



# Climate Investment Funds (CIFs): An Overview

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## Summary

For political, social, economic, and environmental reasons, the United States helps finance programs in developing countries to address global climate change and other environmental issues. Several factors are important in structuring the U.S. agenda, including, among others, the choice of recipient countries, financial mechanism, level of funding, and type of program or technology, as well as the choice between bilateral or multilateral assistance. Congress is responsible for several activities in regard to global environmental finance, including (1) authorizing periodic appropriations for U.S. financial contributions and enacting those appropriations, and (2) overseeing U.S. interests in the programs. This report provides an overview of two of the larger and more recently instituted mechanisms—the Climate Investment Funds (CIFs)—and analyzes their structure, funding, and objectives in light of the many challenges within the contemporary landscape of global environmental finance.

The CIFs are investment programs administered by the World Bank Group that aim to help finance developing countries' transitions toward low-carbon and climate-resilient development. Formally approved by the World Bank's Board of Directors on July 1, 2008, the CIFs are composed of two trust funds—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—each with a specific scope, objective, and governance structure. The CTF provides financing for demonstrating, deploying, and diffusing low-carbon technologies that have the potential for long-term avoidance of greenhouse gas emissions. The SCF—a suite of three separate funds, including the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP), and the Scaling Up Renewable Energy Program in Low Income Countries (SREP)—supports the least developed countries in their efforts to achieve low-carbon, climate-resilient development. Overall, donor countries have pledged \$6.1 billion to the funds since September 2008. The U.S. pledge is \$2 billion. For FY2010, the U.S. government approved \$375 million for the CIFs (H.R. 3288, the Consolidated Appropriations Act, 2010, signed into law December 16, 2009, as P.L. 111-117), and for FY2011, the Administration has requested an additional \$635 million for the program.

As the CIFs are just one set of financial mechanisms in a larger network of international programs designed to address the global environment, their effectiveness depends on how the trust funds address programmatic issues, build upon national investment plans, react to recent developments in the financial landscape, and respond to emerging opportunities. Proponents of the CIFs point to several factors in support of the funds, including an innovative programmatic design, a country-led investment process, and a balanced governance structure with enhanced stakeholder engagement. Proponents of the multilateral development banks' (MDBs') role in environmental assistance emphasize several advantages to financing climate programs through the World Bank Group, including its commitment to private sector development, its capacity to leverage large co-financing arrangements, its responsiveness to donor countries, and its possession of fiduciary standards and institutional expertise. However, critics highlight several factors of concern, including a lack of transparency, coordination, and "polluter pay" responsibilities; a potential for new conditionalities, additionalities, and increased debt burdens on developing countries; and a prior economic development policy at the World Bank that serves as a conflict of interest.

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## Introduction

Many governments acknowledge that environmental degradation and climate change pose international and trans-boundary risks to human populations, economies, and ecosystems. To address these challenges, countries have implemented global environmental policies through a range of domestic, bilateral, and multilateral mechanisms. Recent mechanisms have taken the form of (1) treaties that seek to harmonize international commitments on environmental objectives; (2) legislative and regulatory policies that support emission reductions, renewable energy portfolios, and energy efficiency strategies; (3) programs that assist with environmentally sustainable growth strategies in lower-income countries; and (4) financial pledges that increase public funding for global environmental initiatives. This report investigates the last policy measure: public funding for global environmental initiatives.

U.S. financial support for global environmental initiatives has increased substantially over the past few years (see **Table 1**).<sup>1</sup> Congress is responsible for several activities in regard to global environmental finance, including (1) authorizing periodic appropriations for U.S. fund contributions and enacting those appropriations, and (2) overseeing U.S. interests in the programs.<sup>2</sup> As Congress considers potential legislation and/or appropriations for initiatives administered through the Department of State, the Department of the Treasury, and other agencies with international programs, it may have questions concerning the direction, efficiency, and effectiveness of current bilateral and multilateral programs.

This report provides an overview of two of the larger and more recently instituted multilateral mechanisms—the Climate Investment Funds (CIFs)—and analyzes their structure, funding, and objectives in light of the many challenges within the contemporary landscape of global environmental finance. For a description of other global environmental programs listed in **Table 1**, please see the following reports: CRS Report R41165, *Global Environment Facility (GEF): An Overview*, by Richard K. Lattanzio; CRS Report RL31286, *Debt-for-Nature Initiatives and the Tropical Forest Conservation Act: Status and Implementation*, by Pervaze A. Sheikh; CRS Report R41258, *Interior, Environment, and Related Agencies: FY2011 Appropriations*, coordinated by Carol Hardy Vincent; and CRS Report R40127, *The Impact of Food Insecurity and Hunger on Global Health: Issues for Congress*, by Tiaji Salaam-Blyther and Charles E. Hanrahan.

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<sup>1</sup> Some commentators believe the new and increased funding for environmental issues is the result of several factors, including (1) an increased political understanding of climate change, (2) the transformed role of multilateral development banks in global energy and environmental issues, (3) an expressed desire to achieve more immediate environmental and economic impacts through bilateral and private sector resources, and (4) a perceived lack of efficiency in current financial mechanisms. See Gareth Porter, Neil Bird, Nanki Kaur, and Leo Peskett, “New Finance for Climate Change and the Environment,” WWF and the Heinrich Böll Foundation, 2008.

<sup>2</sup> For more substantive analysis of foreign aid and congressional roles, see CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by Curt Tarnoff and Marian Leonardo Lawson; and CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson.

