



## Meeting of the Clean Technology Fund Trust Fund Committee

Washington, D.C. (Hybrid)

**Wednesday, June 12, 2024**

**PROPOSAL FOR UPDATED CTF STRATEGIC MODALITIES**



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CTF/TFC.32/05  
June 4, 2024

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## PROPOSED DECISION

The Committee reviewed the document *CTF/TFC.32/05 Proposal for Updated CTF Strategic Modalities*, welcomed the detailed overview presented in the document, and took note of the robust discussion. The Committee approves the proposal to establish [transition/transformation] investment plans (TIPs) and the Enhanced DPSP Futures Window.

The Committee appreciates the efforts on the design and establishment of the Industry Decarbonization Program, and welcomes the option to develop Thematic TIPs as a vehicle for supporting industry decarbonization work under CTF. The Committee encourages the CIF Secretariat and the MDBs to collaborate to establish country selection criteria and a revised design document to facilitate the investment plan application process to start by the beginning of October 2024.

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# 1 Introduction

1. The Climate Investment Funds (CIF) has been at the leading edge of international climate finance since its establishment, helping developing countries build the bridges that they may cross to zero carbon futures. After sixteen years of operations, CIF has shown its added value as a large-scale climate finance learning laboratory undergirded by a robust programmatic approach that harnesses the potential of MDB collaboration, coordination, and competition for achieving transformational impact. The demand for climate finance to meet the growing needs of developing countries to address the climate crisis forces the CIF to continue to evolve its model and approach.
2. The Clean Technology Fund (CTF), with its objective to provide scaled-up financing to contribute to the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas (GHG) emission savings, is currently embarking on the next evolution in the CIF programming model. The CIF Capital Markets Mechanism (CCMM) will leverage CTF's high quality balance sheet to mobilize additional climate finance from capital markets by potentially USD 5-7.5 billion over the next 10 years. For this next evolution, CTF can build on the core CIF operating model, which combines (i) country-led investment plans (IPs) that strategically link investments and MDB support with a clear vision of each country's zero carbon development pathway, and (ii) flexible project programming that can rapidly deploy resources to support emerging needs or capture private sector opportunities.
3. This paper is a culmination of responses to two decisions the CTF Trust Fund Committee (TFC) took at its meetings in 2023 to determine new directions for the CTF. In November 2023, the TFC requested the CIF Secretariat to:

“prepare a detailed proposal for the use of future CCMM proceeds, applying the three modalities... of transition investment plans, flexible thematic programming, and CTF support to existing and future CIF programs, including the Industry Decarbonization Program.

“...consult with Committee members and observers to reflect the thoughtful contributions during the discussion and prepare a detailed proposal for the use of future CTF resources, applying the three modalities, for its consideration at its next meeting.”

4. The proposal presented in this document provides a comprehensive framework for programming intended to support the anticipated scale up of available financing in CTF through CCMM and helps define CTF's role in the new overall strategic direction for CIF. It also attempts to provide a compelling basis to attract additional CTF contributions to enable CTF to achieve the high ambitions outlined in the COP28 conclusions, G20 Triple Agenda, New Global Financing Pact, World Bank's Evolution Roadmap and comparable roadmaps/action plans of other MDBs, Bridgetown Initiative, and the IMF Resilience and Sustainability Trust. Evolved CTF modalities may also help improve recipient country access to climate finance at scale and align with ongoing efforts to strengthen collaboration among the multilateral climate funds (MCFs).

## 2 Impact of CCMM to CTF Resources

5. The establishment of CCMM will necessitate an evolution in how the CTF approaches operational financing. The current model of CTF is what can be called a cash-on-hand model, where funding decisions are made based on the availability of resources at the time of decisions. Resources can come from contributions to the CTF main account and the CTF parallel funds or the return of funds from cancelled projects, but the total envelope of available resources is static until additional resources are deposited in CTF. Regardless of their origin, funds are comingled and earmarked for use in IPs or thematic projects. When MDB funding requests are approved by the TFC, the CIF Trustee commits the full amount to the requesting MDB for disbursement following MDB board approval. The total volume of potential programming under this approach is determined by the amount of resources in CTF, and future reflows are not considered.
6. CCMM will enable an evolution in the allocation of CTF funds in the main account, because the ability to access capital markets will:
  - raise the ceiling of total available resources,
  - increase the frequency and predicability of new capital injection into the CTF through periodic bond issuances,
  - change the drivers for fundraising to be led by programming decisions and needs as compared to being driven by the funds available,

