

Danish support to Climate Investment Fund's Accelerating Coal Transition (ACT) Investment Program

Background and context

The Multilateral Development Banks' (MDBs) Climate Investment Fund (CIF) has, in recognition of the need to mobilize funds to accelerate the transition away from coal, in a joint process with donors established the ACT program through Clean Technology Fund (CTF) of CIF with an anticipated budget from a wide range of donors of approx. USD2 billion. ACT was launched at COP26, facilitated by the G7 coal-phase-out statement in June 2021, and aims to accelerate the phase-out of coal in selected countries.

With the Development Policy "the World We Share" as well as the Danish Government's long term strategy for the global climate area, Danish ambitions to support energy transition in developing countries and emerging economies take the center stage. In this light, and in the context of the strong case for phasing out of coal (see below), the Ministry of Climate, Energy and Utilities, MCEU, and the Danish MFA were during 2021 assessing options for support through the climate envelope to the phase out of coal. Currently, numerous Just Energy Transition (JET) partnerships tracks are emerging in the context of COP presidencies, G7, EU-AU etc. In the context of COP26, a South Africa JET deal emerged, involving financial support to the Government of South Africa from major donors, in return for an inclusive and just phase out of coal. In addition, MDBs have their individual programs within this field, e.g. Asian Development Banks, ADB, Energy Transition Mechanism. However, in order to facilitate cross-fertilization, synergies, and learning, as well as a global range of investments, support to CIF ACT is deemed to be the best option. Denmark pledged, during COP 26 in Glasgow, an immediate contribution of DKK100 million to ACT - planned for appropriation in 2022. Denmark has supported CIF throughout many years, and is currently participating in the finalization of the ACT program, in dialogue with other donors, and in direct interaction with CIF secretariat.

Coal-fired power accounts for about 30% of the projected global temperature rise, which makes coal the single largest contributor to climate change. Coal is, in many countries, considered the cheapest readily accessible energy source to rapidly electrify the nation, if externalities are not considered. However, more complete economic analysis shows that the share of uncompetitive coal plants worldwide is about 56 % in 2022 and expected to be 78 % in 2025.¹ The perception in countries with large coal assets is that coal is a valuable resource that should be exploited. Coal power production and extraction at source, is highly subsidized, and 99 percent of coal is priced at less than half its true cost². In addition, the vast majority (93 percent) of global coal-fired power plants are "locked-in" by long-term contracts, noncompetitive tariffs, and are thus insulated from competition from renewables.

The global coal industry still employs around 7 million people worldwide, mostly concentrated in countries with large reserves such as China, India, Indonesia, and Russia³, but in many countries the size of the industry is rapidly declining. In contrast, employment in the renewable energy industry was an estimated

¹ "How to Retire Early: Making Accelerated Coal Phase out Feasible and Just", Rocky Mountain Institute, 2020

² <https://e360.yale.edu/digest/fossil-fuels-received-5-9-trillion-in-subsidies-in-2020-report-finds>

³ Pai, Sandeep, et al. "Solar has greater techno-economic resource suitability than wind for replacing coal mining jobs." Environmental Research Letters Vol. 15, No. 3. 2020.

7.3 million in 2012 and this had increased to approximately 12 million people by 2020.⁴ The importance of decent jobs is crucial and requires ambitious policy support and investments in a future-oriented climate-safe, and just energy transition pathway.

The large impact in the form of climate change and associated impacts on health and environment of coal exploitation have led to an international consensus that it is time to accelerate the transition away from coal and increase the deployment of renewable energy. This is underlined by the latest Intergovernmental Panel on Climate Change, IPCC, report⁵ from April 2022, which states: “Unless there are immediate and deep emissions reductions across all sectors, 1.5°C is beyond reach”. During COP26 more than 40 countries pledged to phase out coal in richer countries by the 2030’s and in poorer countries by the 2040’s.

In the spring of 2021, developing countries were invited to submit an expression of interests (Eoi) to participate in the ACT’s Investment Program. The EOIs were evaluated by an Independent Expert Group (IEG) and ranked according to the criteria established by the CIF. Fourteen countries pre-qualified and South Africa, India, Indonesia and the Philippines were selected as first and main recipients of ACT funding, being some of the world’s most coal dependent developing countries.

