that developing countries would not be pushed to work with the World Bank to develop investment strategies that were based on national plans for low carbon growth. One of these speakers expressed the view that the CIF should not impose any explicit or implicit conditionalities to developing countries.

25. Some speakers emphasized the importance that conditionality granted through CIF funding should be carefully tailored on the basis of specific sectors, countries and projects as appropriate. One of these speakers said that coherence with current concessionality levels for financing climate-friendly investments must be ensured and that highly concessional or grant terms must not displace investments that might take place anyway using commercial or standard MDB borrowing.

26. Staff said that low carbon growth strategies were not a prerequisite for accessing the CIF. The World Bank was working with a number of countries that had requested Bank assistance to integrate climate actions into their national sustainable development strategies, and the Bank would continue to be available to assist other countries that might be interested in developing such strategies.

27. A number of speakers sought clarification on the low-carbon objectives of CIF investment review criteria.

28. Staff said that the purpose of the Clean Technology Fund was to promote scaled-up deployment, diffusion and transfer of clean technologies by funding low-carbon programs and projects that were embedded in national plans and strategies. In this regard, in accessing projects and programs to be financed by the CTF, consideration would be given to how such projects and program fit within the context of national development plans or programs that included low-carbon objectives. Investment plans should build on a country's own objectives consistent with the purpose of the trust fund.

29. **Concessional Funding and Grant Assistance.** A number of speakers discussed concessional funding and grant assistance. Many speakers stated a preference for grant financing by the CIF.

30. A speaker said that it was important that the funds provided to client countries be extended as grants rather than concessional finance. He said that the cost of implementing a mitigation program and taking adaptation action should be provided by the CIF in the form of grants. He asked about a provision in the program document that indicated that the CIF would provide concessional financing which would have a grant element tailored to cover the identifiable additional cost of the investment necessary to make the project viable.

31. Staff said that the CTF would utilize a range of concessional financing instruments, such as grants and concessional loans, and risk mitigation instruments, such as guarantees. The concessionality of CTF financing, measured as the grant element, would be calibrated to the identifiable additional costs of low-carbon investments, or risk premium, necessary to make a project viable. The idea would be to assess each situation to determine what was needed in terms of the instrument and level of concessional financing to achieve desired outcomes. For example, a project with low marginal abatement costs might require only a small proportion of concessional financing or a guarantee, while a technology with higher risks and costs might require a higher grant element and, therefore, large amounts of concessional finance to make the investment financially attractive.

32. For the PPCR, grant financing would be available to enable pilot countries to build upon existing national work, including the UNFCCC national communications and National Adaptation Programs of Action (NAPAs), to integrate climate resilience into core development plans and finance. A second type of support would provide additional financial resources to help fund public and private sector investments identified in the climate resilient development plans. Significant investment resources would be available through the PPCR in the form of grants. Countries would have the option of additional highly concessional lending that could be blended with existing sources of concessional funding and national resources to increase the climate resilience of existing development priorities.

33. **Transfer and Development of Environmentally-friendly Technologies.** A large number of speakers commented on the transfer and development of environmentally-friendly technologies.

34. Many speakers noted the importance of the CTF in promoting the deployment, diffusion and transfer of clean technologies to achieve long-term greenhouse gas emissions savings. They noted the need to reach agreement on intellectual property rights (IPRs) on technologies necessary for mitigation efforts and to develop collaborative research and development by institutions in developed and developing countries on technologies for mitigation and adaptation.

35. A speaker suggested that the CTF could provide a facility for payment of IPR royalties for selected environment-friendly technologies, enabling competitive procurement of environment-friendly technologies by developing countries at an affordable cost.

36. Staff said that, in the design document for the CTF, it was recognized that with respect to enhanced technology development and transfer, there was a gap in national and international financing for research and development. It was proposed that the World Bank collaborate with other relevant international institutions with a view to proposing innovative means to address the financing gap. The World Bank was currently undertaking work to develop new approaches, including promotion of South-South transfer, for a possible Bank role in promoting research and development of new technologies that was separate from the proposal to establish the CIF. An initial discussion on such proposals would be invited in the context of the Strategic Framework on Climate Change and Development, and the proposals would be further elaborated before the end of 2008.

37. A number of speakers said that the CTF, while adhering to the principle of technology neutrality, should not reward the most expensive or least cost-effective technologies.

