Climate Investment Funds Monitor 14

November 2016

Summary

- Decision on how to implement the **Climate Investment Funds (CIF)** 'sunset clause' has been postponed until June 2019. All CIFs continue to face resource shortfalls, further exacerbated by a fall in value of the British pound. A new code of conduct was criticised by Transparency International prior to approval. Phase 2 of the Gender Action Plan has been discussed, including extended support to policy design and technical assistance.
- In light of the upcoming **Clean Technology Fund (CTF)** resource shortfall, a revised pipeline management and cancellation policy has been approved. Available resources are estimated to last until May 2017. A document outlining further details on the proposed "CTF 2.0" will be discussed in the December meeting. Approval for reallocation of funds for a Morocco project was challenged by Germany and the decision postponed.
- Pipeline management and cancellation policies are in preparation for the **Pilot Program for Climate Resilience (PPCR)** to address funding constraints. No funding is currently available for new pilot countries' projects, with calls for closer collaboration with MDBs to request funding from other sources. Questions were raised about gender impacts for a renewable energy project in Mozambique.
- Challenges in measuring progress were noted for the **Forest Investment Program (FIP)**, in particular around greenhouse gas accounting. A cancellation policy is in preparation and enhanced pipeline management has been called for, to address delays in implementation of investment plans and funding constraints. Investment plans for Mozambique and Ivory Coast have been approved. Questions were raised over the reasoning for a commercial teak plantation project in Ghana. Dedicated Grant Mechanism projects have been approved for Mozambique and Ghana.
- A proposal for a new Enhanced Private Sector Program under the **Scaling up Renewable Energy Program in Low Income Countries (SREP)** will be discussed in the December meeting. A pipeline management policy is being developed to address delays in implementation of investment plans, as well as resource constraints, with current resources only able to support funding commitments until February 2017. Cambodia's investment plan was approved. Social, environmental and financial risks related to a Nicaragua geothermal project were raised.

Key acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CIF	Climate Investment Funds
CTF	Clean Technology Fund
EBRD	European Bank for Reconstruction and Development
EE	energy efficiency
FIP	Forest Investment Program
FY	financial year
GCF	Green Climate Fund
GHG	greenhouse gas
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IDB	Inter-American Development Bank
IFC	International Finance Corporation (World Bank)
IP	investment plan
kW	kilowatt
KfW	Kreditanstalt für Wiederaufbau (Germany)
MDB	multilateral development bank
MW	megawatt
PPCR	Pilot Program for Climate Resilience
PPP	public-private partnership
PV	photovoltaics (solar)
RE	renewable energy
REDD	reducing emissions from deforestation and forest degradation
SCF	Strategic Climate Fund
SME	small and medium-sized enterprises
SPCR	Strategic Program for Climate Resilience
SREP	Scaling up Renewable Energy Program in Low Income Countries
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

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This edition of the *CIFs Monitor* outlines recent developments at the CIFs and collates on-going concerns over their operation. It builds on *CIFs Monitor* 13, published in June 2016. This edition covers key CIF developments based on SCF and CTF trust fund committee and SCF sub-committee meetings, and other communications from June to mid-November 2016. These committees serve as the governing bodies of the funds. Information on the CIFs, including meeting notes and submissions, can be accessed at www.climateinvestmentfunds.org.

For the online version of *CIFs Monitor* 14 and past issues of the *CIFs Monitor*, see http://www.brettonwoodsproject.org/publication-type/cifs-monitor/

Content

1 Climate Investment Funds

1.1 'Sunset clause' postponed

The June joint CTF and SCF trust fund committees meeting reviewed the May *Strategic directions for the Climate Investment Funds* document (see *CIFs Monitor* 13), and "noted the need to support the continuity of climate finance flows at scale in the near term through a diverse set of financing options to support actions in developing countries". The joint committee decided not to instigate the so called 'sunset clause' yet, which requires the CIFs to close (see box), but to instead continue to monitor "the developments in the international climate finance architecture to inform a discussion on the sunset clause in December 2018 at the earliest, and take a decision on this issue in June 2019." It further agreed on "the need to enhance cooperation between the CIF and other entities and mechanisms in the climate finance architecture, in particular the Green Climate Fund [GCF]." Moreover, the joint meeting asked the CTF trust fund committee to consider the analysis and "discuss the value proposition for a new business model for the CTF, including the new financing modalities."

In advance of the meeting, a letter signed by 100 CSOs called for the CIFs to sunset and for resources to be directed to the GCF, rather than the CIFs, as the GCF is now operational, noting that: "Since their inception, the CIFs were meant to be interim funds." Moreover, the letter argued: "Unlike the multilateral development bank-driven CIFs, the GCF was set up according to the principles of the United Nations Framework Convention on Climate Change. With a governance structure evenly split between developed and developing countries, the GCF is founded on a 'country-driven approach' accountable to the institutions and people in developing countries, and has placed a premium on direct access to funds by developing country entities. The GCF promotes a gender-sensitive approach to its funding – the first climate fund to do so from the outset of its activities." While the letter agreed that lessons learned from the CIFs "should be applied to the GCF, efforts to spin the CIFs as complementary to the GCF are disingenuous." It concluded: "Any effort to raise new sources of finance for the CIFs should cease immediately, and there should be no new investments."

Climate Investment Funds (CIFs) explained

The World Bank-housed Climate Investment Funds (CIFs) are financing instruments designed to pilot low-carbon and climate-resilient development through multilateral development banks (MDBs). They comprise two trust funds – the **Clean Technology Fund (CTF)** and the **Strategic Climate Fund (SCF)**. The SCF is an overarching fund aimed at piloting new development approaches. It consists of three targeted programmes: **Pilot Program for Climate Resilience (PPCR)**, **Forest Investment Program (FIP)** and **Scaling up Renewable Energy Program in Low Income Countries (SREP).**

The CIFs operate in 72 countries worldwide. As of end June 2016, donor pledges amounted to a total of $8 billion to the CIFs: $5.4 billion to the CTF and $2.6 billion to the SCF ($1.2 billion for PPCR, $720 million for FIP and $716 million for SREP). Projects are executed by MDBs: the African Development Bank (AfDB); the Asian Development Bank (ADB); the European Bank for Reconstruction and Development (EBRD); the Inter-American Development Bank (IDB); the World Bank's middle income arm, the International Bank for Reconstruction and Development (IBRD); and the World Bank's private sector arm, the International Finance Corporation (IFC).

Under the 'sunset clause' the CIFs are due to close once a new climate finance architecture is effective under the United Nations Framework Convention on Climate Change (UNFCCC), through a mechanism such as the Green Climate Fund (GCF).

1.2 CIF governance

Following the May 2015 discussion on improvements to CIF governance (see *CIFs Monitor* 12), a code of conduct was approved in April, applying to trust fund committee and sub-committee members, observers and technical experts. The code addresses "issues of integrity, accountability and conflict of interest", and states that any member or observer failing to comply would be expected to resign. Moreover, the trust fund committee is expected to appoint a point of contact for advice on implementation of the code.