South Africa accounts for more than 90% of the coal production and 85% of the coal fired electricity capacity in the African continent. The energy sector is dominated by coal, which is used for more than 85% of power generation and more than 70% of the total energy supply. South Africa ranks 7th in the world of coal consumption, accounting for about 2.4% of the world's total consumption.⁶ In **India**, coal accounted for 74% of India’s electric generation and holds about 9% of the world's total coal reserves. India ranks 2nd in the world for coal consumption, accounting for about 11.3%. **Indonesia’s** grid-based installed power generation is 60% coal based and ranks 12th in the world for coal consumption, accounting for about 1.2% of the world's total consumption. In the **Philippines** 36% of its power production is from coal and ranks 28th in the world for coal consumption, accounting for about 0.3% of the world's total consumption.⁷

In these countries, the political economy of the coal industry is a major barrier for change. The phase-out of coal is often met with strong opposition from various vested interests within and outside governments. This includes ministries responsible for (coal)power generation, the private and/or state owned coal industry, and the unions who may all want to maintain status quo. Other stakeholders, such as the renewable energy industry and climate advocates may argue ambitious climate goals and policies through the phase out of coal.

To help address the widely shared fear that the phasing out of coal will lead to the loss of employment (fossil jobs) Just Energy Transition (JET) Partnerships are underway in various forms in these countries as mentioned above. The current German G7 presidency is facilitating G7-lead dialogues on JET, and the countries themselves are also engaging, for instance the Indonesian G20 presidency has the topic on its agenda. The CIF ACT will be one of several pushes for a Just energy transition in the countries. In Indonesia and Philippines, it will be ADB who will implement ACT; In India it will be World Bank who implements; and in South Africa it will be World Bank and the African Development Bank.

⁴ <https://www.irena.org/publications/2021/Oct/Renewable-Energy-and-Jobs-Annual-Review-2021>

⁵ https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_PressConferenceSlides.pdf

⁶ <http://www.energy.gov.za/files/media/explained/South-African-Coal-Sector-Report.pdf>

⁷ <https://www.worldometers.info/coal/>

Rationale and justification

Accounting for 30% of projected global temperature rise makes coal the single largest man-made contributor to climate change. To keep the Paris Agreement's temperature targets within reach, global coal use must decline by 80% below 2010 levels by 2030⁸. This requires an accelerated transition away from coal.

CIF-ACT will support countries that are eligible for ODA, that have coal based electricity of more than 4 TWh per year and more than 10% of total electricity generation, a coal production of more than 4,000 Mt per year, and that have an active lending program with one of CIF's partner MDBs. In other words, large emitters and leading coal producers and consumers. The countries selected for the first phase of support, South Africa, India, Philippines, and Indonesia, together account for almost 15% of the total world coal consumption⁹.

Replacing uncompetitive coal with clean energy could save electricity customers around the world USD73 billion in 2022 and as much as USD136 billion in 2025.¹⁰ The *theoretical* net cost to society of completing the coal-to-clean-energy transition would drop close to zero this year, and would generate net financial savings of over USD107 billion by 2025. Savings that could be captured to support a Just Energy Transition for coal industry workers and communities. These figures do not account for the social and environmental benefits of reducing carbon dioxide and other coal pollutants¹¹. However, as mentioned amongst the risks, the world is currently experiencing rising prices on raw materials for renewable energy technology, which may change the business case of renewables vs. fossil fuels.

The ACT program has been developed to mobilize funds and bring about the transition from coal to clean energy in developing countries and emerging economies. This would be a major contribution to meeting the objectives of the Paris Agreement, which is a high priority of Denmark. ACT also incorporates an approach and a set of principles similar to those of Danish development approach and objectives as set out in "the World We Share" and "A Green and Sustainable World". This approach and these objectives include the fight against poverty and inequality and promotion of democracy, sustainable development, peace and stability, which are integral parts of the mission and operating principles of all MDBs and are included in the purposes and objectives of ACT. Moreover, the How to notes on Energy & Emission Reductions (priority theme 1) and on Job Creation & Sustainable Growth clearly underlines the need for an inclusive and just energy transition and specifically the phasing out of coal. ACT commits to the principles of a Just Energy Transition, which incorporates the diverse perspectives and concerns of affected people and considers the distributional impacts of change. This captures the core elements of the Human Rights Based Approach, also a key Danish development cooperation approach.

⁸ <https://climateanalytics.org/briefings/coal-phase-out/>

⁹ <https://www.worldometers.info/about/>

¹⁰ *How to Retire Early: Making Accelerated Coal Phaseout Feasible and Just*, Rocky Mountain Institute, 2020

¹¹ *How to Retire Early: Making Accelerated Coal Phaseout Feasible and Just*, Rocky Mountain Institute, 2020

Box 1: World Bank Just Transition Approach, extracts of:
<https://www.worldbank.org/en/topic/extractiveindustries/justtransition>

Transitioning countries away from coal—the world's most dominant and most carbon-intensive source of energy—is crucial to ensuring a clean energy future. A well-managed retirement of coal power plants and a massive scale-up in clean energy are essential to achieving the Sustainable Development Goals and the targets of the Paris Agreement. A "Just Transition for All" initiative puts people and communities at the center of the transition. The initiative works with stakeholders to create the plans, policies, and reforms needed to mitigate environmental impacts, support impacted people, and build a new clean energy future.