**Table I. Recent U.S. Budget Authority for International Environmental Programs**  
(In millions US\$)

Fund (Lead U.S. Agency)	2009 Actual	2010 Estimate	2011 Request
CIF: Clean Technology Fund (Treasury)	-	\$300.0	\$400.0
CIF: Strategic Climate Fund (Treasury)	-	-	-
Pilot Program for Climate Resilience	-	\$55.0	\$90.0
Forest Investment Program	-	\$20.0	\$95.0
Scaling-Up Renewable Energy	-	-	\$50.0
Global Environment Facility (Treasury)	\$80.0	\$86.5	\$175.0
Tropical Forest Conservation Act (Treasury)	\$20.0	\$20.0	\$20.0
Least Developed Countries Fund (State)	-	\$30.0	\$30.0
Special Climate Change Fund (State)	-	\$20.0	\$20.0
World Bank Forest Carbon Partnership (State)	\$5.0	\$10.0	\$15.0
<b>Total</b>	<b>\$105.0</b>	<b>\$541.5</b>	<b>\$895.0</b>

**Source:** H.R. 3288, the Consolidated Appropriations Act, 2010, signed into law Dec. 16, 2009 (P.L. 111-117); and The Budget of the United States Government for Fiscal Year 2011, Appendix.

**Notes:** The above list is a selection of global environmental programs funded in part by the U.S. government. It is not comprehensive of all U.S. environmental funding.

## The Climate Investment Funds (CIFs)

### Background

Projected climate change is considered a potential threat to economic development, with anticipated effects on the environment, human health, food security, and economic activity. Further, climate change is expected to disproportionately affect the urban and rural poor of developing countries, thus making it a central concern to those interested in poverty reduction, and sustainable development.<sup>3</sup> Under this context, and at the request of the G8/G20, the multilateral development banks (MDBs)<sup>4</sup> have recently sought to expand their support to low-carbon and climate-resilient investments in several ways, including (1) creating new and additional environmental funding resources, (2) repackaging their “core” financial products with specialized climate provisions, and (3) leveraging their suite of financial instruments for greater private sector environmental investment.<sup>5</sup>

<sup>3</sup> As summarized by the International Institute for Sustainable Development, at <http://www.iisd.ca/download/pdf/sd/ymbvol172num2e.pdf>.

<sup>4</sup> The group of multilateral development banks referred to in this report includes the International Bank for Reconstruction and Development (IBRD or World Bank), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank Group (IDB), and the International Finance Corporation (IFC, the private sector wing of the IBRD).

<sup>5</sup> See the World Bank website for additional information at [http://siteresources.worldbank.org/NEWS/Resources/Climate\\_Change\\_Results\\_Brief\\_4-12-10.pdf](http://siteresources.worldbank.org/NEWS/Resources/Climate_Change_Results_Brief_4-12-10.pdf).

In keeping with these aims, in February 2008, Japan, the United Kingdom, and the United States announced their intention to create a set of funds at the World Bank to help developing countries “bridge the gap between dirty and clean energy” and “boost the World Bank’s ability to help developing countries tackle climate change.”<sup>6</sup> The World Bank held the first design meeting for the proposed Climate Investment Funds (CIFs) in March 2008 in Paris, France. Two subsequent meetings were held in Washington, DC, in April 2008 and Potsdam, Germany, in May 2008. On May 23, 2008, representatives from 40 developing and industrialized countries reached agreement on the funds’ design. Formally approved by the World Bank’s Board of Directors on July 1, 2008, the CIFs have become an attempt to bridge the gap in climate financing between present obligations and a post-2012 global climate change agreement.<sup>7</sup>

The CIFs are composed of two separate trust funds—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—each with a specific scope, objective, and governance structure. Overall, donor countries have pledged \$6.1 billion to the funds since September 2008. The U.S. pledge is \$2 billion. For FY2010, the U.S. government approved \$375 million for the CIFs (H.R. 3288, the Consolidated Appropriations Act, 2010, signed into law December 16, 2009, as P.L. 111-117), and for FY2011, the Administration has requested an additional \$635 million for the program.

## **The Clean Technology Fund (CTF)**

### **Overview**

Faced with energy and environmental challenges, many developing countries see value in clean technology to meet their energy security, poverty alleviation, and sustainable development goals while also reducing their growth in emissions. However, the costs to developing countries of switching to cleaner technologies without financial assistance may be prohibitive. The CTF seeks to provide financing—principally to larger emerging economies and to regional groups—for demonstrating, deploying, and diffusing low-carbon technologies with the potential for long-term avoidance of greenhouse gas emissions. The fund promotes renewable energy and energy efficient technologies in the power sector as well as energy efficiency strategies in the transportation, building, industry, and agricultural sectors. Currently, the CTF is designed to support 15–20 country and regional investment plans and/or co-financed projects. As of May 2010, the CTF has endorsed 13, including plans from Mexico, Egypt, Turkey, South Africa, Ukraine, Morocco, Colombia, Kazakhstan, Indonesia, Philippines, Thailand, Vietnam, and a five-country region in the Middle East and North Africa. Projects include, inter alia, support for wind energy, urban public transportation systems, solar water heaters, smart-grid development, and concentrating solar thermal power programs (see **Table 3** for more detailed descriptions of the national investment plans).<sup>8</sup>

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<sup>6</sup> Henry Paulson, Alistair Darling, and Fukushima Nukaga, “Financial bridge from dirty to clean,” *Financial Times*, February 7, 2008.