Prior to approval CSO observer Transparency International (TI) emphasised that in their view a code of conduct "should contain a general requirement that members' actions should not undermine the public confidence and trust in the Fund's governance and integrity, and should not involve corruption-related activities. More broadly, consideration should be given to having all members signing a general declaration recognising their obligations under the code and their commitment to abide by its rules and regulations." Moreover, TI questioned the use of a point of contact rather than an oversight committee, commenting: "It remains unclear how a finding of non-compliance may be reached and by whom. Also, who would determine whether the violation of the code by the member or observer in question would warrant resignation."

Finally, TI sought "to highlight our earlier expressed concern about the unequal treatment of CIF observers … in the case of a potential conflict of interest. In para 11, the co-chairs may request certain observers not to participate in the deliberations of, and receive information on, a particular subject manner… We feel there is no foundation for such differential treatment. Ideally, interests of both committee members and observers should be entered in a public registry on the basis of which an ethics committee would assess, in consultation with the member or observer, whether a real or perceived conflict of interest might arise."

Moreover, the June joint trust fund committee meeting approved a business plan on evaluation and learning, including four priority themes: transformational change; private sector investment; local stakeholder engagement and benefit; and CIF design and approach. Progress on the Enterprise Risk Management (ERM) framework and the development of risk dashboards for CIF programmes were noted (see *CIFs Monitor* 9).

1.3 CIF resources shortfall

All CIFs continue to struggle with resource shortfalls (see *CIFs Monitor* 13), which have been exacerbated by the fall of eleven per cent in the value of the British pound (GBP) between end of May and end of September, leading to a decrease in the value of unencashed promissory notes (unredeemed pledges). The June meeting confirmed that the CIF Administrative Unit has "explored options for hedging the CIF's exposure to currency risk resulting from outstanding foreign currency-denominated promissory notes, but that hedging such risk is not possible." All trust fund and sub-committees have been calling for further financial contributions, and for the funds to continue to design projects and programmes to also attract funding from other sources, such as the GCF.

The November *CTF semi-annual operational report* estimates that there will be no funding available for projects scheduled for approval beyond May 2017. A CTF pipeline management and cancellation policy was approved in September, setting a deadline of June 2017 for submission of remaining projects and programmes in the pipeline, after which the funding will be released. Moreover, a new paper on the future strategic direction for the CTF, including options for new financing modalities, will be discussed in the December trust fund committee meeting (see page 9). Pipeline management and cancellation policies are also in preparation for the PPCR. While the PPCR has approved funding for preparation of the SPCRs for almost all new pilot countries, no funding is available for the preparation and implementation of projects (see page 12). The FIP is also preparing a cancellation policy. In addition, initial assessments are in preparation for an alternative financing model for FIP (see page 15). As of end June, due to the fall in the GBP, should all projects in the pipeline be submitted for approval SREP resources would only be able to support funding commitments until February 2017 (see page 20).

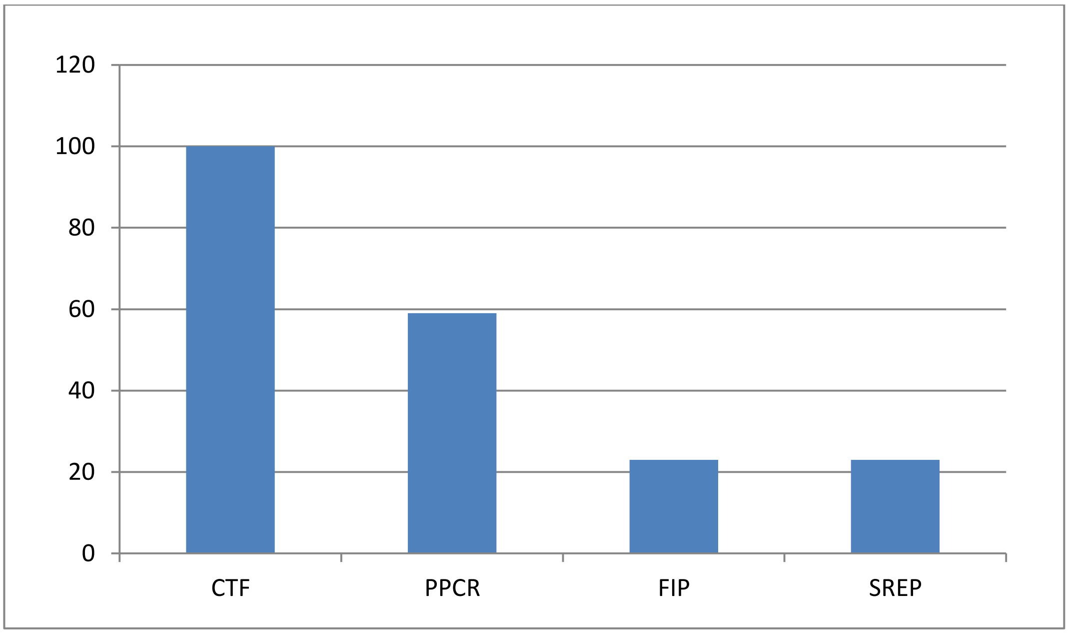
1.4 Gender action plan update

The *CIF Gender Action Plan – Phase 2* was discussed in the June joint committee meeting (see *CIFs Monitor* 13). According to the document the first phase "was intended to support improved performance on gender in the CIF at the levels of fund governance, investment plans, and projects/programmes." It categorised lessons from the first phase into three areas: "a) scope of gender outcomes envisioned from this programme; b) need for CIF gender policy elaboration; and c) gender programming resources, especially adequate staffing levels."

The action plan stated that a "key motivation" for the second phase "is to further embed institutionally the efforts of phase 1 on programme review, monitoring and learning, while extending the gender programme through complementary support in policy design, technical assistance, and analytical and evaluative initiatives." This includes a continued focus on "(i) mainstreaming gender in CIF policies and programmes, and (ii) enhancing knowledge and learning, and technical support on gender in the CIF." It also plans for "formalisation of a CIF gender policy, scaling-up of gender technical support to individual investment plan and project preparation, and new tools in the form of sector- and programme-specific guidance sheets to support teams." Moreover, "A large analytical study is planned on gender and renewable energy, with focus on large-scale renewable energy projects, followed by a study on gender and sustainable forest management."