The World Bank has built an approach based on lessons learned from decades of transition experience. We help national, regional, and local authorities worldwide develop clear roadmaps focusing on governance structures, the welfare of people and communities, and the remediation and repurposing of former mining lands and coal-fired power plants. Our approach, and the lessons that guided it, are organized around three focus areas: 1) governance, 2) people and communities, and 3) repurposing of former mining land and other assets. Each focus area involves a set of plans, policies, and actions that together can mitigate the impact of coal mine closure on affected people and communities. Active stakeholder engagement at each phase of transition and within each focus area is crucial. With proper planning and strong private sector engagement, a Just Transition for All can help coal regions build a new, low-carbon economic future.

As a member of the CIF Clean Technology Fund (CTF) trust fund committee, Denmark will be able to influence the overall strategic direction of major demonstration investments in an international transition from coal to clean energy, and thereby strengthen the implementation of the Paris Agreement and contribute to achieving SDG7. Denmark's active engagement with the MDBs, most notably World Bank's ESMAP program, and Africa Development Bank's SEFA trust fund, as well as Denmark's active engagement in the executive board offices is a very good platform to advance ACT and vice versa. Denmark's cooperation with governments and MDBs in three of ACT's initial target countries (South Africa, India and Indonesia) through the embassies and energy sector cooperation will help shape the investment plans to be presented for the CTF CIF. In addition, Denmark will be able to contribute to a process, through ACT, that makes use of Denmark's knowledge and experience on renewable energy, and make it available for planners and implementers of innovative large-scale investment programs replacing coal assets with clean alternatives.

In three of the four selected ACT countries, Denmark is already a major contributor to the green energy transition and to developing both regulatory reforms and technical capacity amongst others to expand and integrate variable renewable energy into the grid. This assistance is being delivered through the Danish Energy Agency's strategic sector cooperation, disseminating Danish expertise and successful experience of making the transition to clean energy. Building on the existing bilateral cooperation, Denmark can develop powerful and synergistic interactions between the bilateral and multilateral Danish efforts to accelerate clean energy investments in these countries. Also, in a joint process with the MDBs, Denmark will be well positioned to undertake a stronger climate diplomacy dialogue in the countries and facilitate the integration of ACT into the countries' wider renewable energy agenda.

Denmark's contribution of DKK100 million will constitute around 0.75% of the anticipated total value of ACT of USD 2 billion. Although this is a small fraction of the total funds, it contributes to leveraging funds in the magnitude of USD5-8 billion for investment in renewable energy in the relevant countries. As such a substantial leverage factor and influence with a small "price tag".

The leveraging of green private sector/finance is expected to materialize as countries publicly commit to an expedited closure or repurposing of existing coal capacity, and thus send an important and powerful

market signal to private investors, while creating a range of investment opportunities e.g. 1) The reduction in coal generation will need to be replaced by a rapid and predictable expansion of clean and renewable energy, creating significant investment opportunities; 2) coal plant site repurposing may provide significant opportunity for the private sector including development of solar/wind, battery, heat or air pressure storage facilities. 3) Restructured utilities, that are moving from their current, expensive, unsustainable and high-cost of capital coal posture to a more efficient, predictable and reliable lower-carbon holdings, may be attractive to investors. A variety of finance models are identified by CIF and the MDBs, ranging from public-private blended finance vehicles, to project finance, and to finance through the decarbonizing market.

Strategic objective

CIF's strategic objective is that:

Accelerated transformational change toward net-zero emissions and inclusive, climate-resilient development pathways

ACT specific objective is to:

Accelerate transition from coal-powered to clean energy while supporting socio-economic goals and environmental remediation

Theory of change and key assumptions

If ACT addresses finance gaps related to the successful implementation of country-level energy transition/coal phase out strategies and associated kick-start projects; and *if* it builds support at the local and regional levels to reconsider the development of new coal plants; and *if* it supports policy and investment activity in economic regeneration, social and educational plans, that facilitates economic support for affected employees and communities; *then* national governments, public sector utilities and private sector operators will act to accelerate the retirement of existing coal assets and their replacement with new sources of renewable energy while ensuring a holistic, integrated, socially inclusive and gender equitable Just Transition away from coal.