<sup>7</sup> For a full description of purpose and programs, see CIF’s website at <http://www.climateinvestmentfunds.org/cif/>.

<sup>8</sup> Description of CTF overview and governance from CIFs, Annual Report 2009, on the CIF website at [http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cif\\_annual\\_report\\_final\\_021810.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cif_annual_report_final_021810.pdf); furthermore, for a more detailed background into the issues surrounding the implementation of the CTF, see CRS Report RS22989, *The World Bank’s Clean Technology Fund (CTF)*, by Martin A. Weiss.

## **Governance**

The CTF is implemented by the World Bank Group and governed by representatives from the donor and recipient countries. The role of governance for the CTF is to approve investment plans, programming, and the allocation of financial resources; and to provide guidance, performance evaluation, and reporting. It is further tasked with ensuring that the strategic orientation of the CTF is guided by the principles of the United Nations Framework Convention on Climate Change (UNFCCC). The organizational structure of the CTF is equally balanced between donor and developing countries. All decisions are made by consensus. Other international organizations, the private sector, and civil society representatives are included as observers. All observer roles are “active,” allowing them to take the floor to make interventions, propose agenda items, and recommend experts. Observers do not vote during consensus decisions. The governance structure includes:

- The CTF Trust Fund Committee—which oversees and decides on the operations and activities of the CTF and includes (1) eight representatives from contributor countries (currently Australia, France, Germany, Japan, Spain, Sweden, United Kingdom, United States); (2) eight representatives from eligible recipient countries (currently Brazil, China, Egypt, India, Morocco, Nigeria, South Africa, Turkey); (3) a representative from the project recipient country (during deliberations on the investment plan, program, or project); (4) a representative of the World Bank; and (5) a representative for the other MDBs.
- The MDBs Committee—which facilitates collaboration, coordination, and the exchange of information, knowledge, and experience among MDBs partners.
- The Partnership Forum—which supports civil society engagement and includes representatives of donor and eligible recipient countries, MDBs, UN and UN agencies, Global Environment Facility (GEF), UNFCCC, Adaptation Fund, bilateral development agencies, NGOs, indigenous peoples, private sector entities, and technical experts.
- The Administrative Unit—which supports the work of the CIFs, is housed in the World Bank Group’s Washington, DC, offices, and is composed of a small professional staff.
- A Trustee (the World Bank)—which holds in trust, as the legal owner and administrator, the funds, assets, and receipts that constitute the Trust Fund, pursuant to the terms entered into with the contributors.

## **Funding**

In September 2008, donor countries pledged over \$6.1 billion to finance the two CIFs trust funds. The total amount pledged by contributing countries to the CTF was US\$4.2 billion as of June 1, 2010 (See **Table 2** for pledges and **Table 1** for U.S. Budget Authority). The funds are to be disbursed as grants, concessional loans, loan guarantees, and other risk management instruments.



**Table 2. Total Pledges to the Clean Technology Fund**  
(In millions US\$, as pledged September 2008 with exchange rates as of June 1, 2010)

Donor	Contribution Type <sup>a</sup>	Amount Pledged
Australia	Grant	\$83
France	Loan	\$246
Germany	Loan/Grant	\$615
Japan	Grant	\$1,019
Spain	Capital	\$97
Sweden	Grant	\$76
United Kingdom	Capital	\$558
United States <sup>b</sup>	Grant	\$1,492
<b>Total</b>		<b>\$4,186</b>

**Source:** The CIF website at <http://www.climateinvestmentfunds.org/>.

- a. Donor contribution types include grants, loans, and equity, and describe in broad terms the general requirements stipulated by the donors on their contributed funds. The U.S. government has historically contributed grant financing for reasons that include ease, ODA accounting practices, and flexible capital reflow provisions.
- b. The total U.S. pledge to the CIFs remains at \$2 billion. Contributions across funds are extrapolated from current allocations.

## Program Areas

The CTF is based on country and regional investment plans that aim to support climate-friendly technologies. Investment plans are undertaken jointly by the recipients, the MDBs, other development partners, private industry, and civil society to build upon existing national strategies and demonstrate how the CTF can be complementary to the country's overall developmental activities. The CTF supports investment plans that are cost-effective and implementation-ready, can be scaled up quickly to impact development, and have the potential for significant greenhouse gas emission reductions. To receive CTF funding, a country must be eligible for official development assistance (ODA) and have an active MDB program.

The majority of CTF funding supports programs that help shape demand side markets for technology diffusion. The fund's criteria for lending allow all renewable and energy efficiency initiatives, as well as large-scale hydroelectric power plants, natural gas plants, some forms of biofuels, power plant refits, and ultra-supercritical coal plants. Funds are commonly targeted to support a variety of investment activities, including (1) direct purchase of technological goods and services; (2) direct investment into government infrastructure for transport or transmission modernization; (3) seed funds for financial intermediaries to incentivize clean technology lending; and (4) investment support and risk mitigation strategies for private sector entry into the market. In short, the CTF attempts to address the additional costs contained in lower-carbon energy investment such that it becomes a viable option to conventional fossil-fuel power generation. **Table 3** outlines the endorsed Investment plans as of June 1, 2010.