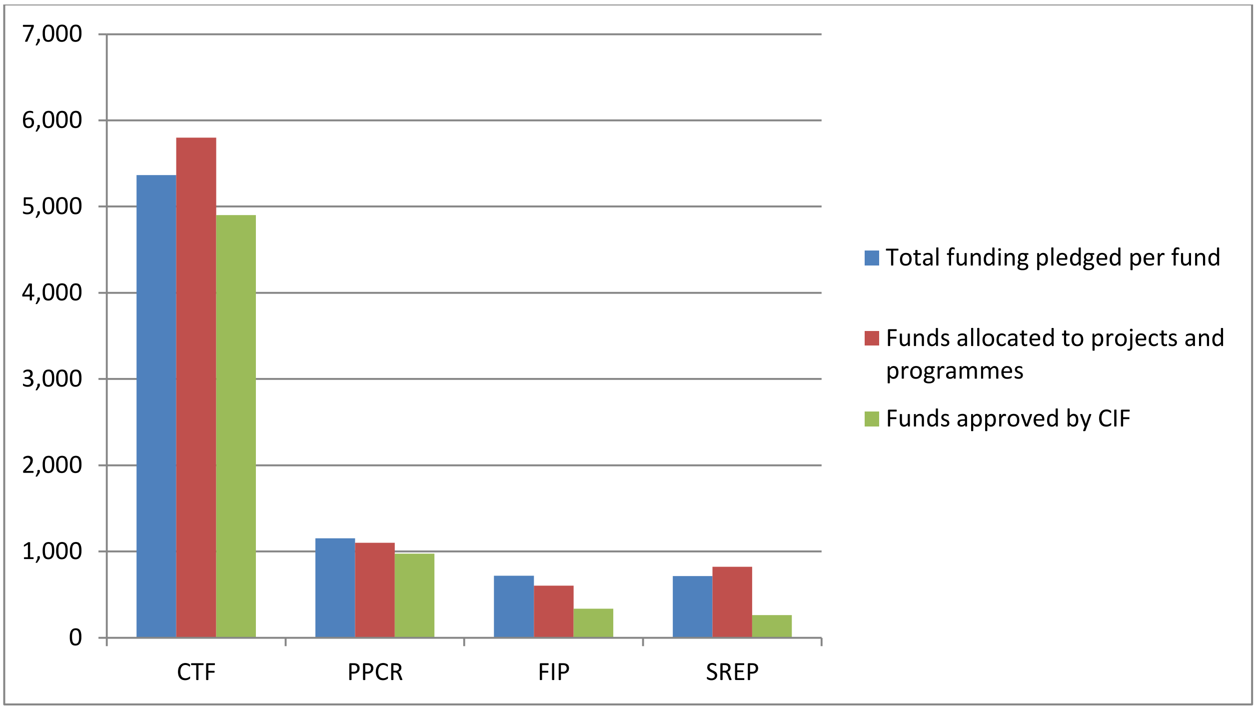
Phase 2 will also respond to "calls for region-specific learning events in particular sectors to enhance skills and country capacity on sector-specific gender mainstreaming, and specific evaluative efforts on effective institutional approaches to gender mainstreaming from across the CIF programme portfolio." Other new developments include work to roll-out "gender guidance on investment plan preparation, as well as development of targeted technical support and capacity-building, and advancing the analytical studies begun in FY16. On the policy side, [financial year] FY17 will also feature development of programme-specific gender guidance on investment plan preparation, and preparation of case notes on institutional lessons from gender integration across the portfolio."

Graph 1: Total number of projects and programmes approved per fund



Source: CTF semi-annual report and PPCR, FIP and SREP operations and results reports, November 2016

Graph 2: Total CIF funding pledged, allocated, and approved for projects and programmes per fund (million $)



Source: CTF semi-annual report, PPCR, FIP and SREP operations and results reports, CTF and SCF trustee financial reports, November 2016

Update on the Green Climate Fund (GCF)

The 13th meeting of the GCF board was held in Songdo, South Korea, in late June, with real-time webcasting of the meeting available for the first time. Following the Korea Export-Import Bank's (KEXIM) application to become an accredited entity, concerns were raised over the accreditation of export credit agencies (ECAs). CSOs also pointed out that KEXIM is a major financer of fossil fuels. The board failed to reach consensus and postponed the decision on all applications to the following meeting. Nine funding proposals were approved, despite concerns over the timely availability of all documents, and questions were raised over whether a Chilean solar project warranted climate finance resources. The meeting saw a continuation of the vast majority of the GCF's resources being channeled through developed country and multilateral institutions, such as the World Bank.

After leaving her post as GCF executive director, Héla Cheikhrouhou in a late August interview with the Thomson Reuters Foundation, called on the GCF to become clearer in its guidelines on what it is seeking to finance. Given the GCF's objective to promote a "paradigm shift towards low-emission and climate-resilient development pathways", she argued "we need to find ways to signal clearly what is a project that would change the game." CSOs have also repeatedly raised concerns about which projects will be funded by the GCF. In a September blog Steve Herz of US-based NGO Sierra Club argued that the problem largely lies with the accredited entities, rather than the GCF per se: "too often, instead of devising innovative and ambitious new initiatives, they have chosen to promote run-of-the-mill projects that are already moving through their pipelines."

In late September, a statement signed by 106 CSOs called for the GCF board not to consider programmes and projects with high environmental and social risks until appropriate policies are in place. Other asks included an environmental and social management system and a stand-alone Indigenous Peoples Policy. Moreover, in early October, a letter signed by 92 CSOs called on the board to "categorically exclude export credit agencies from accreditation by the GCF". The letter argued that their accreditation would be inconsistent with the mission of the GCF, given that "ECAs are meant to promote exports and job creation in the home country rather than the recipient country." Also in early October, a letter to board members signed by 53 CSOs and indigenous peoples groups argued that the operationalisation of the results-based framework needs to be "anchored to a solid rights based framework and approach." They also called for the GCF to "develop and adopt an Indigenous Peoples' Policy or an equivalent framework as matter of urgency, in such a way that indigenous peoples are fully engaged, and consulted."

The 14th meeting of the board was held in mid-October, with the venue changed at the last minute from Ecuador to South Korea. During the meeting the board selected Howard Bamsey from Australia as the new executive director for a four-year term. The board also accredited eight new entities, including GIZ (German Corporation for International Cooperation), the third Germany entity to be accredited, however, KEXIM was not considered as it had withdrawn its application. The board also approved ten projects, with two proposals (Pakistan and a multi-country EBRD project) requiring amendments prior to approval due to objections. The board decided to approve the projects as a package, despite concern over the lack of assessment of each project on its merits. Policy gaps in the project approval process were also discussed, leading the board to state that the process of approval of funding proposals to date should not "constitute a precedent", however, civil society pointed out that the board has already made such statements multiple times. Additionally, a decision on country ownership guidelines was delayed.

The 15th board meeting will be held in 13-15 December in Samoa. Agenda items include readiness and preparatory support; environmental and social management systems; and matters related to funding proposals.

2 Clean Technology Fund

2.1 Funding constraints

The June CTF trust fund committee meeting reiterated its request that the CIF Administrative Unit and the MDBs "continue to review projects and programmes for which funding has been approved by the committee but not yet approved by the MDBs, with a view to continuing to identify stalled projects and sub-projects under programmes and the amount of funding that could be released and reallocated to the active projects and programmes in the pipeline."