Key assumptions: The results chain may differ based on specific country contexts and may be different for individual projects. The client country exhibits and exercises commitments to accepted environmental and social protection objectives. International commitments to climate change mitigation, as well as national targets for clean energy, continue to drive country-level action. There is availability of local and/or international investment potential for clean energy in developing markets. Clean energy technologies continue to be increasingly competitive against fossil-fuel alternatives, and the viability of renewable energy generation, storage, and EE buildings is demonstrated

Short summary of program content

ACT is a new investment program purposely designed to enable selected countries to finance economically and environmentally beneficial investment plans that will phase-out coal, while tackling challenges linked to policies/strategies, people and communities, as well as to land and infrastructure. The program will address funding gaps in the implementation of country-level strategies and associated kick-start of coal phase-out projects; building support at the local and regional levels; and accelerate the retirement of existing coal assets (coal mines and coal power plants) together with enabling new economic activities for those impacted by the transition.

Based on this, the ACT program is committed to undertake projects through MDBs that: i) Support governments in developing countries meet their climate priorities; ii) Leverage additional investments

from governments, financial institutions, and the private sector; iii) Actively support the achievement of global sustainability and climate change goals, including the SDGs; iv) Achieve significant savings in greenhouse gas emissions and reduce air pollution from coal-based generation; v) Create alternative economic regeneration opportunities for those impacted most by the transition; vi) Offer benefits in areas like renewable energy, energy efficiency, and the preservation of biodiversity on existing coal sites.

The ACT program is anticipated to prepare demonstration projects, yielding useful lessons that will inform energy transition strategies in the participating countries as well as globally. The program aims at ensuring a holistic, integrated, socially inclusive and gender equitable Just Transition approach. This will be implemented through specific activities co-financed with MDBs' own resources, and leveraged private finance, in three pillars described and illustrated below:

Pillar 1: Governance (anticipated 5% of ACT funds): Developing technical and institutional capacities and help governments develop transformation strategies and policies, and economic and social development plans, among other activities. Expected overall outcomes are:

- Countries adopt and implement policies and strategies for coal-to-clean transition
- Increased government and public readiness and appetite to reduce coal dependence

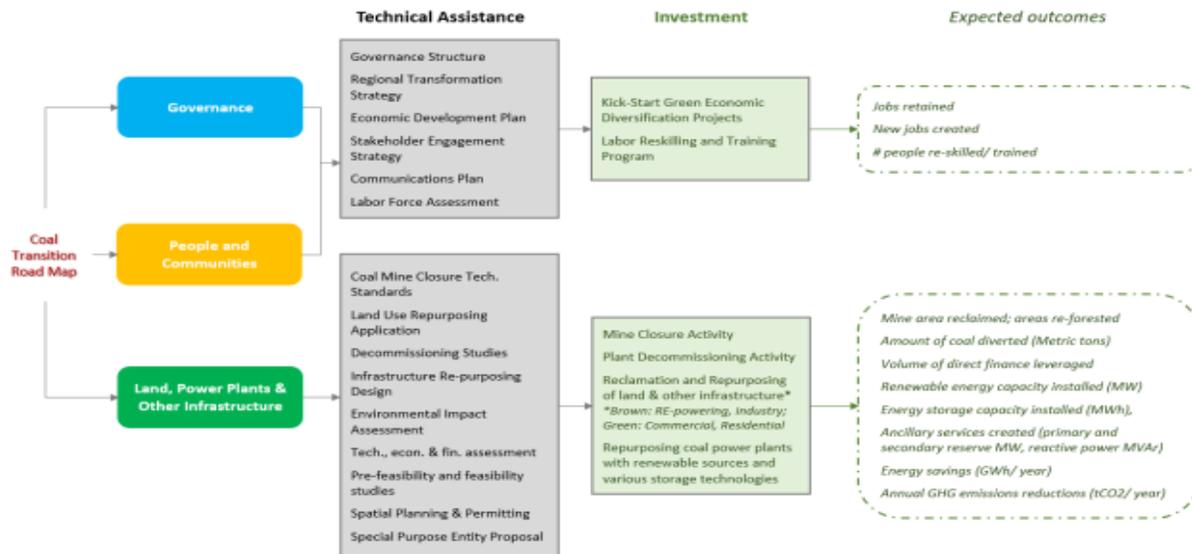
Pillar 2: People and communities (anticipated 25% of ACT funds): Supporting socio-economic measures to minimize the impacts of transition on people and communities including a focus on upskilling and re-skilling to help people retain jobs where feasible and prepare for new jobs, align with the COP24 declaration on Just Transition. Investment funding will also be made available for supporting green economic diversification projects. Expected overall outcomes are:

- Sources of income created for affected employees through job retention or job creation
- Affected employees/communities equipped with relevant skills for jobs of the future

Pillar 3: Land and infrastructure (anticipated 70% of ACT funds): Reclaiming and repurposing the existing infrastructure, including coal mines, coal-fired power plants and land. Expected overall outcomes are:

- GHG emissions reduced
- Private sector finance mobilized
- Countries transition to cleaner energy sources

Projects proposed for financing should meet the following characteristics: a) Potential for transformational change; b) Potential for GHG emissions reduction/avoidance; c) Financial effectiveness; d) Implementation potential; e) Potential to significantly contribute towards a holistic, integrated, socially inclusive and gender equal Just Transition away from coal, and; f) Development impact potential. It should be noted that ACT is committed not to support re-powering coal-fired power plants with gas or other fossil fuels.