38. Staff agreed that every investment under the CTF should include projected GHG emission reductions, cost per unit of reduction, and an analysis of alternatives. One indicator of CTF portfolio performance was the aggregate GHG emission reductions (total and per unit of funding.)

39. A speaker asked about the types of coal technologies that could be supported by the CTF.

40. Staff said that the CTF could provide financing for power sector programs that "achieve significant greenhouse gas reductions by adopting best available coal technologies with substantial improvements in energy efficiency and readiness for implementation of carbon capture and storage." Some coal-fired power plant technologies that might be favorably considered under the CTF were high efficiency plans that were carbon capture and storage ready. At present, this would include IGCC and, in the near future, might include ultra-supercritical pulverized coal plants and oxyfuel power plants. Green-field technologies that would not meet the CTF criteria included sub-critical power plans, super-critical power plants (with current coal prices, supercritical technologies should be a baseline options), and fluidized bed plants.

41. A speaker expressed satisfaction that new coal technologies could be supported by the CIF.

42. **Governance.** A large number of speakers commented on governance issues. Many speakers supported the design of the governance arrangements which included balanced representation of developed and developing countries on the Trust Fund Committees and the SCF Sub-Committees. They stressed that their support of the CIF governance structure did not preclude their option to support a different governance structure for the international financial arrangements that might emerge from the on-going UNFCCC negotiations.

43. Staff said that a key principle of the CIF was that "the UN was the appropriate body for broad policy setting on climate change, and the MDBs should not preempt the results of climate change negotiations." No linkage between the governance under the CTF and the ongoing UNFCCC negotiations was intended, nor would it be appropriate.

44. A speaker welcomed the inclusive governance structure with equal representation of recipient and donor countries on the Trust Fund Committees and a Partnership Forum to solicit input from all stakeholders.

45. A speaker asked how the Council would be constituted. He noted that there was a 50-50 representation and asked if the Bank would select Council members.

46. A speaker noted that each donor might abstain or block project approval. He asked that, in such cases, there should be an option for donors to opt out.

47. Staff said that the Trust Fund Committees would be self-selected. The Bank would work with developing country and donor country representatives to assist them in developing their own self-selection procedures.

48. A number of speakers requested assurances that no voting representative of the Bank would be seated in the Trust Fund Committee and Sub-Committees. They also requested that specific arrangements should be designed and put in place by IFC to accommodate risks of conflicts of interest.

49. Staff said that the World Bank and MDB representation on the Trust Fund Committee and Sub-Committee would be on a non-voting basis in order to avoid any perception of a conflict of interest. IFC already had processes in place to handle such concerns through its conflict of interest office. Experience on appropriately managing decision-making processes that might present such conflicts was available and would be applied to the CTF.

50. A speaker said that he did not see the rationale for having the CTF as a separate fund with its own governance structure, and how it would interact with the SCF. In particular, the link between the CTF and the "Greening Energy Access" window that was proposed under the SCF was not clear.

51. **Adaptation and Pilot Programs for Climate Resilience.** A large number of speakers discussed adaptation and the pilot programs for climate resilience. Many speakers said that assistance for adaptation to climate change necessitated a holistic development approach that took into account countries' efforts to pursue poverty reduction and growth while, at the same time, managing the adverse impacts of climate change.

52. A speaker said that there needed to be a balanced approach between mitigation and adaptation. She noted the difference in the amount of funds committed to the CTF and the SCF and said that there should be a greater contribution to support the developing countries' efforts at adaptation, especially in low-income countries.

53. Staff said that the PPCR was designed to demonstrate how adaptation assistance could be integrated into development spending to deliver development goals in a climate resilient manner.

54. A speaker proposed that the selection of the pilot countries under the PPCR should be balanced in terms of: (i) geographic areas; (ii) countries' level of income; and (iii) the wide range of natural disasters stemming from climate change.

55. Staff said that country distribution across regions and hazards were among the criteria to select the pilot countries. While the criteria related to a country's level of income did not preclude any country from being a recipient, priority would be given to highly vulnerable least developed countries.

56. A speaker stressed the need for Pacific experience to be included in the pilot program and welcomed the flexibility for a regional approach where a group of countries were considered as a unit.