A revised CTF pipeline management and cancellation policy was approved in mid-September. The revised policy retains readiness as the primary criterion for CTF resources commitment and contains a new timeline for projects approved by the trust fund committee, in terms of reaching MDB board approval. Should the deadline not be met, the resources will be cancelled and released unless exceptional circumstances can be justified. A deadline of end June 2017 was set for submission of all remaining projects and programmes in the current pipeline, with any remaining CTF resources being released for future CTF programming after the deadline.

The CTF has been impacted by the fluctuations in the value of the GBP. The semi-annual operational report noted that the 11 per cent decline in value of the GBP between end of May and end of September resulted in a commensurate decline in the value of CTF's $706.6 million in unredeemed pledges. According to the November *CTF semi-annual operational report*, as of end September, there were projects in development amounting to a total value of $801 million, however, the total amount of resources available were limited to $332 million, with another $221 potentially available from the currency risk reserve, unpaid contributions, and projected investment income. The available resources are estimated to cover projects scheduled to be submitted for approval until May 2017, with no funding available for projects scheduled for June 2017 unless earlier projects slip. The remainder of the projects in the pipeline are currently not under active development.

Clean Technology Fund (CTF) explained

The objective of the CTF is to use minimum levels of concessional financing to catalyse investment opportunities that will reduce emissions in the long term. The CTF focuses on financing projects in middle-income and fast-growing developing countries.

The CTF is piloted in 15 countries and one region. In Phase I (2008-2010) 13 investment plans were endorsed: Colombia, Egypt, Indonesia, Kazakhstan, Mexico, Morocco, Philippines, South Africa, Thailand, Turkey, Ukraine, Vietnam; and a single plan in the Middle East and North Africa (MENA), covering Algeria, Egypt, Jordan, Morocco and Tunisia. A further three plans have been endorsed in Phase II (after 2010): Chile, India and Nigeria. Furthermore, expressions of interest to join CTF have been received from Costa Rica, Jordan, Pakistan, Peru and Uruguay.

As of end October 2016, CTF pledges were worth $5.4 billion. As of end June, a total of $5.8 billion had been allocated for 121 projects and programmes, including $491.5 million for 19 projects and programmes under the CTF Dedicated Private Sector Program (DPSP). Out of the allocated funds $4.9 billion had been approved for 100 projects and programmes.

Donors: Australia, Canada, France, Germany, Japan, Spain, Sweden, UK, US

2.2 CTF 2.0

The June trust fund committee meeting discussed CTF's future strategic direction, including a proposal for "CTF 2.0" (see *CIFs Monitor* 13). The trust fund committee noted key elements to guide CTF's operations in the future:

> "a) Retaining the strengths of the CTF, namely, the flexibility of the financing instruments, the ability to mobilise private sector financing and its level of risk appetite;
> b) Focusing on the use of efficient, targeted and appropriate levels of concessionality;
> c) Adopting an enhanced programmatic approach focusing on thematic approaches with transformational impact while maintaining the principle of country ownership;
> d) Engaging in priority investment areas and new frontiers; and
> e) Exploring new financing modalities, with the potential to increase the CTF's self-sufficiency."

Furthermore, the committee welcomed the options presented on future financing modalities, requesting the CIF Administrative Unit to collaborate with the MDBs and the trustee to "explore and propose any modifications required in the current CTF documents" and "develop concrete proposals on any priority investment areas and new frontiers that could be submitted to the committee for approval within 12-18 months." Moreover, the trust fund committee asked for further reviews and consultations to be conducted, including "with the contributors on making available the reflows … for use in accordance with a decision". It asked the CIF Administrative Unit "to present coherent and comprehensive documents on the issues … including policy choices and related trade-offs", which will be discussed in the December meeting, however, the document was not available at the time of writing.

2.3 Selected project updates

2.3.1 Morocco: CTF funding questioned

Project name	Amount and date approved	MDB services	Key project documents
One wind energy plan (reallocation of CTF resources)	Reallocation of $30.71 million DECISION POSTPONED	AfDB	Proposed decision Project document

Project details

The proposal seeks approval for "a reallocation of $30.71 million in CTF funding from the hydro sub-component to two wind sub-components under the project entitled, One Wind Energy Plan for Morocco, for which $125.0 million in CTF funding was approved by the trust fund committee in October 2011."

Key donor questions and concerns prior to approval

Germany questioned why CTF funding was necessary, arguing that the overarching project is "sufficiently financed" through funding from AfDB, EIB, EU and KfW: "In our opinion, there is thus no need to allocate further CTF funding to this project." Moreover, they found that "these additional CTF funds would be available under more favourable financing conditions than funding provided by other donors. This may imply that CTF funding would crowd other funding." In light of Germany's questions, the UK also questioned the additionality of the funds.

The AfDB provided further information about the CTF funding, with further clarifications provided by the CIF Administrative Unit, however, while the UK accepted the responses and approved the proposed reallocation, Germany raised further complications: "Particularly important for Germany is the fact that the Moroccan government solicited and got in 2014 approved a highly concessional loan of €70 million from the German government, via KfW, in addition to a previous loan from the German government of €130 million. … In our assessment, the reallocation of CTF funding requested now is more concessional than the loan from Germany and will imply that these €70 million … are not needed any more. In other words, CTF funding will crowd out the highly concessional loan of €70 million from the German government. This is a very serious implication for the German government and contradicts the CTF's principle to not crowd out other funding. Given the seriousness of this matter, Germany needs more time to assess the political implications of this consequence and to come to a decision."

3 Pilot Program for Climate Resilience

3.1 Strategic direction

Following a discussion on the May joint committee paper, *Strategic directions for the Climate Investment Funds* (see *CIFs Monitor* 13), the June PPCR sub-committee meeting agreed on “the need to enhance cooperation between the PPCR and other entities and mechanisms in the climate finance architecture, in particular the Green Climate Fund”. That includes “improved coordination at the country level led by the PPCR focal points and GCF’s national designated authorities, including in cooperation with MDBs when requested, for mobilising funding and implementing investment plans”, with a particular focus on the ten new PPCR countries approved in May 2015 (see *CIFs Monitor* 12). Recognising that the PPCR is still at an early stage of implementation, the sub-committee encouraged PPCR countries, supported by MDBs, “to take measures to expedite the implementation and share lessons learned.”

The meeting further noted a request from the PPCR observers calling for an expansion of the FIP Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (see page 15) to PPCR and SREP.