**Table 3. Clean Technology Fund Investment Plans**

(In millions of US\$)

Date <sup>a</sup>	Country	Direct CTF Funding / Co-Financing <sup>b</sup>	Investment Plan
January 2009	Egypt	\$300 / \$1,600	Wind power Urban transport (natural gas buses and a subway) Transmission upgrades
January 2009	Mexico	\$500 / \$6,000	Energy efficiency (appliance & lighting) Urban transport (rapid bus) Wind power
January 2009	Turkey	\$250 / \$1,900	Renewable energy and energy efficiency Smartgrid technology
October 2009	Morocco	\$150 / \$1,500-\$1,800	Energy sector privatization Energy conservation Urban transport
October 2009	South Africa	\$500 / \$1,900	Concentrated solar power Wind power Solar water heaters Energy efficiency
October 2009	M.E.N.A. <sup>c</sup>	\$750 / \$4,900	Concentrated solar power Transmission infrastructure
December 2009	Thailand	\$300 / \$4,000	Renewable energy and energy efficiency Urban transport (bus)
December 2009	Philippines	\$250 / \$2,500	Solar power Transmission infrastructure Demand side management Sustainable transport strategy
December 2009	Vietnam	\$250 / \$3,200	Renewable energy and industrial energy efficiency Urban transport (rail system) Initial capitalization of funds Transmission infrastructure
March 2010	Colombia	\$150 / \$3,000	Sustainable transport program Public/private sector energy efficiency program
March 2010	Indonesia	\$400 / \$2,700	Large-scale geothermal power Biomass energy
March 2010	Kazakhstan	\$200 / \$535	Hydro and wind power Public sector transport fuel switch District heating Energy efficiency
March 2010	Ukraine	\$350 / \$2,300	Wind, hydro, biomass Residential and government energy efficiency District heating Smartgrid technology

**Source:** CTF committee meeting documents and national Investment plans, available at the CTF website.

- a. Date of official CTF endorsement of the investment plan.
- b. Endorsed funding by the CTF / leveraged co-financing from additional sources; in millions US\$. It is estimated that 30% of the co-financing comes from the private sector; the remainder comes from other multilateral financial institutions, the recipient governments, state-owned enterprises, and carbon finance.
- c. The Middle East North Africa region, including Algeria, Egypt, Jordan, Morocco, and Tunisia.

## **The Strategic Climate Fund (SCF)**

### **Overview**

Some governments and civil society institutions are concerned that climate change may exacerbate poverty situations and reverse economic gains in the developing world through the possibility of rising sea levels, temperature increases, droughts, changes in rainfall patterns, heightened disease patterns, and the lack of drinkable water. They believe that resources may be necessary to help low-income countries manage a response. Responses to climate change are likely to entail both mitigation efforts (i.e., slowing, then reducing greenhouse gas emissions) and adaptation efforts (i.e., managing the effects of short- and long-term climate outcomes). The SCF aims to help developing countries prepare for climate change by promoting low-carbon, climate-resilient development. Three targeted programs provide grants and concessional loans to pilot new approaches aimed at specific challenges:<sup>9</sup>

- The Pilot Program for Climate Resilience (PPCR) supports ways to integrate climate risk and resilience into the development strategies of low-income countries. Funds can be used to provide technical assistance to help with capacity building, policy reform, and sector investment.
- The Forest Investment Program (FIP) provides financing to countries to help them prepare for and participate in programs that aim to reduce deforestation. Funds can be used for managing forests and for educating indigenous and local communities about forest policies.
- The Scaling Up Renewable Energy Program in Low Income Countries (SREP) helps low-income countries adopt renewable energy solutions to aid in the development of their power generation sector. Funds can be used to provide policy support, technical assistance, financial management, and sector investment.

### **Governance**

The SCF is implemented by the World Bank Group and governed by representatives from the donor and recipient countries. The governance and decision-making structure is similar to the CTF, but specifically includes:

- The SCF Trust Fund Committee—which oversees and decides on the operations and activities of SCF and includes (1) eight representatives from contributor countries (currently Australia/UK (rotating), Canada, Denmark/Switzerland (rotating), Germany, Japan, Netherlands, Norway, United States); (2) eight representatives from eligible recipient countries (currently Bolivia, Guyana, Indonesia, Kyrgyz Republic, Maldives, Senegal, Tunisia, Yemen); (3) a representative of the World Bank; and (4) a representative for the other MDBs.
- An SCF Sub-Committee for each of the targeted programs—which includes up to six representatives from contributor countries to the SCF Program, a matching

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<sup>9</sup> Description of SCF overview and governance from CIFs, Annual Report 2009, on the CIF website at [http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cif\\_annual\\_report\\_final\\_021810.pdf](http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cif_annual_report_final_021810.pdf).

number of representatives from eligible recipient countries, and such other representatives designated by the SCF Trust Fund.

- The MDBs Committee—which facilitates collaboration, coordination, and the exchange of information, knowledge, and experience among the MDBs partners.
- The Partnership Forum—which supports civil society engagement and includes representatives of donor and eligible recipient countries, MDBs, UN and UN agencies, GEF, UNFCCC, Adaptation Fund, bilateral development agencies, NGOs, indigenous peoples, private sector entities, and technical experts.
- The Administrative Unit—which supports the work of the CIFs, is housed in the World Bank Group’s Washington, DC, offices, and is composed of a small professional staff.
- A Trustee (the World Bank)—which holds in trust, as the legal owner and administrator, the funds, assets, and receipts that constitute the Trust Fund, pursuant to the terms entered into with the contributors.