57. Staff said that serious consideration would be given to working with the Pacific island states on a regional basis, in close cooperation with interested regional institutions.

58. A speaker said that it would have been preferable to configure the CIF as one fund that would concern both mitigation and adaptation. By allowing contributions to be channeled through two distinct funds, it appeared that the Bank was earmarking the utilization of donor funds. He said that this could be counterproductive, as donors would prefer to donate to the CTF, rather than for adaptation, where the needs might be greater. He expressed the view that adaptation assistance needed to be integrated into development assistance to deliver development projects in a climate-resilient manner rather than being earmarked for climate-specific projects. This would require the involvement of organizations and institutions in tandem with the UNFCCC. He said that, in addition to funding, there was a need for better access for poorer countries to market technology and information to ensure that their development was climate-resilient. He also said that the Pilot Program for Climate Resilience should be used as an evaluation framework to determine the scale of the assistance and the financing required so that the Adaptation Fund could be appropriately endowed. He called on donors to contribute to the Adaptation Fund.

59. Staff discussed the financing of the Adaptation Fund, noting that it would have significant funds and would make an important contribution to strengthening national development processes.

60. **Sunset Clause.** A number of speakers emphasized the importance of a sunset clause in underscoring the primacy of the UNFCCC process, and sough clarification from Management as to why an unambiguous sunset clause was not included in the approved design.

61. Staff said that any decision to continue the CIF would first require a decision in the UNFCCC process and then the consent of the Trust Fund Committees.

62. Several speakers expressed the view that the sunset clause should not preclude the Bank from continuing its work on the climate change agenda even after a new Climate Convention was established. One of these speakers said that climate change-related programs and policies needed to be mainstreamed into the Bank's development agenda.

63. **Criteria for Funding.** A number of speakers stressed that funded projects should demonstrate a strong impact, and that CTF operations should be embedded in national strategies on energy efficiency, rationalization of harmful energy consumption subsidies, and the optimization of the energy mix.

64. A speaker suggested that minimum threshold values for emission reductions needed to be established as a criterion for project selection.

65. Staff said that the design of the CTF took into account different country circumstances and that investment programs would be developed on a country-specific basis to achieve nationally-defined objectives. Proposed programs and projects would be prioritized on the basis of four sets of criteria addressing: potential for long-term greenhouse gas emissions savings, demonstrative potential, development impacts, and implementation potential.

66. A speaker requested clarification as to whether low-income countries would benefit from CTF funding.

67. Staff said that, while many low-income countries did not have large emissions from energy and industrial sources, if projects in such countries met the criteria for CTF funding, on a national or regional basis, they might be considered.

68. **Private Sector.** Many speakers commented that the private sector had a clear and significant role to play in addressing climate change. One of these speakers welcomed the robust role and vision for the IFC and the private sector arms of the other participating MDBs, including in helping to create a conducive policy and regulatory environment that would attract private sector investment in clean technologies.

69. A number of speakers emphasized that CTF financing should seek to avoid market distortion.

70. A number of speakers favorably noted that the available financial instruments for public and private sector were elaborated upon in the design document. They requested more details, in particular on which incentives were foreseen to attract private investment.

71. Staff said that introducing significant amounts of resources into a particular sector or set of countries always carried the risk of causing market distortions. The CTF process had been designed such that interventions that might cause market distortions could be screened out early or remedial actions could be recommended for inclusion in investment proposals. To this end, CTF funds would be used to catalyze long-term private sector investments by supporting only the first few investment opportunities within a country or region, to demonstrate real investment risks and/or to defray the high costs of being a first mover in a new technology market. Once the projects demonstrated the real risks and/or a level of scale had been reached where the technology became financially viable, it was expected that the private sector would undertake these investments on their own merit. To expand the reach and impact of this engagement, MDBs would be expected to partner with private sector companies and to undertake the initial CTF-supported investments by leveraging these firms' resources. To this end, financial instruments would cover the whole range of project finance tools, including partial risk guarantees, equity and loans, respectively at rates and conditions adjusted to the catalytic intent of the intervention.

