



**Clean Energy for Development Investment Framework
Summary of the Progress Report on the World Bank Group Action Plan.
August 2007¹**

1. The World Bank Group's (WBG) Progress Report on the Action Plan for the Clean Energy for Development Investment Framework (CEIF) summarizes accomplishments in providing access to energy in Sub-Saharan Africa, transition to a low carbon economy, and adaptation to the impacts of climate change, as well as outlines key areas for moving forward. Importantly, the reporting period witnessed a significant momentum on the climate change arena, with the development case for taking action on climate change becoming apparent and making its way into developing countries' strategies. At the same time, there is also growing consensus that efforts in moving to a lower-carbon path should ensure that growth and poverty reduction goals of developing countries are not compromised. WBG and other MDBs play a key role in mobilizing adequate resources from public and private sources to support climate-resilient and low carbon investments in developing countries. The main messages of the Progress Report are as follows.

Increase in WBG Support to the Energy Sector, including Energy Access in SSA

2. WBG projects in the energy sector have promoted increased access to energy, with an emphasis on clean energy and energy efficiency, as well as the creation of an enabling environment for private-sector participation in energy generation, transmission and distribution via effective public-private partnership arrangements. In terms of ongoing and recent progress, the WBG is likely to exceed the forecast for overall energy lending of US\$10 billion over the FY06–08 period, compared to US\$7 billion in the FY03–05 period. For the first two years of the FY06–FY08 period, WBG lending for energy has exceeded US\$8 billion, with over US\$1 billion expected to be delivered during first quarter FY08.

3. In Sub-Saharan Africa (SSA), energy access is essential in helping the poor meet basic human needs, and is thus a key development goal. Considerable progress has been made recently, with WBG support for energy in this region rising to US\$1.1 billion in FY07, from approximately US\$0.6 billion in each of the preceding two fiscal years. Projects under preparation for delivery in FY08 amount to approximately US\$0.8 billion in IDA financing, reaching what appears to be the ceiling from IDA without compromising other sectors. Additionally, the WBG Lighting Africa Program was launched in FY07,

¹ This is a summary of the 'Clean Energy for Development Investment Framework: Progress Report on the World Bank Group Action Plan', to be discussed by the World Bank's Board of Executive Directors on September 20, 2007.

which aims at mobilizing help from the private sector to provide access to modern energy services to 250 million “energy-poor” customers by 2030.

Facilitating Shift to a Low Carbon Economy

4. The WBG has continued to make progress in supporting the transition to a low-carbon economy in developing countries, with low-carbon projects of US\$1.4 billion in FY07, representing 40 percent of WBG energy lending (up from 28 percent in FY03–05, and 36 percent in FY06). Support for hydropower was the highest since 1996, with the approval of nine projects for US\$748 million in new WBG lending and guarantees and US\$66 million in carbon finance. With US\$682 million on new renewable energy and energy efficiency delivered in FY07, the WBG continued to exceed its Bonn commitment of an annual funding increase of 20 percent for renewable energy and energy efficiency. Going forward, a stronger focus on energy efficiency is anticipated and has been outlined in the recently prepared Energy Efficiency for Sustainable Development Action Plan. The new program to begin measuring and reporting on the GHG intensity of the lending portfolio has been initiated, in collaboration with other multilateral development banks (MDBs) and some bilateral donors. While the initial focus was on the power sector, WBG has been also piloting and expanding support to low carbon growth in other sectors where there are opportunities to tackle development and GHG mitigation together, such as transport, urban development, forestry and agriculture. Economic and Sector Work (ESW) also accelerated, with the initiation of five Low-Carbon Growth Country Case Studies (India, China, Mexico, Brazil were started in FY07 and South Africa will be initiated in FY08).

5. Scaling up requires addressing the resource gap through further expansion of concessional finance and catalyzing private sector investment in lower carbon technologies and projects. Currently available mechanisms, though very important, are insufficient to meet the growing needs of developing countries. Carbon finance can also generate larger flows of resources as the carbon market becomes fully functional over the longer term. In fact, the WBG is at the final stages of designing two new facilities, the Carbon Partnership Facility (CPF) and the Forest Carbon Partnership Facility (FCPF), to scale up the access of developing countries to carbon finance (see Annex).