Relevant projects will be developed and implemented by the countries and the MDBs in consultation with relevant key stakeholders involved in the transition planning process. MDBs will follow the local legislation along with their own environmental and social safeguards to manage cross-cutting issues and risks. These include human rights-based approaches, leaving no one behind and gender inclusion.

The anticipated budget for the first phase of ACT is USD2 billion committed from the Canada, United Kingdom, Germany and the United States of America. The ACT funds will be offered at significant scale with a focus on high impact interventions to demonstrate innovative solutions - instruments, technologies and business models. The funds will be offered as concessional funding (level of concessionality not specified, depending on context), including grants, equity, guarantees, and loans, amongst others, to support related activities associated with the transition away from coal. To maximize the impact of the ACT's concessional resources, they must be implemented alongside/co-financed by MDBs' own resources, anticipated as ACT:MDB financing ratio of 1:2.67 and with additional co-financing from other public and/or private entities. Hence the total leverage of funds is anticipated to be more than USD5.34 billion.

Due to the significant scale of funding offered to high impact countries, the already existing CIF country ceiling criteria determined in CTF (i.e. that no one country receives more than approximately 15% of the CTF resources) will not apply to ACT. Such large-scale resources, focused on a limited set of countries, can positively contribute to actual transformational change, and moreover through demonstration and replication potential of underlying activities inform energy transition strategies of both developed and developing countries.

ACT funds will be approved, in the form of investment plans and projects, by the CIF CTF committee, before they subsequently move forward to MDB board approval and implementation.

Countries selected under ACT to develop Country Investment Plans can receive up to USD1 million each in preparation grants to enable them to take leadership roles in working with the MDBs. The MDBs will likewise receive support to the implementing MDBs' costs (see below) related to investment plan preparation, monitoring and reporting, in-country stakeholder engagement during investment plan implementation, gender mainstreaming, and the development of regional or country knowledge products or south-to-south learning activities. Activities will be implemented and coordinated by the MDB focal

point teams with the target country governments, in response to demand from the relevant countries. MDBs additional costs to staff, consultant, travel, and related costs of project development, appraisal, implementation support, supervision, and reporting can likewise be covered. While ACT operations are largely integrated into MDBs' own operations there will also be additional costs to the MDBs for staff, due diligence, and reporting.

Inputs/budgets

The overall detailed budget for ACT is not available at this stage, and can in earnest only be established when all the donor contributions have been formalized and the Country Investment Plans are in place and projects are prioritized. A first version is expected to be tabled in June 2022.

For the first year (FY22), CTF has a budget for ACT of USD 721,200 in administration distributed with USD155,000 for CIF ACT's own administration and about USD100,000 per MDB. Below table 2 illustrates this in the supplementary budget approved in January 2022, covering both ACT and another program, REI of the SCF trust fund. In addition, USD 400,000 is budgeted for country engagements (i.e. investment plan preparation, see above) for the same two CTF and SCF programs during FY22, see table 3. Finally, the countries can receive up to USD 1 mill for their participation in the preparation – as mentioned above.

Table 2: FY22 Supplemental Administrative Services Budget for ACT and REI (USD '000)

MBD	CTF	SCF	Total
Total	721.2	926.8	1,648.0
CIF Administrative Unit	155.0	190.5	345.5
MDBs	566.2	604.3	1,170.5
<i>Of which –</i>			
ADB	103.6	91.0	194.6
AfDB	118.0	64.0	182.0
EBRD	132.0	193.9	325.9
IDB Group	52.8	122.5	175.3
IBRD	100.0	100.0	200.0
IFC	59.8	32.9	92.7
Trustee	-	132.0	132.0

Table 3: FY22 Country Engagement Budget for ACT and REI (USD '000)

MBD	CTF	SCF	Total
Total	400.0	806.2	1,206.2
ADB	100.0	150.0	250.0
AfDB	80.0	100.0	180.0
EBRD	-	115.0	115.0
IDB	-	276.2	276.2
IBRD	220.0	165.0	385.0
IFC	-	-	-

Choice of implementing partner and aid modalities

The Climate Investment Funds (CIF) is one of the global climate finance mechanisms. Founded in 2008, it represented one of the first efforts to establish a dedicated climate finance vehicle, at a point in time when the Green Climate Fund had not been formally decided and did not exist. The CIF emerged from the recognition that climate change and development are inextricably intertwined. The CIF's creation also recognized a need to fill a gap in the international climate finance architecture. Denmark joined the CIF nearly from the onset. Originally, CIF was scheduled to expire by the time the Green Climate Fund was established, however, it was later decided to maintain the existence of CIF. Denmark has contributed in total 58.6 mill USD to CIF. Currently, Denmark contributes actively to a Technical Assistance mechanism of CIF.