72. Some speakers requested more information on how the Bank intended to attract private investment.

73. Staff said that initial consultations on this question had shown the private sector to be keenly aware of existing investment opportunities that would move companies or sectors on a climate resilient growth path but that were currently not feasible, either due to perceived or real investment risk, unfamiliarity with new technologies or new market participants, or due to the high cost of being a first mover in a new technology market. This matched with IFC's own ongoing dialogue with its private sector partners. Private sector investments would be mobilized by active business development and careful design of project finance tools that would tailor concessional finance elements so as to address precisely the market barriers that were currently preventing companies from moving forward with such projects.

74. **Monitoring and Evaluation.** A number of speakers discussed monitoring and evaluation. Many of these speakers said that a comprehensive results measurement framework was essential to ensure accountability of each MDB. They called for the harmonization of methodologies, M&E frameworks and environmental and social standards.

75. Staff said that the Bank viewed the CIF as a framework for enhancing coordination and collaboration on climate change programs. The MDBs had been working together for several years through different fora to harmonize environmental and social safeguards. With respect to methodologies and polices that related to the CIF, the MDB Committee would provide a forum for periodically reviewing such methodologies. The independent evaluation of the CIF to be carried out after three years could be requested to review whether such climate change-related harmonization had been advanced under the CIF.

76. A number of speakers noted that the results framework for the SCF was not as developed as that for the CTF.

77. Staff said that the results for the SCF would be measured at the program level, and each Sub-Committee would be requested to approve a results framework for the targeted program taking into account the objectives of the program.

78. A speaker said that there should be periodic monitoring and a program evaluation after three years so as to ensure that there had been new and additional resources devoted to these purposes and that no new conditionalities had been imposed for seeing assisting from the CIF.

79. A speaker said that, if the CTF was going to produce genuine impact, that it should adopt quantitative criteria to ensure that support was targeted at transformational programs and projects. These criteria should be objective, transparent and based on a sound analysis of the gaps in the international financial architecture for funding low carbon development in both low and middle income countries. She urged the Bank to begin the development of transformational metrics ahead of the first Clean Technology Trust Fund meeting.

80. **Donor Coordination.** Some speakers highlighted the importance of ensuring synergies and collaboration with other development partners, particularly the Global Environmental Facility. One of these speakers said that coordination among different multilateral development banks and with the European Commission should be promoted. She highlighted the importance of good coordination within the World Bank Group.

81. Staff said that the CIFs would complement existing bilateral and multilateral financial mechanisms, and the operations of the Funds would be coordinated with the programs of other financial mechanisms. In particular, a key feature of CIF programming would be engagement by the MDBs at the country level with UN and bilateral development and investment agencies, with a view to mobilizing co-financing and ensuring harmonized policy support. Management recognized that the GEF was the financial mechanism of the UNFCCC and was a primary source of grant financing for actions under the Convention (e.g., national communications). A strong replenishment of the GEF would contribute to promoting a strong climate change regime, and the Bank was and continued to be fully supportive of and engaged in the GEF-5 replenishment. The CIF would build upon GEF activities to pilot and demonstrate: innovative technologies; barrier removal to transform markets; and capacity building, in particular the creation of an enabling environment, including establishment of codes, norms and standards.

82. **Clean Development Mechanism.** A speaker said that the establishment of the CDM as a market based instrument for technology transfer and financial compensation was one of the major achievements of the UNFCCC under the Kyoto Protocol. He said that the CIF must not weaken the role and functioning of the CDM. It must be ensured that the CIF was designed and implemented in complementarity with the CDM. A clear set of rules, in particular to avoid a race to the bottom due to the CIF offering "easy money," should be defined.

83. **Eligibility Criteria for CTF Projects**. A speaker noted that no threshold values of emission reductions were foreseen for CTF projects. In order to reach a transformational impact in reducing greenhouse gas emissions, minimum threshold values for emission reductions needed to be established as a criterion for project selection.

84. **External Affairs.** A speaker asked how information about the Climate Investment Funds would be publicized internationally.

85. A speaker said that Bank Management should develop a clearer and more strategic approach to its external communications with non-governmental organizations on the climate change-related issues.

86. **Chairman's Concluding Remarks.** In his concluding remarks, the Chairman reiterated the important role that the World Bank Group could play in advancing the global climate change agenda, commenting that the Bank Group was uniquely positioned to develop practical solutions to climate change issues. He emphasized the important nexus between climate change and growth and development, and the need for international cooperation to achieve results. He expressed his appreciation to all parties that had assisted in the design, development and financing of the Climate Investment Funds.