- link capital mobilization through bond issuance more directly to liquidity needs of the portfolio.
7. The amount available for supporting CTF operations will no longer be a fixed stock dependent on new contributions or cancelled projects. Instead, resource availability will be a more dynamic flow that can change over time to respond to programming needs, capital market conditions, and the overall performance of the CTF portfolio. The evolution of CTF with capital access via the CCMM will require a more holistic framework for programming from a portfolio risk management perspective, including explicit consideration of the ability of IPs or individual projects to generate reflows over time.
  8. Additionally, CCMM introduces a new consideration of time and how it applies to CTF operational financing. The liquidity pool to be established under CCMM will cover a minimum of 24 months of cash requirements for disbursements to CTF projects, payments to loan contributors and bondholders, and administrative costs. CCMM bonds will be issued when the liquidity pool is at risk of dipping below this threshold, though the exact timing of any issuance will be dependent on multiple factors and determined by the Treasury Manager. The unallocated amount of resources available in the CTF main account will no longer represent the potential amount of programmable resources because bond issuances can increase the amount of cash available to support programming.
  9. To fully embrace these changes, CTF stakeholders will need to shift their thinking about resource availability to one more dependent on time rather than cash. In simple terms, funding that can be allocated for CTF activities over a distinct time period (10 years for example) presents a more accurate programming picture than one based on the availability of resources from new contributions or cancelled resources. TFC members, MDBs, and CIF Secretariat will all benefit from new modalities that can accommodate this new approach.

### **3 Proposed CTF Modalities**

10. CCMM will help usher in a new phase of flexibility, predictability, scale, and efficiency for CTF. To take advantage of this new phase and to strengthen its ability to serve as a platform for amplifying the climate finance potential of MDBs, CTF needs a robust and simplified set of programming modalities. These new modalities can provide a clear, efficient, and flexible structure for countries and MDBs to pursue activities that respond to the myriad needs of developing recipient countries in achieving their NDCs, LTSs, and other national climate and

energy goals. Such an approach can marry the programmatic approach that is CIF's calling card with the useful experience of thematic focuses gained through CTF's work with the Dedicated Private Sector Program (DPSP). They would be supported by CCMM-generated resources, non-earmarked resources from the CTF parallel funds, and potentially new contributions.

11. CIF Secretariat proposes that CTF resources moving forward be programmed with two types of modalities: Transition Investment Plans and Enhanced DPSP Futures Window. The long and successful track record of these modalities shows that they can provide both clear structure, flexibility, and scale for the use of transformational concessional finance. They are also responsive enough to support future strategic directions still being developed by CIF and the MDBs to enhance CIF's ability to deliver impactful climate finance at scale.

### **3.1 CTF Investment Plans**

12. CTF Investment Plans should serve as the core vehicle to deliver the next stage of clean energy and technology programming for CIF. The November 2023 Strategic Modalities for Use of CTF Resources paper introduced the term "Transition Investment Plans" (TIPs) for new IPs, which has clear connections to international efforts in the energy space and seemed to receive general support from the TFC and MDBs. Another potential name is "Transformation Investment Plans", which potentially offers a more encompassing vision of what CTF investment plans can accomplish and may better integrate the work already done by CIF in the space of transformational change. The selection of one of these names will be an important aspect of introducing new CTF investment plans to the broader climate finance architecture, but for the purpose of this paper, new IPs will be referred to as TIPs.
13. As the core CTF strategic modality, TIPs would bring more flexibility to the programmatic approach, both in allowing recipient countries and MDBs to pursue investments that will help achieve climate goals across multiple thematic areas within the same plan, and in providing contributors opportunities to emphasize specific priority sectors of interest. This built-in flexibility may result in two types of TIPs:
  - Holistic TIPs that cover multiple thematic areas without a major emphasis on a specific sector; or
  - Thematic TIPs with a primary focus on one thematic area or start with a focus on a thematic area and expand to related sectors over time.

14. Holistic TIPs: TIPs could be designed around economy-wide (or region-wide) interventions to cover the most challenging aspects of moving to a zero carbon economy and build on existing efforts by enabling a country or a group of countries to pursue any CTF-eligible activities. A holistic programmatic approach for CTF could empower countries to tackle multiple aspects of their energy and climate transformations through a single overarching TIP that brings together the public and the private sectors and the MDBs to explicitly address overlapping and intersecting issues in different sectors and supports the fulfillment of their national climate and energy goals.
15. Potential activities may include historical areas of CTF intervention and emerging investment areas such as:
- Installation of new renewable energy generation;
  - investment in variable renewable energy integration (short and long-duration storage, demand responsiveness, transmission and interconnections, etc);
  - sustainable transport;
  - energy efficiency in industry and buildings;
  - replacement of fossil fuels and decarbonization of industry, transport, buildings, and agriculture with renewable electricity and/or green fuels (e.g., green hydrogen and its derivatives);
  - clean technology supply chains;
  - other CTF-eligible activities.
16. Thematic TIPs: While Holistic TIPs may become the primary option for accessing large-scale CTF resources in the future, there also may be situations where countries or MDBs prefer to focus on specific areas where they assess the need for concessional finance is the greatest. To account for this, CIF Secretariat proposes that the option for TIPs to develop specific thematic interventions be established. These thematic TIPs would become the channel through which activities defined by other CIF programs that currently lack sufficient resources could be supported. These TIPs could be thought of as an evolution of the thematic support CTF already provides through the Accelerating Coal Transition (ACT) and Renewable Energy Integration (REI) programs.
17. In the light of scarce public resources to address the climate crises, the holistic and thematic TIPs may also include measures to help recipient countries mobilize more private finance for climate priorities, both through the public sector and the private sector arms of the MDBs. The CTF could seek to leverage the ongoing evolution of MDB private sector toolkits,



or it could include a pre-defined dedicated private sector allocation that is set aside in order to incentivise countries to think more systematically how to engage early on with the private sector and mobilize private sector finance in the mid- to long-term. Overall, this will support mainstreaming private sector more holistically and as an integral part into TIPs.