## Funding

In September 2008, donor countries pledged over \$6.1 billion to finance the two CIFs trust funds. The total amount pledged by 10 countries to the SCF was US\$1.8 billion as of June 1, 2010 (See **Table 4** for pledges and **Table 1** for U.S. Budget Authority). The funds are to be disbursed as grants, concessional loans, loan guarantees, and other risk management instruments.

**Table 4. Total Pledges to the Strategic Climate Fund**

(In millions US\$, as pledged September 2008 with exchange rates as of June 1, 2010)

Donor	Contribution Type <sup>a</sup>	Amount Pledged
Australia	Grant	\$42
Canada	Grant	\$95
Denmark	Grant	\$21
Germany	Loan/Grant	\$61
Japan	Grant	\$204
Netherlands	Grant	\$76
Norway	Grant	\$160
Switzerland	Grant	\$20
United Kingdom	Capital	\$602
United States <sup>b</sup>	Grant	\$508
<b>Total</b>		<b>\$1,789</b>

**Source:** The CIF website at <http://www.climateinvestmentfunds.org/>

- Donor contribution types include grants, loans, and equity, and describe in broad terms the general requirements stipulated by the donors on their contributed funds. The U.S. government has historically contributed grant financing for reasons that include ease, ODA accounting practices, and flexible capital reflow provisions.
- The total U.S. pledge to the CIFs remains at \$2 billion. Contributions across funds are extrapolated from current allocations.

## Program Areas

The programming of the SCF is less advanced than that of the CTF. Each of the three funds remains in planning stages with its trust fund committee, having launched no earlier than January 2009. As of the March 2010 meeting of the Joint CTF and SCF Trust Fund Committees, the status of each fund was reported as follows:<sup>10</sup>

- The PPCR became operational in January 2009. Two regional groupings—the Pacific and the Caribbean—and nine countries—including Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger, Tajikistan, Yemen, and Zambia—were invited to participate. The program provides funding to the countries in two phases: (1) a technical assistance phase, which includes looking at how countries' development plans can be made more climate-resilient and deciding upon the types of investments countries could make, and (2) an implementation phase, which includes the dispersal of grants of up to \$1.5 million with the option of additional loans to implement programs. Zambia is the first country to begin preparations for phase one. Zambia's process is expected to raise discussion in the PPCR sub-committee regarding deliverables to guide other countries.
- The FIP is not yet fully operational. With a February 2010 pledge of \$60 million from Japan, the fund now has a total of \$409 million. The next steps are to select five pilot countries and three back-up countries; to finalize and approve operational guidelines, financing, and investment criteria; and to design a grant mechanism to support the participation of indigenous peoples and local communities. The FIP sub-committee approved the following pilot programs in March 2010: Indonesia, Ghana, Laos, Peru, and Burkina Faso, with the Central African Forest Commission, Mexico, and the Philippines listed in reserve.
- The SREP become operational in December 2009, reaching its target of \$250 million with a pledge of \$50 million from the United States at the Copenhagen Conference of Parties to the UNFCCC. With a February 2010 pledge of \$40 million from Japan, the fund now has a total of \$300 million. The SREP sub-committee held a meeting in early February 2010 to set criteria for selecting an advisory group as well as pilot countries. The committee aims to approve programming procedures, financing, and a measurement framework over the course of 2010.

## Issues

Each year, billions of dollars in environmental aid flow from developed country governments—including the United States—to developing ones. While the efficiency and the effectiveness of these programs are of concern to donor country governments, a full analysis of the purposes, intents, results, and consequences behind these financial flows has yet to be conducted.<sup>11</sup>

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<sup>10</sup> As reported by the Bretton Woods Project at <http://www.brettonwoodsproject.org/art-566053>.

<sup>11</sup> This report does not aim to unpack the full range of discussions on environmental and developmental assistance. An overview and analysis of the history of environmental financing can be found in a number of source materials including recent book length studies by Inge Kaul and Pedro Conceição, *The New Public Finance: Responding to Global Challenges*, New York: Oxford University Press, 2006; and Robert L. Hicks, Bradley C. Parks, J. Timmons Roberts, and Michael J. Tierney, *Greening Aid?: Understanding the Environmental Impact of Development Assistance*, New (continued...)

International relations, comparative politics, and developmental economics can often collide with global environmental agendas. Critics contend that the existing system has had limited impact in addressing major environmental concerns—specifically climate change and tropical deforestation—and has been unsuccessful in delivering global transformational change. A desire to achieve more immediate impacts has led to a restructuring of the MDBs' role in environmental finance and the introduction of many new bilateral and multilateral funding initiatives. The CIFs grew out of these concerns.

The effectiveness of the CIFs depends on how the trust funds address their programmatic issues, build upon their national investment plans, react to recent developments in the financial landscape, and respond to emerging opportunities. The following section investigates some of the current challenges facing the CIFs and summarizes some of the responses initiated by the funds.