3.2 Funding shortfall

In the June PPCR sub-committee meeting concerns were expressed over “the delays in implementation of projects and related disbursements.” The sub-committee requested that the pilot countries and MDBs “take all possible measures to expedite the implementation of projects and the disbursement of funds.” However, it also reiterated concerns that “the PPCR does currently not have sufficient resources to finance the projects in the pipeline and SPCRs for the new pilot countries”, and called on donors “in a position to do so to provide financial resources”. It further called on the MDBs and new pilot countries “to design the SPCRs to attract funding from other sources, including the Green Climate Fund”. It requested the CIF Administrative Unit, working with the MDBs and the trustee, to “prepare a pipeline management policy for the PPCR”, for consideration by the sub-committee. A cancellation policy, as per a May 2015 trust fund committee decision, is also due to be discussed in the December meeting.

Pilot Program for Climate Resilience (PPCR) explained

The PPCR aspires to demonstrate how climate risk and resilience can be integrated into core development planning and implementation. PPCR funding is disbursed in two phases to support two types of investment: first, technical assistance to allow developing countries to integrate climate resilience into national and sectoral development plans, resulting in a Strategic Program for Climate Resilience (SPCR); and second, funding for the implementation of this programme.

PPCR is piloted in 19 countries and two regions. In 2009, nine countries (Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen and Zambia) and two regional groupings (six Caribbean island countries and three Pacific island countries) were invited to participate in the PPCR. All SPCRs of the original pilot countries have been endorsed. In addition, of the regional groupings Papua New Guinea’s SPCR was endorsed in November 2012 and Haiti’s in May 2013. In May 2015, ten new pilot countries were invited to join phase II of the PPCR: Bhutan, Ethiopia, Gambia, Honduras, Kyrgyz Republic, Madagascar, Malawi, Philippines, Rwanda and Uganda.

As of end October 2016, PPCR pledges were worth $1.15 billion. As of end June, a total of $1.1 billion had been allocated for 73 projects and programmes, including $62.3 million for 10 private sector set-aside projects. Out of the allocated funds $974 million had been approved for 59 projects.

Donors: Australia, Canada, Denmark, Germany, Japan, Norway, Spain, UK, US

According to the November *PPCR operational and results report*, as a result of the eight per cent decline in the value of GBP value between end of May and end of June, PPCR unredeemed pledges declined in value, with the unrealised currency related losses increasing from $28.8 million to $41.4 million. This could mean that not all projects in the pipeline will be funded. While all new pilot countries, apart from Malawi, have received approval of $1.5 million each in funding for the preparation of their SPCR, there is to date no funding available for the preparation and implementation of projects under the SPCRs. To address the funding shortfall the report states that "country governments are leading close collaboration with the MDBs to ensure their ability to request funding from other adaptation funding sources", including the GCF.

3.3 Selected project updates

3.3.1 Mozambique: gender impacts questioned

Project name	Amount and date approved	MDB services	Key project documents
Building resilience of Mozambique's power sector through private sector investment	$10 million (loan) 13 June 2016	IFC $490,000	Decision Project document

Project details
This project represents a change in the original scope of IFC's involvement in Mozambique's SPCR. The project "aims to respond to the government of Mozambique's adaptation strategy and will finance the first private sector utility-scale solar photovoltaic (PV) plant in the country. The project aims at enhancing the climate resilience of Mozambique's power sector… The project would be located in the poor, energy deprived Zambezia province, a target province under PPCR Mozambique."

Key donor questions and concerns prior to approval
Germany noted that "the proposal does not always clearly articulate how it differs from a conventional renewable energy project" and asked for clarity on "how it actually contributes to building climate resilience", in particular for the target groups. It also asked for further detail on "the sources of co-financing, who has committed to them and how exactly funding is being channelled through the private sector." Lastly, it raised the lack of "detailed gender-differentiated impact in direct relation to this project but rather a general estimation".

Germany's comments on the gender element were seconded and further elaborated upon in a submission by PPCR CSO observer Women's Environment & Development Organization (WEDO), calling it "a very baseline understanding of the differentiated impacts of climate change on women and men and how increasing resilience as a whole will support gender equality". The UK asked if any vulnerable groups will be supported and how the impact of women and girls will be monitored. The US asked about the risk categorisation of the project.

IFC clarified that "the bulk of the electricity generated by the project will be consumed locally, reducing local communities' exposure to weather-induced transmission and distribution outages" since communities in the Zambezia region "do not have reliable supply of grid-tied electricity" due to floods and prolonged drought. On co-financing, the IFC confirmed that the funds will be invested in a private sector company set up by Norwegian solar power producer Scatec, the Norwegian Investment fund for Developing Countries, and Mozambique's state-owned public power utility Electricidade de Moçambique.

In response to Germany, UK and WEDO's comments and suggestions on gender, the IFC elaborated on how increased availability and reliability of electricity supply can benefit women and girls. Moreover, it stated that “depending on funding availability, IFC will carry out an impact assessment at an appropriate point in time of the project life to specifically assess the impact of the project on women and girls.” The IFC confirmed that the project is classified as A, with potential significant social and environmental risks, due to the economic displacement of 208 households to be compensated for issues, such as loss of fruit trees.

4 Forest Investment Program

4.1 Funding constraints

Following a discussion on the May joint committee paper, *Strategic directions for the Climate Investment Funds* (see *CIFs Monitor* 13), the June FIP sub-committee meeting agreed "on the need to enhance cooperation between the FIP and other entities and mechanisms in the climate finance architecture, in particular the Green Climate Fund", including through "improved coordination at the country level". The sub-committee expressed concerns "over the delays in implementation of investment plans, projects and related disbursements" and called on the CIF Administrative Unit, working with the MDBs and the trustee, "to prepare a cancellation policy for the FIP" to be considered at the December meetings. Moreover, it invited "contributors in a position to do so to provide financial resources for the implementation of the investment plans for the new FIP pilot countries." It further requested the CIF Administrative Unit, together with the trustee and the MDBs, "to make an initial assessment on the feasibility of alternative financing models for the FIP", but also noted the May 2015 decision "that should any of the six new pilot countries not be able to submit their investment plans for endorsement within a two year period, such countries will be replaced by one or more of the additional nine countries" (see *CIFs Monitor* 12).

According to the November *FIP operational and results report*, as of June 2016 the FIP faced a $57.2 million shortfall in funding commitments, largely due to the eight per cent decline in value of the GBP between end May and end June. This could be reduced to $13.1 if fund reserves, pledges and projected net income are taken into account. The shortfall stands in contrast to the $10.6 million surplus projected at end of 2015. The report noted that "it will not be possible to service the entire [FIP] portfolio should the shortfall remain under the current circumstances." It called for "enhanced pipeline management" to ensure new pilot countries are not put at a disadvantage should a first come first serve approach be put in place.

Forest Investment Program (FIP) explained

The FIP is a financing instrument aimed at assisting countries to reach their goals under the Reducing Emissions from Deforestation and Degradation (REDD+) initiative. It was set up in 2009 and aspires to provide scaled up financing to developing countries to initiate reforms identified in national REDD+ strategies, which detail the policies, activities and other strategic options for achieving REDD+ objectives. It anticipates additional benefits in areas, such as biodiversity conservation and protection of the rights of indigenous people.