18. In its deliberations in November 2023, the TFC took explicit note of the CIF Industry Decarbonization program, which has clear overlap with historical CTF programming and was established by the Joint CTF-SCF Trust Fund Committee as an official CIF program in 2020. The TFC asked CIF Secretariat to include recommendations for CTF support for the program. CTF governance does not technically allow for programs to be established under CTF, but CCMM-generated and CTF parallel fund resources are the best short-term option for providing an adequate level of capital needed to begin programming. Thematic TIPs could serve as a vehicle for doing the work envisioned under the CIF Industry Decarbonization program, including utilizing already-developed integrated results frameworks, while accommodating the current structure of CTF. Thematic TIPs would also be designed to provide enough flexibility to include related CTF-eligible activities that may not fully fit within the parameters of the original aims of the program. In addition, Thematic TIPs could extend ongoing activities in other CTF supported like Accelerating Coal Transition (ACT), Renewable Energy Integration (REI), or other CIF programs. For example, CTF could offer countries with existing ACT IPs an opportunity to transform them into broader and more flexible TIPs under specific conditions to be determined.
19. Building on CTF's successful track record of investing in middle-income countries (MICs), new TIPs present an opportunity to prepare investment plans in new countries, including CIF eligible LICs and LMICs, in accordance with the product mix eligibility in CIF's financial terms and conditions. To date, 15 countries were invited to prepare traditional CTF IPs, and an additional two have been invited to prepare ACT IPs (the original four ACT countries were already CTF countries). In appropriate cases, TIPs could propose a multi-country regional approach, which would allow the capture of synergies and economies of scale and has been previously pursued under CTF.

### **3.2 Enhanced DPSP Futures Window**

20. In addition to TIPs, countries could access CTF resources through the Enhanced DPSP Futures Window. CTF's experience with the DPSP has demonstrated that a thematic focus with flexible programming options through MDB systems can be a powerful way to pursue transformational investments beyond but complementary to IPs. The Futures Window has been the main vehicle for CTF programming over the past two years and provides MDBs

with a flexible structure that allows them to bring forward fast moving operations that can help mobilize significant private sector co-financing and participation. The flexibility and scope of the Futures Window make it an ideal vehicle to the next phase of CTF programming.

21. CIF Secretariat proposes the Futures Window become the sole window for MDBs to seek CTF support outside the scope of TIPs by integrating existing DPSP windows into one window that maintains the DPSP approach. This would include continuing to support operations in well-established thematic investment areas like renewable energy plus, energy efficiency, energy storage, sustainable transport, as well as emerging sectors like industry decarbonization, clean technology supply chains, and coal transition. While private sector operations would remain the primary focus of activities under the Futures Window, public sector operations that mobilize significant amounts of private sector co-financing would be eligible to receive funding.
22. CTF has had success with thematic interventions through the DPSP, including the Global Energy Storage Program, but not all MDBs have the same opportunities to develop deep pipelines in different thematic areas. To account for the different emerging opportunities that MDBs are pursuing, CIF Secretariat proposes that the MDBs can work with partner countries and other stakeholders like the private sector to identify new specific thematic areas of focus that they may pursue with their Enhanced Future Window resources.

## 4 Next Steps

23. At this time, CIF Secretariat is seeking approval of the programming modalities as described above. Should the TFC take a decision on these modalities, there are a number of steps that would follow to operationalize them:
  - First, CIF Secretariat, the MDBs, and the TFC would need to agree upon a new policy governing allocation of resources for the different modalities, taking into account portfolio risk management and impact outcomes. Following the receipt of signed Standard Provisions, signed Financial Procedures Agreements, and the final public credit rating, CCMM will launch and immediately free up a roughly USD 2.5 billion in newly available resources for CTF programming as part of the liquidity pool. Bond issuances over the next 10 years are estimated to increase the amount of CCMM-mobilized resources to USD 5-7.5 billion. CIF Secretariat recommends a conservative estimate of USD 5 billion in programmable resources from 2024 to 2034 be used to determine the allocation of resources between modalities.

- Second, based on CIF’s experience and lessons learned from ACT, REI, and the Nature, People, and Climate programs, CIF Secretariat will work with the MDB Committee to develop approaches that can improve the efficacy of the country selection process. This work would commence following a decision from the TFC to approve the establishment of new IPs in response to this document, with a goal of launching a call for new investment plans focused on industry decarbonization by October 2024.
- Third, following the decisions on this paper’s recommendations, CIF will work with the MDB Committee to identify specific next steps for integrating new modalities into ongoing work by the MDB Committee and the CIF Secretariat on defining CIF’s Strategic Direction. This work could potentially include updates to CIF processes and systems, monitoring and reporting frameworks, operational templates and guidance, and communications messaging reflecting the simplified programmatic structure. It will also involve a more fully developed approach to private capital mobilization.



## The Climate Investment Funds

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

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