## Innovations by the CIFs

Since their inception, the CIFs have attempted to provide innovative approaches to global environmental issues and have introduced several processes to address the limitations of previous environmental finance.<sup>12</sup> These innovations include, but are not limited to, the following:

- *Programmatic Design:* While the CIFs still aim to scale up existing practices and fund activities at the project level, they also were created to serve as laboratories for new financing schemes and vehicles for developing sustainable strategies. Funding strives to target the potential for large-scale transformation and to attain global environmental benefits. Stakeholders seek to share knowledge gained and inspire the use of best practice. As such, multinational or regional investment plans that support global development goals, energy security, industrial growth, diversification, and regional integration (e.g., the M.E.N.A. plan) best exemplify the CIFs' programmatic approach.
- *Country-led Process:* Beyond a simple project-by-project approach, the purpose of the CIFs is to bolster the efforts of countries' official adaptation plans and their actions toward low-carbon, climate-resilient development. The country-led approach aims to integrate funding into the country-owned development strategies consistent with the Paris Declaration.<sup>13</sup>
- *Innovative Governance and Stakeholder Engagement:* In an effort to attain transparency and accountability, the governing structure of the CIFs is equally balanced between donor and developing countries. All decisions are taken by consensus, with no provision for voting. If a consensus is not possible, the proposal is postponed or withdrawn. Representatives from other international organizations, the private sector, and civil society are included as observers. All

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(...continued)

York: Oxford University Press, 2008.

<sup>12</sup> For further discussion regarding the limitations of past mechanisms for global environmental finance, see the section on institutional challenges in CRS Report R41165, *Global Environment Facility (GEF): An Overview*, by Richard K. Lattanzio.

<sup>13</sup> The 2005 Paris Declaration, endorsed by over 100 countries, aims to increase harmonization, alignment, and management of aid for results with a set of actions and indicators that can be monitored. See <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

observer roles are “active,” allowing them to take the floor to make interventions, propose agenda items, and recommend experts.

## Issues in Support of the Multilateral Development Banks (MDBs) and Multilateral Assistance

The choice of financial mechanism and its administration is an important element to environmental finance. The differences among multilateral or bilateral assistance, grant or lending institutions, regional or global organizations, etc., all play a role in the structure of assistance. The decision to employ the MDBs as trustees for the CIFs has both advantages and disadvantages. Historically, the MDBs have provided financial assistance to developing countries, typically in the form of loans and grants, for investment projects and organizational capacity. Donor country support for the MDBs—including U.S. support—has assisted efforts to promote institutions, strengthen financial systems, undertake large infrastructure and social welfare projects, and develop property rights and rules of law. Through increased global integration, the aim of the MDBs has been to bolster economic growth, poverty alleviation, and resource allocation (including greater access to electricity) in developing countries while simultaneously building new markets for developed countries’ exports and jobs. In 2008, at the urging of some donor countries,<sup>14</sup> a strategy to address climate change was added to the MDBs’ development agenda. The “Strategic Framework on Development and Climate Change”<sup>15</sup> analyzed the risks of climate change to economic development and served as a basis for integrating mitigation and adaptation planning into national development plans. Donor countries see several advantages to financing climate programs through the institutional structure of the MDBs. These advantages include, but are not limited to, the following:

- *Commitment to Private Sector Development:* Many donor countries—including the United States—believe that climate-friendly economic growth can be led by the private sector through such efforts as improving access to financial markets, building the capacity of entrepreneurs, and providing training to civilian society. One aim of the MDBs is to help foster private sector development by leveraging donor funds into highly effective co-financing arrangements. Historically, the U.S. Administration has supported these efforts. In a March 25, 2010, hearing before the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs, the Treasury Department went on record as stating that the United States invests in the MDBs because “they help generate new engines of growth that benefit the U.S. economy and the global economy as a whole.”
- *Economies of Scale, Coordination, and Co-Financing:* Proponents of the MDBs argue that multilateral assistance can solve problems of scale and efficiency by providing specialized expertise while lowering administration and coordination costs. Similarly, more competitive procurement rules, attractive cost-sharing opportunities, and the ability to leverage co-financing from other public and private organizations allow the MDBs to play a catalytic role in mobilizing financial aid.<sup>16</sup> At the March 25, 2010, hearing noted above, the Treasury

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<sup>14</sup> Including the United States. See the negotiations at the 2005 G8 Gleneagles Summit at <http://www.g7.utoronto.ca/summit/2005gleneagles/>.

<sup>15</sup> See <http://siteresources.worldbank.org/EXTCC/Resources/407863-1219339233881/DCCSFTechnicalReport.pdf>.

<sup>16</sup> Sources of additional funds most often include other MDBs and multilateral financial institutions, the recipient (continued...)



Department stated that the MDBs “provide strong, effective and highly leveraged means to advance global prosperity.... For every dollar the United States contributes to paid-in capital for the World Bank, six dollars of additional capital is generated by other donors. And, for every dollar we invest in the World Bank, \$26 worth of aid is delivered.”<sup>17</sup>