A Dedicated Grant Mechanism for Indigenous Peoples and Local Communities (DGM), which provides grants to support their participation in the development of FIP investment strategies, programmes and projects, was operationalised in 2014.

The FIP is piloted in 14 countries. All investment plans for the original eight countries have been endorsed: Brazil, Democratic Republic of Congo, Laos, Mexico, Burkina Faso, Ghana, Indonesia and Peru. In May 2015, six new countries were approved to join the FIP: Congo Republic, Ecuador, Guatemala, Ivory Coast, Mozambique and Nepal, out of which two investment plans (Mozambique and Ivory Coast) were approved in July 2016. A further nine countries were invited to develop investment plans: Bangladesh, Cambodia, Cameroon, Guyana, Honduras, Rwanda, Tunisia, Uganda and Zambia.

As of end October 2016, FIP pledges were worth $720 million. As of end June, a total of $603 million had been allocated to 51 projects and programmes, including $20 million for four projects under the private sector set-aside and $80 million for the DGM. Out of the allocated funds $338 million had been approved for 23 projects and programmes.

Donors: Australia, Denmark, Japan, Norway, Spain, Sweden, UK, US

4.2 FIP results challenges

The November *FIP operational and results report* noted challenges in terms of measuring the progress in FIP results "that may affect the accuracy and usefulness of the data presented." It noted in particular difficulties in GHG accounting, including attribution, with the additional complication that FIP pilot countries and MDBs use different methodologies for estimating GHG emission reductions.

4.3 Updates on investment plans

4.3.1 Mozambique investment plan

Investment plan	Amount and date approved	MDB services	Key project documents
Mozambique	$24 million request noted ($10.8 million grant, $13.2 million loan) 25 July 2016		Investment plan
Emissions reductions in the forest sector through planted forests with major investors		IFC $150,000	
Mozambique forest investment project		IBRD $385,000 (first tranche of $770,000)	

Mozambique's investment plan was endorsed, subject to further comments being taken into account, at the June sub-committee meeting. The sub-committee reconfirmed "that all allocation amounts are indicative for planning purposes and that approval of funding will be on the basis of high quality investment plans and projects, subject to availability of funds."

Key donor questions and concerns prior to approval

The UK raised questions regarding the IFC component of the investment plan: "The IFC project will need to make clear the distinction between those activities to be supported by the FIP and those in relation to the community development support activities of the plantation company within their concession area, and how these will interact." It also called for "strong monitoring and sufficient flexibility for course correction", in particular on water impacts of eucalyptus plantations; "pressure on remaining natural forest areas from zoning and mosaic planting"; and other issues, such as social and food security impacts. The UK also raised the risk of "still unclear roles and responsibilities and mandates across government institutions, at national and local level – where implementation of the landscape approach requires high levels of coordinated working across ministries."

The government of Mozambique clarified that "the specific activities to be implemented by the IFC will be determined during the project development phase", and confirmed that some measures would be in place to monitor hydrology and livelihood impacts, as well as compliance with the IFC's performance standard on biodiversity conservation and sustainable natural resource management. It admitted that "coordination is a challenge" and responded that the government is working to address these issues at ministerial as well as at the landscape level.

4.3.2 Ivory Coast investment plan

Investment plan	Amount and date approved	MDB services	Key project documents
Ivory Coast *Forest cover restoration project* *Tai National Park management support project*	$24 million request noted ($8.2 million grant, $15.8 million loan) 25 July 2016	 IBRD $385,000 (first tranche of $770,000) AfDB $225,000 (first tranche of $450,000)	Investment plan

Ivory Coast's investment plan was endorsed, subject to further comments being taken into account, at the June sub-committee meeting. The sub-committee reconfirmed "that all allocation amounts are indicative for planning purposes and that approval of funding will be on the basis of high quality investment plans and projects, subject to availability of funds."

Key donor questions and concerns prior to approval
The UK welcomed the investment plan, but raised questions around possible returnees to areas previously abandoned and the impact on those now living there: "Has an analysis of overlapping claims on the degraded lands of the central belt been carried out? How will disputes be resolved?" It also called for "much stronger gender and social analysis and design in projects coming for approval", and asked that the government also seek funding from the Green Climate Fund.

The Ivory Coast government responded that "few of the abandoned lands had been taken over due to their degraded states", but admitted that "it is expected that some disputes might arise", which will be addressed through "1) efforts … to secure and clarify land tenure; 2) support for capacity building on land tenure issue within communities and local governments; and 3) support, including possible adaptation, training, capacity building, etc. to local systems for dispute resolution."

4.4 Selected project updates

4.4.1 Ghana: commercial teak plantation questioned

Project name	Amount and date approved	MDB services	Key project documents
Public-private partnership for the restoration of degraded forest reserve	$10 million (loan) 13 July 2016	AfDB $175,000 (final tranche)	Decision Project information document

Project details
"The project aims at catalysing private sector involvement in large-scale sustainable and commercial teak plantations in degraded forest reserves in Ghana by expanding an existing – and both Forest Stewardship Council (FSC) and Verified Carbon Standard certified (VCS) - forest plantation from a current size of 5,000 ha (end 2014) to 11,700 ha of sustainable commercial forest plantation composed of 10 per cent indigenous

tree species and 90 per cent teak."

Key donor questions and concerns prior to approval
The US questioned the use of concessional finance for "a fairly standard teak plantation without any particularly innovative features." In particular, it noted "that to the extent that lack of availability of debt financing is a barrier, it is not clear that this project is demonstrating an approach that can reduce barriers for future projects, since the project is not working through the Ghanaian banking system." It also asked for clarification "on the impacts of extended plantation areas on the natural forest remnants in the area. Have these impacts been analysed? How will displacement of farmers currently working in the area be handled? How will this displacement affect natural forest remnants in the area (will it result in increased degradation)?" Finally, the US asked for confirmation that the project "will not support industrial scale logging in primary forest areas."

The UK added: "There is no analysis of the potential effect of the extension in scale of the plantation area on natural forest remnants, displacement of encroachers to alternate areas for farming resulting in increased degradation, etc. … What are the knock-on effects outside the plantation areas, how will these be tracked and/or mitigated?"

The AfDB responded that the purpose of the investment is to "place debt finance into a sector which is still highly dependent on public investment flows and in some cases by private investors that fund their projects with equity only. The approach being piloted is to place debt under previously un-matched terms into an asset which is currently funded by 100 per cent equity investment and has a limited scale." It noted that the plantation impacts were evaluated through the AfDB's safeguards and confirmed that the project will not take place in primary forest areas.

The UK accepted the response, but "strongly encourage[d] the AfDB to develop a clear engagement plan for work with the financial sector in Ghana to ensure that lessons learnt from this investment are shared with, and seek to influence, the current constraints to forest sector investments in Ghana."

