Meeting of the CTF Trust Fund Committee
Washington D.C. (Virtual)
Thursday, January 27, 2022

CTF FUTURES WINDOW PROPOSAL - SUMMARY

CLIMATE INVESTMENT FUNDS
1818 H Street NW
Washington, D.C. 20433 USA
T: +1 (202) 458-1801
climateinvestmentfunds.org

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PROPOSED DECISION

The CTF Trust Fund Committee reviewed the document, CTF/TFC.27/5/Rev.1, *CTF Futures Window Proposal*, and welcomed the document.

The CTF Trust Fund Committee notes the proposal to use any future cancelled resources for the CTF Futures Window as part of the Dedicated Private Sector Program III (DPSP III) and approves the proposal for immediate effect.

1. Introduction

1. The Dedicated Private Sector Program (DPSP) under the Clean Technology Fund (CTF) has been the primary vehicle for programming available resources following the completion of most country investment plans. Following the completion of third phase of DPSP (DPSP III) in June 2020, the CTF Trust Fund Committee (TFC) considered options for authorizing the use of additional cancelled resources, but deferred taking a decision. In June 2021, the TFC instructed the CIF Administrative Unit (CIF AU), in cooperation with the Multilateral Development Banks (MDBs), to further develop the proposal, with a focus on "its scope and expectations regarding private sector co-finance."

2. Rationale for CTF Futures Window

2. Since the completion of DPSP III, CTF has accumulated about USD 223 million from cancelled operations, which not yet authorized to be used for new operations, nor can they currently be diverted to support other CTF-supported funding windows or to support programs under the Strategic Climate Fund (SCF).

3. CIF AU and the MDBs have worked to develop a solution to both utilize cancelled resources in a way that can build on the successful track record of previous CTF investments, while allowing for flexibility to respond to emerging areas of clean technology investments. The potential solution is the CTF Futures Window, which would extend DPSP III to use existing and additional cancelled resources that may become available over the next three years (September 2021 to September 2024) to support DPSP-type operations and projects in the unfunded GESP pipeline and other projects not funded through other CIF programs.

4. Cancelled resources from DPSP and CTF Investment Plan operations would replenish the CTF Futures Window as they are made available. Following the initial approval of use of cancelled resources and in line with CIF policy, MDBs will need to send the TFC concept notes for projects before submitting their funding requests for final approval by the TFC.

2.1. Value of DPSP III Model

5. The specific aspects of DPSP III that the CTF Futures Window would extend are as follows:
    a. objective and principles – readiness, thematic fit, innovation, leverage, impact;
    b. country access – all CIF countries are eligible;
    c. first three thematic investment areas – energy efficiency, renewable energy plus, and sustainable transport2F[1].

6. The logic supporting the extension of DPSP III into the CTF Futures Window is that it provides administrative efficiency through well-established processes for the MDBs and CIF AU. Having a single window can help balance demand for resources for more traditional

[1] For elaboration on all these aspects of DPSP III, please see CTF DPSP III Proposal (CTF/TFC.20/5).

CTF-type investments, supporting the full GESP pipeline, and responding to fast-moving demand in emerging areas of work like e-mobility and green hydrogen.

3. Expanded Scope of Thematic Investment Areas

3.1. Renewable Energy Plus (RE Plus)

7. The concept of Renewable Energy (RE) Plus under DPSP III was defined based on the changing role of concessional public financing in the sector RE Plus aims for scaled-up RE deployments by de-risking private investments and increasing viability gap funding. There is still potential for this concept in CIF low-income countries where the installation of renewable energy technologies remains underdeveloped. Distributed RE generation and waste-to-energy were covered under DPSP III RE Plus, and thus would remain eligible under the CTF Futures Window.

3.2. Energy Efficiency

8. Energy efficiency under the CTF Futures Window is a broad thematic area that includes efficiency markets for municipal, commercial, and residential consumers. Municipal energy efficiency includes street lighting, improvements in water utilities, energy management systems, tri-generation, and other efficiency measures for public buildings. Commercial and residential efficiency includes pumps and efficient appliances, lighting, and ceiling fans. The Futures Window could be well-positioned to provide special attention on energy-efficient cooling.

3.3. Sustainable Transport

9. CTF Futures Window may also support electric vehicles and green hydrogen as a transportation fuel in addition to the original scope of sustainable transport thematic area under DPSP III. The technologies supported under DPSP III include public transportation such as rail and bus rapid transit, integrated traffic management systems and Integrated Operations Control Center (IOCC), green logistics in maritime and intermodal transport, and other fuel and energy-efficient technologies.

3.4. Emerging Clean Technology Sectors

10. The type of clean technologies that CTF can support are not limited to the three categories above, and opportunities to provide resources for new areas of zero-carbon development continue to emerge. Sectors related to energy and resource efficiency, such as green building certification in the building sector or wastewater and solid municipal waste management are areas of growing demand for concessional resources. Other areas that may be adjacent to the thematic areas above can be submitted to the Futures Window for consideration by the TFC on a case-by-case basis.

3.5. Other CTF Funding Windows

11. In addition to the three DPSP III thematic areas, operations that are part of the pipelines established for GESP[2] would also be eligible for Futures Window funding. New CIF programs

12. like ACT and REI will not be eligible for funding at this time. The TFC can revisit this issue in the future should it choose to do so.

4. Ways to Increase Private Sector Participation

13. The CTF concessional financing can facilitate private sector participation in three aspects. First, the deployment of CTF concessional resources can play a crowding-in effect and bring private investors at the project level. Second, the CTF funds can drive down technology costs, support first-movers, and create and de-risk markets at the market level. Third, clean energy technologies supported by CTF Futures Window can enable private players to enter the unbundled power sector value chain.

14. At the project level, CTF financing can attract private investments into high-risk projects that benefit from MDB involvement. CTF grants and guarantees can provide credit enhancement, equity can provide value-added and patient capital, and loans reduce cash-flow risks and encourage commercial lenders to offer better financial terms. Finally, MDB involvements in transactions can also provide additional comfort to local banks who are less familiar with financing low carbon energy projects.

15. Public-private partnerships (PPP) and financial intermediaries capitalized with CTF funding are two modalities that can contribute to leveraging additional private investments. In some cases, concessional CTF funding provided to the public partner in the PPP structure can significantly contribute to render a project commercially viable and competitive, consequently unlocking additional private equity and debt.

16. At the market level, CTF loans with more favorable terms than those offered by commercial institutions can inform local players that: (i) clean technology projects are not necessarily riskier than other investment opportunities, and (ii) long-term loans are possible with proper risk assessments. Once the local banks become comfortable with clean energy technologies, they might be willing to increase their exposure to the market. Local banks in countries with developed financial markets, are now willing to provide finance and as a result, concessional finance is no longer needed.

17. Another expected market impact is capacity building and technical assistance, which can contribute to creating new clean energy policies and supporting power sector reforms.

[2] The GESP pipeline and eligible activities can be found in the GESP Indicative Pipeline and Monitoring and Reporting Approach document, approved by the TFC in December 2020.

18. Finally, energy storage and RE technologies can provide enabling infrastructure for private players to enter the unbundled power sector value chain once the policies and regulations allow.

The Climate Investment Funds

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low carbon, climate resilient development in select middle and low income countries. To date, 14 contributor countries have pledged funds to CIF that have been channeled for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. The CIF is the largest active climate finance mechanism in the world.

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THE CLIMATE INVESTMENT FUNDS
c/o The World Bank Group
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