- *Responsiveness to Donors:* The Treasury Department has similarly stated that the United States invests in the MDBs because they “promot[e] core American interests and values.” This arrangement is due primarily to the structure and organization of the banks. MDBs governance is weighted on the basis of the cumulative financial contributions and commitments by the donor countries, and thus, while a single trust fund, like the CIFs, may be designed to balance equally the roles of developed and developing countries, the MDBs are designed to give greater weight to the major donors. The United States retains the most influence on World Bank matters, with a 16.4% voting share and the ability to veto major policy decisions. It is followed by Japan in second place, Germany in fourth, and France and the United Kingdom tied for fifth. The only developing or emerging country with as much voting interest is China, at third, with 4.4%.<sup>18</sup> With a governing structure that requires one representative from the World Bank, as trustee, and one representative from the group of remaining MDBs, as well as eight representatives from participating donor countries, the overall governance structure of the CIFs has remained responsive to donor interests.
- *Possession of Fiduciary Standards:* Both current and past Administrations have argued that the World Bank has the proper internal safeguards to oversee large amounts of financing. As reported by the Department of Treasury, “the World Bank is an attractive trustee [for environmental funds] precisely because of its strong fiduciary standards and its extensive capacity to uphold them.”<sup>19</sup>
- *Possession of Institutional Expertise, Information, and Credibility Provisions:* Proponents of the MDBs claim that multilateral agencies offer larger and better trained staffs with greater technical expertise. They state that large infrastructure investment, particularly in innovative technologies and methods, requires professionals who are experienced in identifying and facilitating access to technology, sharing risks associated with commercialization, and improving institutional capacity. Beyond institutional knowledge, multilaterals also collect, interpret, and disseminate costly information and provide credibility controls for both recipient and donor governments.

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(...continued)

governments, state-owned enterprises, and carbon finance, as well as the private sector.

<sup>17</sup> See testimony at [http://appropriations.house.gov/images/stories/pdf/sfo/Secretary\\_Geithner.3.25.10.pdf](http://appropriations.house.gov/images/stories/pdf/sfo/Secretary_Geithner.3.25.10.pdf).

<sup>18</sup> As reported by Reuters, at <http://www.reuters.com/article/idUSTRE63O1RQ20100425>, after the World Bank Development Committee spring meetings on April 25, 2010. See World Bank press release at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22556192~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

<sup>19</sup> As reported in Climatewire, “Eskom fallout spurs new opposition to World Bank’s role in climate funding,” May 24, 2010.



## Issues of Concern for Developing Countries and Civil Society

While advantages exist to financing climate programs through the institutional structure of the MDBs, concerns also persist. A variety of recipient countries, nongovernmental organizations, and civil society groups<sup>20</sup> have highlighted a number of issues, including, but not limited to, the following:

- *Donor Centrism:* While efforts have been made to include developing countries in the governance of the CIFs, some commentators still point to the fact that the initiative was led by Japan, the United States, and the United Kingdom, and that it existed outside international climate change regulatory frameworks and without the initial participation of developing countries and other stakeholders. Moreover, they claim that the design of the CIFs remains premised on an aid framework that is based on a donor-donee relationship that runs contrary to the international climate change principles of developed country obligations and “common but differentiated responsibilities.”<sup>21</sup>
- *Lack of Transparency:* While efforts have been made at transparency and accountability, some sessions of the CIFs committee meetings remain closed to observers. Similarly, technology investment plans are not publicly disclosed due to claims about sensitive sovereign information and national priorities. Observers from GEF and UNFCCC are also excluded from investment plan discussions, making it difficult to ensure complementarity.<sup>22</sup>
- *Lack of Coordination:* Observers point out that the CIFs may create a parallel structure for financing climate change adaptation and mitigation efforts outside the ongoing multilateral framework for climate change negotiations. They are concerned that without harmonization between the CIFs and the other sources of environmental finance (e.g., funds managed by the UN, the Global Environment Facility, and bilateral sources), overlaps, redundancies, competing views, and lack of synergy may affect climate priorities, funding processes, and qualifying criteria.
- *Potential to Prejudice U.N. Climate Provisions:* Some commentators and several governments have expressed concerns that the establishment of the CIFs as trust funds to the MDBs may prejudice the outcomes of the international negotiations on climate finance within the framework of the United Nations. Many developing countries have expressly stated that they do not consider funds contributed to the CIFs as meeting U.N. Annex I obligations. Furthermore, the design of the CIFs includes a “sunset clause” stating that the CIFs “will take necessary steps to

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<sup>20</sup> There are many published critiques on the environmental agenda of the MDBs. Of specific relevance for CIFs, see, for example, Celine Tan, “No Additionality, New Conditionality: A Critique of the World Bank’s Proposed Climate Investment Funds,” TWN, 2008, at <http://www.twinside.org.sg/bangkok.briefings.htm>; Smita Nakhooda, “Catalyzing Low-carbon Development?” WRI, 2009, at [http://pdf.wri.org/working\\_papers/development\\_clean\\_technology\\_fund.pdf](http://pdf.wri.org/working_papers/development_clean_technology_fund.pdf); and Heike Mainhardt-Gibbs, et al., “Fuelling Contradictions: The World Bank’s Energy Lending and Climate Change,” Bretton Woods Project, CRBM & URGEWALD, 2010, at <http://www.brettonwoodsproject.org/art-566198>.

<sup>21</sup> See UNFCCC, Art. 3.1, at [http://unfccc.int/essential\\_background/convention/background/items/1355.php](http://unfccc.int/essential_background/convention/background/items/1355.php).

<sup>22</sup> It should be noted that the United States, as well as the United Kingdom and France, have expressed a desire for some advance disclosure of investment plans and for observer participation in these sessions.

