



CTF GOVERNMENT POLICY SUPPORT

*An in-depth analysis of CTF support
to government policy reforms*

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RESULTS DEEP DIVE SERIES//

CIF Program: Clean Technology Fund (CTF)

TOPICS

- Results and Impact
- Clean Technology
- Government Policy

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RESULTS DEEP DIVE SERIES

The Climate Investment Funds (CIF) is committed to rigorous and inclusive monitoring and reporting (M&R) on investments' contributions toward net-zero emissions and adaptive, climate-resilient, just, and socially inclusive development pathways. The M&R Results Deep Dive series is a supplement to CIF's annual results reports — while annual M&R provides a systematic synthesis of portfolio performance against each program's core indicators, the Deep Dives provide in-depth reviews of these results within specific thematic or developmental dimensions of climate change. As such, they offer greater granularity on the drivers and implications of various performance characteristics.

1. INTRODUCTION

It is estimated that between three to six trillion dollars in climate finance needs to be mobilized annually to maintain a 1.5 degree future, yet 2021 saw only 630 billion dollars mobilized toward this goal.¹ While it is known that much more financing is needed for investments in various low carbon infrastructure projects, a key question is how to mobilize it, especially with regard to private sector funding.² The Clean Technology Fund (CTF) aims to address this gap in funding by providing concessional financing, bearing the brunt of the risk to demonstrate that a range of frontier clean technologies³ are viable and sustainable. CTF provides this financing in the expectation that as more players invest in these technologies, these projects will need less concessional finance, with such technologies becoming fully self-sustaining over time. However, governments in recipient countries also play a vital role in ensuring the long-term success of such projects, by creating the necessary conditions to crowd in investments from other sources.

A sizeable literature focuses on the importance of supportive government policies and commitment to a climate change agenda in order to achieve high-level climate outcomes such as emission reductions and increased investment in various clean technologies.^{4,5} Given that clean technologies are new and rapidly evolving, especially for middle-income economies, many existing policies today might not address their needs, creating an uncertain investment environment. Moreover, these frontier technologies still have an unproven track record in the long term and have relatively higher upfront costs, adding another layer of complexity and uncertainty.⁶ Changes in governmental policies and regulations can provide further clarity and other

incentives, creating a more conducive and stable environment to bring additional private sector financing into this field.⁷

When the CTF first invested in clean technology projects, many were the first of their kind in the contexts in which they were implemented, were considered frontier technologies, and had a very limited investment track record. To enable CTF projects to achieve their goals, many projects have included enabling environment and policy support components to help enhance the capability of partner governments to support projects and to ensure a positive investment environment. Moreover, as CTF gained more experience supporting these projects in a range of contexts, projects increasingly sought to build capacity and promote an enabling environment.

Climate projects produce a range of documentation on project design, implementation, and outcomes at completion. These documents can offer concrete insights into how government policy choices contribute to the success of climate projects, and how project design and implementation choices shaped by funds such as the CTF can promote a conducive policy environment.

This Results Deep Dive examines the role of government support and enabling environment in the CTF portfolio and finds that more recently approved CTF projects increasingly include components to support policies and strategies that are conducive to climate impact. Out of the 125 MDB-approved completed CTF projects, 20 percent of the total project count includes a component or subcomponent dedicated to such activities; these projects account for 17 percent of total CTF financing.

2. EVIDENCE IN CTF PROJECTS

As noted above, the CTF portfolio includes a number of projects with components or subcomponents to support policies that aim to establish an enabling environment for CTF projects to achieve their goals. This has become particularly widespread in later funding windows, particularly under the Dedicated Private Sector Programs (DPSP), first launched in 2013.

Underlining the importance of government support and commitment for a clean technology project to achieve its development objective, this aspect of project implementation experiences is consistently elaborated on in project completion reports. Forty-six percent of CTF projects with a completion report⁸ stressed the importance of strong government policy support. Out of those six completion reports, five projects overachieved their annual GHG emission targets.⁹

Some examples illustrate the importance of government support, as evidenced through the enactment of institutional reforms and long-term commitment to clean technologies, particularly well. Although early CTF projects did not include a policy support component, these have nevertheless shown strong evidence that steadfast government support for interventions enabled success. For example, one of the CTF's flagship projects, the Noor Ouarzazate Concentrated Solar Power (CSP) Project and its subsequent successors, Noor II and III (World Bank-AfDB), in Morocco, did not include an explicit policy support component. However, project implementation experience as reflected in the project completion reports specifically stressed the importance of government commitment as part of the project's resounding success. The government of Morocco provided public funding to

create the Moroccan Agency for Sustainable Energy (MASEN) in 2010,¹⁰ specifically to implement the Ouarzazate CSP project, and future CSP projects in the country, as a Public-Private Partnership (PPP). Additionally, the government and MASEN signed a Framework Agreement to clearly determine the rules and conditions on issues concerning the supply, transmission, and marketing of the solar energy produced. The agreement also ensured that while MASEN implements the project, the national government will still handle the financial aspects of the CSP due to the high upfront costs of such project types, taking some of the risks itself.