4.5 Dedicated Grant Mechanism

According to the November report, as of end of June $27.5 million had been approved for the DGM global component and for DGM in Brazil, Burkina Faso, Democratic Republic of Congo and Peru, with a further $52.5 million under different stages of project design and approval.

4.5.1 Mozambique

Country	Amount and date approved	MDB services	Key project documents
Mozambique	22 August 2016	World Bank $385,000 (first tranche of $770,000)	Decision Project document

DGM details
An indicative allocation of $4.5 million for the Mozambique DGM was approved in October 2015. The DGM will operate on two levels: "(i) the national level focusing on capacity building and institutional strengthening; and (ii) the landscape level focusing on the implementation of activities in the two selected landscapes, Zambezia and Cabo Delgado. Activities on-the-ground will aim to address the drivers of deforestation, while prioritising livelihoods improvements for communities who live in and around the forests." In addition, it will establish a small grants programme, with specific grantee selection and eligibility criteria under development.

Key donor questions and concerns prior to approval
The UK asked for further information on the composition of the National Steering Committee (NSC) given low capacity, nothing that "the interim NSC is very much dominated by NGOs, and it isn't very clear … how representative these are of local communities."

The World Bank responded that the composition of the NSC includes representatives from community-based natural resources management committees, civil society organisations, academia, as well as the FIP coordinator. Representatives from the government and a representative from the World Bank will participate as observers. It further clarified that it has been set up "to guarantee wider representation from communities, and to ensure the institution is not dominated by NGOs or other non-community stakeholders, while also contributing to better alignment with Mozambique's Forest Investment Plan and Project." Finally, it confirmed that at least five of the 17 representatives will be women.

4.5.2 Ghana

Country	Amount and date approved	MDB services	Key project documents
Ghana	$5.5 million (grant) 12 September 2016	World Bank $465,000 (final tranche of $620,000)	Decision Project document

DGM details
The DGM aims to "promote the inclusion of communities reliant on forests in policy formulation and initiatives as well as in other REDD+ programmes" through two components: "capacity building in REDD+ and climate change" and "sub-grants to [local communities] for promoting adaptive and coping livelihoods and sustainable management of natural resources".

Key donor questions and concerns prior to approval
The UK expressed its surprise over the lack of connection with the EU's Forest Law Enforcement, Governance and Trade (FLEGT) process, noting the implications for informal forest dependent enterprises. It further asked how the low level of female participation in the NSC will be addressed. Other questions included the high cost of $1 million for awareness raising, methods and languages of communication, and the rationale for training of chiefs and traditional authorities, rather than alerting them to the grants funding. Moreover, the UK felt that $1 million for management and monitoring and evaluation also seemed high, and asked for a comparison with other DGM projects.

The World Bank responded that a reference to FLEGT had been deleted in the editing process, but could be reinstated. It accepted the concern about female participation in the NSC and took on-board the UK's suggestions for ways forward. On the high cost for awareness raising, it clarified that it includes activities, such as development of a curriculum. On the high cost for management and monitoring and evaluation, it argued that the estimate is in line with other DGM projects, and that it also includes costs for the grievance mechanism platform, further adding that Ghana "is very expensive in terms of operational costs".

5 Scaling up Renewable Energy Program in Low Income Countries

5.1 Funding constraints

Following a discussion on the May joint committee paper, *Strategic directions for the Climate Investment Funds* (see *CIFs Monitor* 13), the June SREP sub-committee meeting agreed "on the need to enhance cooperation between the SREP and other entities and mechanisms in the climate finance architecture", in particular the GCF, including through "improved coordination on a country level". While recognising that SREP "is still in an early stage of implementation of its investment plans and projects", the sub-committee expressed concerns over "the delays in project approvals and related disbursements" and encouraged pilot countries, supported by MDBs, "to take measures to expedite implementation." It asked the CIF Administrative Unit to work with the MDBs and the trustee to prepare a pipeline management policy for SREP. Moreover, the meeting called for further financial support from donor countries for the implementation of the new pilot countries' investment plans, and asked the pilot countries, in cooperation with the MDBs, "to design and/or adapt investment plans and projects in a manner that enables access to other funding channels, in particular the GCF."

According to the November *SREP operational and results report*, the eight per cent decline in value of the GBP between end of May and end of June resulted in a $26.1 million loss in value of unredeemed pledges. Expected funding available for programming was approximately $404 million, however, the remaining pipeline amounts to $555 million plus $43 million in projected administrative costs, leaving a gap of $194 million. Should currency reserves not be needed to address the decline in the value of unredeemed pledges, and the outstanding pledges be received, the gap would decline to approximately $120 million. Assuming all projects in the pipeline would be submitted for funding approval, as of end June there were sufficient resources to support funding commitments until February 2017. New investment plans will be approved regardless of funding availability, however, additional resources will be necessary for the projects to enter the pipeline.

Scaling up Renewable Energy Program in Low Income Countries (SREP) explained

SREP was launched in 2009 and aims to catalyse scaled up investment in renewable energy markets in low-income countries by enabling government support for market creation and private sector implementation.

SREP is piloted in 25 countries and one region. Six countries were selected in 2010: Ethiopia, Honduras, Kenya, the Maldives, Mali and Nepal. All the investment plans of the original pilot countries have been approved and a reserve list for new pilot countries has been agreed, including Tanzania, Liberia, Armenia, Solomon Islands, Vanuatu, Mongolia and Yemen. Tanzania and Liberia's investment plans were approved in 2013 and Armenia, Solomon Islands and Vanuatu's plans in 2014. In 2014 a further 14 countries were invited to join SREP as pilot countries: Bangladesh, Benin, Cambodia, Ghana, Haiti, Kiribati, Lesotho, Madagascar, Malawi, Nicaragua, Rwanda, Sierra Leone, Uganda and Zambia. The investment plans for Ghana, Haiti and Nicaragua were approved in May 2015, and the investment plans for Bangladesh, Rwanda, Uganda and Mongolia in November 2015.

As of end October 2016, SREP pledges were worth $716 million. As of end June, a total of $822.2 million had been allocated to 68 projects and programmes including $85.6 million for six projects and programmes under the SREP private sector set-aside. Out of the allocated funds $263.9 million had been approved for 23 projects and programmes.

Donors: Australia, Denmark, Japan, Korea, Netherlands, Norway, Spain, Sweden, Switzerland, UK, US

5.2 New private sector mechanism

The June sub-committee meeting asked the CIF Administrative Unit to "explore modification to the SREP private sector mechanism to increase the mobilisation of private sector investments in SREP pilot countries." A paper on a new proposed Enhanced Private Sector Program (EPSP), building on the lessons learned from SREP as well as the CTF's Dedicated Private Sector Program, will be discussed in the December meeting. One of the aims of the new mechanism is to allow more flexibility to capture market opportunities.