Mainstreaming Adaptation in Development Action

6. As the adverse impacts of climate change are likely to be felt most acutely in the poorest regions and countries, helping vulnerable communities build resilience to the impacts is a key element of the climate change agenda for the WBG. What is more, increased awareness of the impacts of climate variability has led client countries to demand greater WBG support for adaptation to climate variability and change. In FY07, concerns about vulnerability to climate change were recognized in 32 percent of the Country Assistance Strategy documents, up from 15 percent in FY00–05 and 25 percent in FY06. The Bank has undertaken the preparation of a paper on IDA and climate change, with a focus on adaptation, for the IDA15 Replenishment Meeting in November 2007. A number of important ESW were prepared in FY07, including reports on adaptation strategies and options to address climate variability and change in rural India,

adaptation to the impacts of rapid glacier retreat in the tropical Andes, and the East Asia Environment Monitor 2007 on adapting to climate change.

7. Climate risk management and adaptation are emerging as an important part of WBG operations—FY07 projects include the Caribbean Implementation of Adaptation Measures in Coastal Zones; the new, first-ever multi-country Caribbean Catastrophe Risk Insurance Facility (CCRIF); and the inclusion of an adaptation component, co-financed by the Japan PHRD Climate Change Initiative Grant, in the India's Andhra Pradesh Rural Poverty Reduction project. The first version of the Climate Change Adaptation Screening Tool has been developed, which will help better integrate adaptation considerations into project designs. IDA, GEF and other funding sources helped develop climate risk-management and adaptation programs in SSA, including pilot projects in Burkina Faso, Kenya and Mozambique. Funding for adaptation requires considerable scaling up as it currently falls far below the estimates of the required amounts (available preliminary estimates range from \$10 to \$ 40 billion per year for developing countries). Once operational, the recently created UNFCCC Adaptation Fund will help provide an important new resource stream for climate-resilient development. For low-income countries, however, a strong IDA replenishment is crucial to support an enhanced response to the challenge of climate adaptation.

Moving forward

8. While making progress on the CEIF Action Plan, the WBG has also better recognized the enormous challenge of climate change, which is both a risk to development and an opportunity for Bank clients to accelerate their economic transformation, take advantage of new technologies, generate carbon revenues, and improve resilience to climate risks and natural disasters. Together with demand from governments, the private sector and the public, this calls for the WBG to expand the CEIF to a more comprehensive approach to climate change. Broadening the WBG strategy would mean including the following elements: (i) a multi-sectoral approach to climate change, encompassing in addition to energy, sectors such as transport, agriculture, forests and urban development; (ii) a stepped-up program in policy research and knowledge sharing; (iii) an enhanced role in the acceleration of new technology; and (iv) an increased engagement in climate risk management and adaptation.

9. Addressing this challenge would require strengthened collaboration with other multinational development institutions and accelerated resource mobilization from various sources. Among several recent initiatives in 2007 to increase collaboration across multilateral development banks (MDBs), is the preparation of a joint MDB framework of action, focusing on coordination and scaled-up support for low-carbon and climate-resilient growth. This joint study, which will be ready by October 2007, would support greater consistency in setting policies, programs and instruments across MDBs. It would also strengthen coordination between public and private financing windows of each of the MDBs and their engagement with the private sector more generally.

10. The WBG is actively pursuing ways to increase the availability of concessional financing through existing instruments, expand access of its client countries to carbon

finance, and explore new financial products to mobilize investment flows from private sector. It continues to help increase the leverage impact of the GEF, which is currently the most important source of grant assistance for climate change mitigation and a platform for increased support for climate action in the developing world. The GEF has made US\$1 billion available to programming from FY2007–2010. GEF recently committed US\$50 million to a new public-private partnership which has the potential to be a significant catalyst for innovative, climate friendly private sector actions. In its role as the financial mechanism of the UNFCCC, the GEF finances adaptation measures through three different sources: the Strategic Pilot on Adaptation (SPA) under the GEF Trust Fund (to which US\$50 million was initially allocated); the Special Climate Change Fund (through which US\$60 million has been made available for adaptation projects); and the Least Developed Countries Fund (which has made available US\$160 million). The Bank is also cooperating with donors in the design of new innovative financing, a recent example being a new £800 million (US\$1.6 billion) Environmental Transformation Fund (ETF) announced by the United Kingdom (UK). The Fund's key objective is to co-finance innovative projects with strong development and environmental benefits and supporting developing countries' transformation to low-carbon, climate-resilient growth paths.