- conclude its operations once a new [UNFCCC] financial architecture is effective.” The nature of these steps has yet to be determined.
- *Potential for New Conditionalities:* Under the CIFs, individual loans or grants under country programs follow the investment lending policies and procedures of the MDBs, including their fiduciary standards and environmental and social safeguards. Some observers believe this burdens developing countries with the World Bank’s traditional criteria for financing, including tight fiscal discipline and the implementation of economic and other structural and policy reforms. They claim an additional danger in the possibility that the CIFs may create onerous obligations on developing countries to comply with emission reduction targets and other rules from which they have been previously exempt.
  - *Lack of Polluter Responsibility:* Some commentators claim that the provision of loans—in addition to grants—as a financial instrument to eligible developing countries contradicts the internationally agreed principle of “polluter pays” as stated in the Rio Declaration. Some argue that the repayment of a loan, notwithstanding the degree of concessionality, burdens a developing country with paying for a problem (climate change) that was caused by developed countries.
  - *Increased Debt Burden:* While the loans under the CIFs are provided on a concessional basis, they are co-invested in other projects and programs and will have to be repaid. Some commentators believe that the CIFs’ loans may add to their debt burden in the long run and affect their ability to generate resources for growth.
  - *Potential for Additionality:* The UNFCCC provides that developed country signatories to the Convention “provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties” in their efforts at mitigation and adaptation.<sup>23</sup> Some observers fear that the design of the CIFs establishes a parallel process for climate financing that does not result in new and additional resources. They are concerned that significant portions of the aid budgets of donors may be diverted into the CIFs and counted as part of their annual ODA commitments.
  - *Commercial Influence:* While advantages exist in prioritizing market-based solutions to dealing with the problems of climate, some groups express concern that the private sector may be unduly driven by commercial interests at the expense of social or environmental safeguards.<sup>24</sup> Concern also exists that a dependence on market mechanisms as a source of climate financing may be inadequate and inconsistent for meeting the financial needs of developing countries charged with the responsibility of both implementing climate change commitments and mediating the social, economic, and environmental dislocations brought on by climate change.
  - *Energy Policy at the Banks:* Many observers claim that the World Bank’s energy and infrastructure lending history undermines its credibility as an institution

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<sup>23</sup> See UNFCCC, Article 4:3, at [http://unfccc.int/essential\\_background/convention/background/items/1362.php](http://unfccc.int/essential_background/convention/background/items/1362.php).

<sup>24</sup> This concern has been levied against the Bank’s brokering of carbon purchases through its Prototype Carbon Fund. See Bank Information Center, et al., “How the World Bank’s Energy Framework Sells the Climate and Poor People Short,” 2006, at <http://www.bicusa.org/en/Article.2954.aspx>.

committed to combating the impacts of climate change. Civil society groups have often highlighted the inconsistencies between the Bank's rhetoric on climate change and its operational policies and practices. They emphasize that while the Bank has increased financing for new renewable energy and energy efficiency in recent years, its fossil fuel lending still accounts for 54% of the energy sector share for fiscal years 2006 to 2008 (compared to 10% for renewable energy, 15% for energy efficiency, and 21% for large hydropower). Furthermore, the trend has reportedly increased, as FY2008 has seen the World Bank and IFC scale up funding for fossil fuels by 102%, compared with only 11% for new renewable energy.<sup>25</sup> The controversy is compounded by the Bank's inability to reach a consensus on the definition of "clean energy technology," retaining provisions for ultra-supercritical coal-fired power generation in its environmental strategies.<sup>26</sup> Recent guidance from the U.S. Administration regarding the World Bank's engagement with coal-fired power generation in developing countries similarly leaves the definition open, stating that projects "could include more carbon efficient fossil fuel generation" in their portfolio.<sup>27</sup> While observers generally agree that funding from the CIFs is unlikely to be used in coal-fired power generation projects, most agree that continued investment by the World Bank in fossil fuel energy and infrastructure may have several unintended effects, including, inter alia, (1) counteracting any gains made with the Bank's renewable portfolio, (2) directing resources toward large-scale power generation for industrial use instead of toward energy access and poverty reduction in poor urban and rural communities, and (3) drawing the Bank's professional and technical staff away from a concentration on energy efficiency and renewable energy activities to remain involved with fossil fuel generation.<sup>28</sup>

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<sup>25</sup> See Bank Information Center report at <http://www.bicusa.org/en/Article.11033.aspx>.

<sup>26</sup> Ultra-supercritical coal-fired power generation is defined as "new pulverised coal combustion systems ... [that] operate at increasingly higher temperatures and pressures and therefore achieve higher efficiencies than conventional PCC units and significant CO<sub>2</sub> reductions. Supercritical steam cycle technology has been used for decades and is becoming the system of choice for new commercial coal-fired plants in many countries." See World Coal Institute website at <http://www.worldcoal.org/coal-the-environment/coal-use-the-environment/improving-efficiencies/>.

<sup>27</sup> See U.S. Treasury memorandum at [http://www.ustreas.gov/offices/international-affairs/multilateral\\_banks/statements/COAL%20GUIDELINES%202009%2012%2014%20FINAL%20%282%29.pdf](http://www.ustreas.gov/offices/international-affairs/multilateral_banks/statements/COAL%20GUIDELINES%202009%2012%2014%20FINAL%20%282%29.pdf).

<sup>28</sup> For discussion of further debate on this issue, see CRS Report RS22989, *The World Bank's Clean Technology Fund (CTF)*, by Martin A. Weiss; as well as the World Bank's issue brief on "Energy," available at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21513875~menuPK:34480~pagePK:64257043~piPK:437376~theSitePK:4607,00.html>; and, as one example, Heike Mainhardt-Gibbs, et al., "Fuelling Contradictions: The World Bank's Energy Lending and Climate Change," the Bretton Woods Project, CRBM & URGEWALD, 2010, at <http://www.brettonwoodsproject.org/art-566198>.