5.3 Updates on investment plans

5.3.1 Cambodia investment plan

Investment plan	Amount and date approved	MDB services	Key project documents
Cambodia	$30 million request noted (up to $13.5 million in grant) 17 June 2016	ADB	Investment plan
Accelerating solar power through private sector	$650,000 (preparation grant)	$128,000 (first tranche of $428,000)	
Solar energy development	$650,000 (preparation grant)	$214,000 (first tranche of $428,000)	
Biomass power project	$400,000 (preparation grant)	$214,000 (first tranche of $428,000)	

Key donor questions and concerns prior to approval

UK commented on the investment plan, however, the comments were not publically available at the time of writing.

5.4 Selected project updates

5.4.1 Nicaragua: questions on geothermal financial, social and environmental risks

Project name	Amount and date approved	MDB services	Key project documents
Geothermal exploration and transmission improvement program under the PINIC	$7.5 million (0.75 million grant, 6.75 million contingent recovery grant) 2 August 2016	IDB	Decision Project document

Project details

The project has two components out of which SREP funds the first: "to diversify Nicaragua's energy matrix by developing additional geothermal capacity through supporting early exploration activities". The component consists of "feasibility exploration activities at the Cosigüina geothermal field, including drilling of five commercial diameter explorations wells, road infrastructure and a feasibility evaluation report." The government of Nicaragua and the IDB are also seeking an additional $10 million from the CTF's Dedicated Private Sector Program for the same component, through a separate submission.

Key donor questions and concerns prior to approval

A number of questions were raised in relation to the project. The Netherlands raised concerns about funds being shifted from the rural energy access component to the geothermal component, with the risk that "the rural energy component would become too marginal to have a meaningful impact on energy access". IDB responded that they are no longer seeking this reallocation, but that the two components have been separated with the rural energy component due to be approved in 2017.

Switzerland asked about the contingent recovery grant part of the funding: "Please explain why a mechanism had to be constructed in this programme to transfer the SREP (and CTF) resources to Nicaragua in 'non-reimbursable status'. Who will be responsible for its reimbursement if no private investors can be found or if the resource confirmation is not successful?" IDB in its response pointed to the need "to invest substantial resources under a high level of risk during the exploration stage", leaving geothermal development "virtually always contingent upon public support … This particularity of geothermal power has led the MDBs to propose innovative ways to use concessional reimbursable resources from the Climate Investment Funds. This means in particular the use of targeted risk mitigation financial instruments such as contingent recovery grants that allow CIF resources to mitigate the resource risk."

Switzerland raised the significant risks associated with the project "including habitat fragmentation as well as effects on forests, soils and water resources in an area classified as a natural reserve" and asked: "did an independent panel of environmental experts assess the programme with regards to risks vs expected benefits relation." Moreover, the US asked how IDB plans to address breaches identified in the environmental and social impact assessment (ESIA) for stage 1 and why no ESIA is planned for stage 2. SREP CSO observer Centro Humboldt added a number of further questions regarding social and environmental impacts. They also called for more openness about the consultation process.

The IDB responded that they rely on their own environmental and social safeguards specialists, as well as some independent consultants, but have not set up an independent panel. It clarified that there is no ESIA for stage 2, as it does not introduce additional sub-projects. It further stated that the environmental and social management plan would be made public.

ANNEX CIF CSO and indigenous peoples observers (alternates in parenthesis)[1]

	Africa	Asia/Pacific	Latin America	Developed countries	Indigenous peoples	Community based organisations
CTF	Janet Olatundun Adelegan, Global Network for Environment and Economic Development Research, Nigeria (Joseph Adelegan)	Irina Stavchuk, National Ecological Center of Ukraine, Ukraine (Andrii Zhelieznyi)	Jon Bickel, Swisscontact - Swiss Foundation for Technical Cooperation, Peru (Jorge Luiz Delgado Guadalupe)	Christiaan Poortman, Transparency International, Germany/ United States (Lisa Elges)	Grace Balawag Tebtebba Foundation, Philippines Legborsi Saro Pyagbara The Movement for the Survival of the Ogoni People, Nigeria	
SCF	Phillip Odhiambo, World Wide Fund for Nature, Kenya (Irene Mwaura)	Archana Godbole, Applied Environmental Research Foundation, India (Jayant Sarnaik)	Javier Mejía, Centro Alexander von Humboldt Renovable (AHPPER), Nicaragua (Victor Campos)	Bridget Burns, Women's Environment and Development Organization, USA (Eleanor Blomstrom)	Dennis Mairena Arauz Center for Indigenous Peoples' Autonomy and Development, Nicaragua Fiu Mataese Elisara, Ole Siosiomaga Society Incorporated (OLSSI), Samoa	
FIP	Gertrude Kabusimbi Kenyangi, Support for Women in Agriculture and Environment, Uganda (Caroline Akello)	Archana Godbole, Applied Environmental Research Foundation, India (Jayant Sarnaik)	Suyana Huamani Mujica, Derecho, Ambiente y Recursos Naturales (DAR), Peru (Martha Torres Marco-Ibáñez)	Coraina de la Plaza, Global Forest Coalition, The Netherlands (Simone Lovera)	Saoudata Aboubacrine, Tinhinane, Burkina Faso Mina Susana Setra, Aliansi Masyarakat Adat Nusantara (AMAN), Indonesia	

[1] The civil society observers were selected in February 2015. For contact details, see https://www.climateinvestmentfunds.org/cif/directory

					(Khamla Soubandith, CKSA, Laos) (Klaus Qicque Boliviar, Federacion Nativa del Rio Madre de Dios y Afluentes (FENAMAD), Peru)	
PPCR	Sani Ayouba, Jeunes Volontaires Pour L'Environnement, Niger (Amina Issa Ado)	Ali Sheikh, Leadership for Environment and Development (LEAD), Pakistan (Hina Lotia)	Francisco Barnés Regueiro, Centro Maria Molina para Estudios, Mexico (Guillermo Velasco)	Bridget Burns, Women's Environment and Development Organization, USA (Eleanor Blomstrom)	Mrinal Kanti Tripura, Maleya Foundation, Bangladesh Fiu Mataese Elisara, OLSSI, Samoa	Dil Raj Khanal, Federation of Community Forestry Users, Nepal (FECOFUN), Nepal (Bharati Pathak)
SREP	Philip Odhiambo, World Wide Fund for Nature, Kenya (Irene Mwaura)	Socheath Sou, Live & Learn Cambodia, Cambodia (Sean Vang)	Javier Mejía, Centro Alexander von Humboldt Renovable (AHPPER), Nicaragua (Victor Campos)	Aaron Leopold, Practical Action, United Kingdom (Lucy Stevens)	Dennis Mairena Arauz, Indigenous Peoples' Autonomy and Development, Nicaragua Paul Kanyinke Sena, Community Legal Resource Centre (CLRC), Kenya	