Two new Carbon Finance Facilities

The Carbon Partnership Facility (CPF) and the Forest Carbon Partnership Facility (FCPF) will be presented for Board approval in September 2007.

The Carbon Partnership Facility (CPF):

The CPF is designed to: (i) scale up carbon finance through programmatic and sector-based approaches; and (ii) support long-term, low-carbon investments by purchasing emission reductions beyond 2012. It is intended to use carbon markets to promote GHG mitigation, enhancing the value of carbon finance to leverage investment for clean energy and the use of lower-carbon technology. In doing so, the proposed CPF will also provide continuity and sustain capacity in the carbon market, both in developed and developing countries. Key features include:

- The facility would develop methodologies for the use of programmatic and sectoral approaches that are anticipated in the CDM of the Kyoto Protocol, but not yet under implementation. These approaches would depart from the current, project-by-project approach and seek to integrate programs to prepare and implement investments that reduce GHG emissions in Bank country assistance strategies, as well as to assist Bank client countries to access the carbon market as sellers of carbon credits. The facility would thus set the stage for eventual take-up of these approaches by the private sector.
- In order not to preempt post-Kyoto negotiations in any way, the facility would be regime neutral, allowing it to respond to changing demands in a segmented market. Rather than being limited to purchasing Kyoto-based carbon assets, the proposed CPF would support assets that are potentially recognized under any credible regulatory system. The facility would make every effort to develop these assets for the ultimate use of compliance-based markets, thus ensuring their maximum value.
- The CPF would be structured as a partnership between buyers and sellers, in line with the principles of common but differentiated responsibilities. It would strive to attain a balanced representation of buyer and seller interests, a feature that is more aligned with the evolution of capacity and awareness among developing countries in the carbon market. The proposed facility would thus build on the relationships of the Bank with developing countries, as well as the new relationships that it has forged over the past decade with buyers of carbon credits and other participants in the carbon market.
- The target for initial investments from the public and private sectors in the facility would be US\$500 million, with the goal of reaching investments of

US\$1 billion per year. Based on the leverage rates from previous carbon finance operations, these amounts could leverage between US\$3 to US\$6 billion in other financing.

The Forest Carbon Partnership Facility (FCPF):

The FCPF proposal recognizes that well-structured strategies to protect forests and rehabilitate degraded land can improve the livelihoods of poor people who depend on these natural resources, while also protecting natural assets. These assets have critical local environmental benefits (for example, protection of watersheds); their clearing and degradation represents 20 percent of global GHG emissions and a loss of biodiversity. The FCPF has been developed in response to requests from developing and industrialized countries to explore a framework for piloting activities that would improve livelihoods while reducing emissions from deforestation and degradation using policy approaches and a system of positive incentives. The recent G8 communiqué made specific reference to such a pilot and supported the Bank's initiative. Key features are:

- The FCPF would be a pilot, setting the stage for a future, large-scale system of positive incentives. It would test different approaches to ensure that financing flows reach local communities; tackle such issues as setting reference scenarios and monitoring systems; and address the issue of leakage on the ground.
- The FCPF would finance capacity building to increase developing countries' capacity to harness a future system of incentives, as well as pilot performance-based carbon purchases for avoided emissions in a small number of countries. The facility would be governed by a partnership between developing and industrialized countries, with the overarching objective of learning lessons from the pilot phase and building needed capacity in developing countries.
- The target for participant investment would be US\$300 million, with US\$100 million devoted to capacity building and the remainder to carbon purchases.