Australia, Canada, France, Germany, Italy, Japan, Korea, Netherlands, Norway, Spain, Sweden, Switzerland, UK and US are donors to CIF. CIF consists of two major trust funds, the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). CTF supports renewable energy, low carbon technologies, energy efficiency, and clean transport in middle-income countries. SCF finances new approaches or scales up activities through the Forest Investment Program, the Pilot Program for Climate Resilience and the Scaling Up Renewable Energy in low-income countries. ACT has been placed in the CTF.

CIF Program resources are in general channeled through the Multilateral Development Banks (MDBs) that work with national governments, private sector project sponsors, financial institutions, development partners, and other stakeholders. The African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank Group (IDB), World Bank Group, including the International Finance Corporation (IFC) – are the five implementing agencies. The MDBs also help prepare country-led investment plans.

CIF provides highly competitive financing that reduces risk for investors, and facilitates lowering barriers to piloting new technologies, scaling up proven solutions, opening up sustainable markets, and mobilizing private sector capital for climate action. The expectation is that by rallying stakeholders behind increasingly ambitious climate goals and complementary action, CIF will be able to draw in diverse partners who might otherwise be deterred from investing alone.

All donor contributions to ACT from development partners will be channeled through the CTF. Denmark has so far been a contributor to CIF's SCF Trust Fund. Denmark's membership of the CTF trust fund committee, will be formalized once the Danish contribution for the ACT program has been formally approved. The process has already been initiated, and it is expected that Denmark will share a seat with one of the existing members of the CTF TFC.

The implementing partners of ACT are the relevant government bodies in the eligible partner countries supported by the 5 MDBs. For each intervention the relevant MDB's preparation and implementation modality will apply, and implementation will be governed by their safeguards. In addition, an extra layer of management supervision will be provided by ACT, who will work to ensure that state of the art approaches to inclusion, gender, Just Transition etc. and monitoring are applied and reported to the donor partners.

Poverty orientation and target group considerations

Addressing climate change and achieving the Sustainable Development Goals require systems change that will impact different segments of society in diverse ways. Consideration of the potential positive and negative impacts to various target groups of the transition to low-carbon and climate resilient economies, as well as the underlying causes of inequality, exclusion and injustice, is needed to develop strategies for the mitigation of losses and the distribution of gains in the transition. This is in line with the how to notes on energy, on job-creation, and on poverty etc.

ACT is committed through CIF to ensure that target groups affected by these changes, particularly vulnerable and marginalized groups in the targeted areas, will be included and empowered in the decision-making processes that will affect their lives. ACT is committed, through the implementing MDBs¹², to support a Just Transition through socially inclusive processes that seek to identify and address

¹² <https://www.adb.org/sites/default/files/related/241521/Statement-MDBs-Just-Transition-High-Level-Principles.pdf>

the distributional impacts of the transition for coal industry workers and communities. This should include consideration of the potential positive and negative impacts of the transition to low-carbon and climate resilient economies, as well as the underlying causes of inequality, exclusion and injustice, needed to develop strategies for the mitigation of losses and the distribution of gains in the transition¹³. In many cases, this will mean strategic investments at local level in re-skilling and private sector-lead initiatives with a special emphasis on the creation of green jobs, income generating activities and inclusive growth in communities affected by the phasing out of coal. If this is not adequately addressed, it can lead to popular and political resistance at local and national level against the CIF-investments and objectives.

The impacts of climate change, and the vulnerability of poor communities to climate change, vary greatly, but generally, the adverse consequences of climate change are superimposed on existing vulnerabilities. Climate change will further reduce access to drinking water, negatively affect the health of poor people, and will pose a real threat to food security in many countries in Africa, Asia, and Latin America. The Intergovernmental Panel on Climate Change (IPCC) Fourth National Climate Assessment Report found that low-income individuals and communities are more exposed to environmental hazards and pollution and have a harder time recovering from the impacts of climate change. For example, it takes longer for low-income communities to be rebuilt after natural disasters. According to the UNDP, developing countries suffer 99% of the casualties attributable to climate change. An effort, such as ACT, will address climate change through the phase out of coal, which will reduce emissions and contribute positively to achievement of the temperature goal and mitigation climate change. ACT may also create more resilient societies, including societies that are better equipped to adapt to climate change.