The project achieved its objectives in a timely manner, reaching 510 megawatts (MW) in installed capacity by 2015, and over 660,000 tons of annual emission reductions. The Ouarzazate CSP project overachieved its annual GHG emission reductions target by 13 percent while Noor II and III achieved the combined set target of 521,670 tCO₂. Work is ongoing as of 2023 to develop a fourth CSP, Noor IV. And because of its proven track record, MASEN's mandate has been expanded to support the implementation of all other types of renewable energy, including solar photovoltaic (PV), hydro, and wind, positioning MASEN as a key player in Morocco's efforts to reach 52 percent renewable energy by 2030.¹¹

On the other hand, the more recently approved CTF projects have begun to incorporate a component

dedicated to supporting government policy reform as a key activity. An example of a project where the CTF has included such a component is the DPSP II: Utility Scale Renewable Energy: Geothermal - Sustainable Energy Facility for the Eastern Caribbean (IDB Group) which was approved in 2015. This specific component supports the governments of Eastern Caribbean countries¹² to develop an effective legal, policy, and regulatory framework to implement different sustainable energy projects, specifically for geothermal projects, such as a framework for establishing PPP arrangements. Upon completion the project is expected to lead to 60 MW in installed geothermal capacity, leading to over 330,000 tCO₂ in annual emission reductions and reducing power tariffs from 33 cents per kilowatt-hour (KWh) to 27 cents per KWh.



Work on transmission equipment part of a solar power plant in Rajasthan, India

3. CONSIDERATIONS AND CONCLUSION

CTF projects increasingly go beyond the installation of physical infrastructure alone. This is demonstrated by the increasing number of recently approved projects that explicitly include a policy support component, as the importance of government policy reform has become more evident through the lessons of past projects. Experiences across the CTF portfolio indicate that projects have benefited from government support and commitment, which have yielded a positive enabling environment for the enactment of climate-smart policies and investment in clean technologies. While in some cases this strong support and a supportive enabling environment preceded CTF engagements and were independent of a project component to provide policy support (as in the example of Morocco), other cases have shown that strong outcomes can result when policy commitments are bolstered by project components that provide policy support.

Building upon these lessons, other programs in the Climate Investment Funds (CIF) that were approved after the CTF have incorporated policy support components into projects. For example, the Scaling Up Renewable Energy Program in Low Income Countries (SREP), has projects solely dedicated to creating an enabling environment via policy changes in recipient countries including Mali, the Maldives, Ethiopia, Honduras, and multiple Pacific island countries. Furthermore, more recently approved CIF programs, such as the Global Energy Storage Program (GESP), the Renewable Energy Integration Program (REI), and the Accelerated Coal Transition Program (ACT), all support reforms to existing policies in their

respective fields, and embed specific core indicators in the results framework to monitor this progress. In the CTF portfolio itself, newer projects include more components dedicated to creating an enabling environment via policy reforms, beyond the main infrastructure phase. Of the projects that mention policy support in their activities, 60 percent were approved during or after the DPSP windows.



The CIF's proven track record in supporting climate-smart policies, and its increasing incorporation of this project component into newer programs, demonstrates CIF's role as a pioneer in climate finance and a key player for sustainable and green future. Policy support components will continue to play a role in new CTF projects, as well as in new programs under the overall CIF umbrella.

ENDNOTES

- 1 Georgieva, K., and Adrian, T. 2022. Public Sector Must Play Major Role in Catalyzing Private Climate Finance. Washington, D.C.: World Bank <https://www.imf.org/en/Blogs/Articles/2022/08/18/public-sector-must-play-major-role-in-catalyzing-private-climate-finance>
- 2 Ibid.
- 3 The four types of clean technologies supported by the CTF include renewable energy, energy efficiency, transport, and energy storage.
- 4 White, W., and A. Lunnan, E. Nybakk, and B. Kulisik. 2013. The role of governments in renewable energy: The importance of policy consistency. <https://www.sciencedirect.com/science/article/pii/S0961953412005338>
- 5 Atalla, G., M. Mills, and J. McQueen. 2022. Six ways that governments can drive the green transition. EY. https://www.ey.com/en_gl/government-public-sector/six-ways-that-governments-can-drive-the-green-transition
- 6 Georgieva, K., and Adrian, T. 2022. Public Sector Must Play Major Role in Catalyzing Private Climate Finance. Washington, D.C.: World Bank <https://www.imf.org/en/Blogs/Articles/2022/08/18/public-sector-must-play-major-role-in-catalyzing-private-climate-finance>
- 7 World Bank. 2023. Breaking Down Barriers to Clean Energy Transition. Washington, D.C.: World Bank <https://www.worldbank.org/en/news/feature/2023/05/16/breaking-down-barriers-to-clean-energy-transition>
- 8 Not all MDBs issue a completion report upon project completion. Thus, the number of completed projects does not correspond exactly to the number of completion reports.
- 9 The final project is a development policy loan (DPL), so all the funds were immediately disbursed, and the project closed right before any investment took place. Therefore, the CTF was not able to verify the final results.
- 10 JOIN IEA/IRENA Policy and Measures Database. 2015. Moroccan Agency for Solar Energy “MASEN” (Law 57.09). IEA. <https://www.iea.org/policies/5521-moroccan-agency-for-solar-energy-masen-law-5709>
- 11 <https://www.iea.org/policies/5521-moroccan-agency-for-solar-energy-masen-law-5709>
- 12 Eastern Caribbean Countries include Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

THE CLIMATE INVESTMENT FUNDS

The Climate Investment Funds (CIF) is one of the largest multilateral climate funds in the world. It was established in 2008 to mobilize finance for low-carbon, climate-resilient development at scale in developing countries. Fifteen contributor countries have pledged over US\$11 billion to the funds. To date CIF committed capital has mobilized more than \$64 billion in additional financing, particularly from the private sector, over 70 countries. CIF's large-scale, low-cost, long-term financing lowers the risk and cost of climate financing. It tests new business models, builds track records in unproven markets, and boosts investor confidence to unlock additional sources of finance. Recognizing the urgency of CIF's mission, the G7 confirmed its commitment to provide up to \$2 billion in additional resources for CIF in 2021.



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