The Just Transition part of phase-out of coal is key to ensure that people are not moved into poverty. Coal industry workers, such as miners may have specialized industry-specific skills and/or depend on being located near such facilities and their poverty may be amplified if they lose their jobs. In supporting a Just Transition, ACT is, in line with “The World We Share”, committed to identify poor and isolated groups and will support socio-economic measures to minimize the impacts of transition on people and communities. This includes a focus on upskilling and re-skilling to help people retain their employment opportunities where feasible and prepare for new and decent jobs that benefit everyone and creates an opportunity for private sector development in local communities.

To ensure ACT delivers on its gender and social inclusion commitments, each program/project proposed for ACT funding will be required to articulate the process used to identify, evaluate, and address causes of vulnerability for women and excluded groups, and existing context-specific barriers and gaps in gender equality and social inclusion with the aim of reducing these gaps and improving gender and social inclusion outcomes on the ground. Canada, as a donor to ACT, is likely to add an exceptional dedicated envelope on gender and equality to be implemented as part of the ACT. This is positive and in line with Canada’s feminist development policy, but not considered a necessity or a compensation for poor gender integration in ACT.

Overall considerations relating to the organizational set-up

The ACT program has been established under the CTF within the current CIF governance structure established in 2008. The governance arrangement of the CIF trust funds includes equal representation of donor and recipient countries, consensus decision making, and active observer status for private sector,

¹³ <https://www.oecd.org/env/cc/2502872.pdf>

civil society, and indigenous peoples' representatives. The CIF governance structure is planned to be revised in 2022, however it will not fundamentally deviate from above democratic structures.

The CTF is governed by a Trust Fund Committee that oversees and decides on strategic direction, operations and other activities, as well as the policies that drive those activities. In effect the CTF Trust Fund Committee is responsible for:¹⁴ i) approving programming and pipeline priorities, operational criteria, and financing modalities; ii) ensuring that the strategic orientation of the program is guided by the principles of the UNFCCC; iii) endorsing further development of activities in investment plans for financing; iv) approving allocation of resources for programs and projects; v) approving allocation of resources for administrative budgets; vi) providing guidance on the convening of key CIF Forums; vii) ensuring monitoring and periodic independent evaluation of performance and financial accountability of the MDBs; viii) approving annual reports of the CTF; ix) ensuring that annual reports and evaluations, including lessons learned, are transmitted to the UNFCCC; x) reviewing reports from the Trustee on the financial status of the CTF, including ACT, and; xi) exercising such other functions as the CTF Trust Fund Committee may deem appropriate to fulfill the purposes of the ACT investment program.

Denmark will, by contributing to ACT, become a formal member of the CTF Trust Fund Committee and will be able to influence the ACT implementation with regard to the overall strategic direction, while the influence on the design and implementation of the actual investment plans is likely to materialize at country level. The CTF has no requirements for a minimum contribution, and all members have an equal voice in decision making. In the preparation of this CIF ACT contribution a task force involving the three key embassies, the Ministry of Climate, Energy and Utilities (MCEU) and Ministry of Foreign Affairs (MFA) has been established. It will be useful to continue this set up for a successful DK coordination and influence on the ACT design and implementation, as well as stay in close contact with the MFA MDB team and colleagues.

The implementing MDBs each have an ACT focal point that coordinates ACT financing within their organizations and provides guidance to task team leaders in implementing ACT projects and programs. Each MDB determines (with the countries), in accordance with its own internal processes, when to submit a proposal to the CTF Trust Fund Committee for approval. The proposals will be put for CIF approval before the internal MDB appraisal and negotiations of the lending terms.

The monitoring and reporting of the results of each program will be carried out by each MDB's own monitoring and reporting system and submitted to CIF. Based on this, CIF will scrutinize the results and prepare a summary report to the CTF Trust Fund Committee that compares results between countries in a format that directly relates to the CIF results framework. This shall ensure accountability, learning, progress, and results in advancing phase-out of coal across countries. Furthermore, CIF has a well-functioning evaluation unit.

Major risks and risk response

MDBs and CIF each have detailed management tools to manage risks. CIF's risk management system requires that activities be monitored against the CTF Risk Appetite Statement determined by the CTF Trust Fund Committee. Specific focus will be on risks which could affect the ACT strategy and ability to meet its objectives, as well as risks which could damage the program's reputation. CIF's appetite or tolerance for a given risk and the level of risk to which the program is exposed, is determined based on the product of the risk's likelihood and severity – similar to the Danida risk management system.

¹⁴ [Governance framework for the Clean Technology Fund \(CTF\)](#)

Risk exposures will be determined as part of the development of each investment plan and may include credit risk, currency risk, resource availability risk, implementation risk, fraud risk, risk of sexual exploitation and abuse, and the risk of external events. Each risk will be assessed relative to its corresponding risk appetite and reported to CTF periodically via an ACT-specific risk report.

The ACT program document discusses a number of primary programmatic risks, i.e. that the desired results will not be achieved, are generally related to capacity constraints at country level and willingness and ability to absorb support. Another risk is that country conditions and capacity, including political and social instability, may delay specific project implementation. Institutional risk of significance may arise from retiring and re-purposing of existing assets when powerful industries oppose project plans.

It should be noted, however, that the current iteration of the document does not attempt to identify or analyze individual risks specific to the countries themselves. It is stated that these will be identified in the MDBs' program documents.

At this stage risks that may become relevant include:

- Severe fluctuations in global energy markets due to the current war in Ukraine
- Current and potential new emerging challenges in relation to COVID-19
- Risks related to the political economy around the use of coal, including the local resistance to energy transition and disruption of status quo, particularly in South Africa and in India. If the Just Transition component is not adequately timed and managed, there is a risk, of popular and political resistance at local, regional and national level, if the CIF-investments are perceived as detrimental to the livelihoods of local communities depending on the production of and use of fossil fuel

These risks are to some extent mitigated by careful attention in the ACT program design.

To reduce risks of particular Danish concern, it is essential for Denmark to actively participate at country level in design and implementation of investment plans, and in the trust fund committee and more specifically in determining risk appetite for a given project/plan for approval. In countries where Denmark has specific energy sector knowledge from its bilateral engagement, Denmark maybe in a good position to influence the ACT priorities in the country and help identify and manage such risk.

Annex: Process Action Plan

Formulation of support to Climate Investment Funds, ACCELERATING COAL TRANSITION INVESTMENT PROGRAM

Version of 13. March, 2022

Action/product	Deadlines	Responsible/involved units	Comment/status
Identification			
Draft Identification note ready for discussion w. task force	4. March, 2022	Consultant	Follows AMG template
Formulation, quality assurance and approval			
Draft Presentation to the program committee ready for discussion w. task force	30. March 2022	Consultant	Follows AMG template
Meeting in task forces to discuss Presentation to the Program Committee with response to draft	Week 12	GDK	
Final Presentation to the Program Committee ready, responding to comments	Earlier than 6 April, 2022	Consultant	
Request for appraisal forwarded to ELQ	Done in VPA	GDK	Draft TOR for appraisal, revised draft PAP and Draft Program Document and associated partner documentation to be gathered/delivered.
Forward early draft of presentation to the Program Committee to ELQ for public consultation	11 April, 2022	GDK and ELQ	To be presented in Program Committee meeting on 28. April
Meeting in Danida Program Committee	2 May, 2022	ELQ and GDK	Public consultation in advance, we will receive responses from the consultation
Drafting Project document w. annexes	April -- May	Consultant	Summary conclusions from the Program Committee taken into account. Follow modified template for Program Document (incl. Annex 1) according to this PAP.
Draft Project Document ready for comments by Task Force	20 May, 2022	Consultant	
Meeting in Task Force to discuss and make comments to Draft Project Document	Week 21	GDK	

Project Document ready for Appraisal responding to comments from Task Force	1 June, 2022	Consultant	
Quality assurance: Appraisal	June	ELQ	
Draft Appraisal Report, including summary of conclusions and recommendations	June/July	ELQ	
Final appraisal report integrating comments from responsible unit and partner	July	ELQ	
Preparation of Final Project Document, responding to comments from Appraisal	August, 2022	Consultant	
Final Project Document, annexes and appropriation cover note forwarded to ELQ	5/9 (confirmation of agenda item 11/8)	GDK	
Presentation to the Council for Development Policy	22/9	GDK	
The minister approves the project		ELQ submits the proposed project/program together with the minutes of meeting	After Council for Development Policy meeting
Document for Finance Committee (Aktstykke) and presentation to the Parliamentary Finance Committee, if applicable	After the Minister's approval		
Initial actions following the Minister's approval			
ELQ facilitates that grant proposals are published on Danida Transparency after the Minister's approval		ELQ	
Signing of Government-to-government agreement(s) and/or other legally binding agreements (commitments) with partner(s)	After the Minister's approval	Responsible unit	
Register commitment(s) in MFA's financial systems within the planned quarter	After agreement(s) are signed	Responsible unit	