CIF/DM.2/2
April 3, 2008

Design Meeting on Climate Investment Funds
Washington, D.C.
April 14-15, 2008

PROPOSAL FOR A CLEAN TECHNOLOGY FUND

Background to Proposal to establish a Clean Technology Trust Fund

1. A consensus is growing that moderating and managing climate change is central to every aspect of poverty reduction, economic growth and development. Climate change can be addressed through multilateral action involving policy incentives and deployment on a global scale of clean technologies in a number of sectors. Dynamic growth in demand for energy in power, transport, building and industrial sectors in developing countries in the next 10-15 years provides a finite window of opportunity to demonstrate and invest in ways that provide energy services and other infrastructure services, reduce emissions, and prevent irreversible climate change. There is a gap in the international ODA architecture for finance to developing countries at more concessional rates than standard MDB terms and at the scale necessary to help provide them incentives to integrate low-carbon strategies into sustainable development plans and investment decisions.

2. The UN Framework Convention on Climate Change (UNFCCC) recognizes the need for financial resources to be provided to developing countries to assist them in meeting the costs of mitigation and adaptation measures to respond to the challenge of climate change. Pursuant to article 11 of the UNFCCC, the GEF has been designated as the financial mechanism of the Convention. GEF, under its mandate in the climate change area, pilots and demonstrates:

- (a) innovative technologies,
- (b) barrier removal to transform markets, and
- (c) capacity building, in particular the creation of an enabling environment, including establishment of codes, norms and standards.

3. In addition to the financial mechanism defined under article 11 of the UNFCCC, paragraph 11(5) stipulates that "developed country parties may also provide and developing country Parties avail themselves of, financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels".

4. Article 4(1)(c) of the UNFCCC provides for all parties to promote and cooperate in the development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases not controlled by the Montreal Protocol in all relevant sectors, including the energy, transport, industry, agriculture, forestry and waste management sectors.

5. Article 4(7) of the UNFCCC recognizes that "the extent to which developing country parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer to technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing countries."

6. Under the Bali Action Plan that was adopted by the thirteenth session of the UNFCCC Conference of the Parties, Parties decided to launch "a comprehensive process to enable the full, effective and sustained implementation of the Convention through long-term cooperative action, now, up to and beyond 2012."

7. Under Paragraph 1 of Bali Action Plan, Parties decided to address, *inter alia*:

(a) Enhanced national/international action on mitigation of climate change, including inter alia, consideration of;
(b) nationally appropriate mitigation actions by developing country parties in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner;
(c) ways to strengthen the catalytic role of the Convention in encouraging multilateral bodies, the public and private sectors and civil society, building on synergies among activities and processes, as a means to support mitigation in a coherent and integrated manner.

8. In paragraph 11 of the Bali Action Plan, the Conference of the Parties, "agrees that the process shall be informed by, *inter alia*, the best available scientific information, experience in implementation of the Conventions and its Kyoto Protocol, and processes thereunder, outputs from other relevant intergovernmental process and insights from the business and research communities and civil society."

9. The MDBs are actively pursuing ways to increase the availability of concessional financing through existing and new instruments and to accelerate the access of developing countries to carbon finance, building on comparative advantages of the various institutions and their strong development policy dialogue with client countries. Within this context, the World Bank Group, in consultation with the regional development banks and interested countries, is seeking to establish a Clean Technology Trust Fund as one of a portfolio of strategic Climate Investment Trust Funds (CIF)[1] and programs. The objective of the Clean Technology Trust Fund would be to provide scaled-up financing to assist developing countries in transitioning to low carbon economies through cost effective transformative investments resulting in mitigation of greenhouse gas emissions.

10. The need for further mobilizing and innovating financing for climate change actions is a critical lesson of the Clean Energy Investment Framework[2] experience that is reinforced by strategic directions for scaling–up support by the multilateral development banks to climate action. The CEIF has provided the basis for definition of a range of initiatives within each multilateral development bank with a set of concrete results and impacts in terms of scale-up. The scale of action required points to the need to take the important lessons learned from pilot and prototype projects and programs and capacity building efforts, such as those supported by

---

1. [1] It is proposed that the portfolio of funds/programs initially include, if donor support warrants:

   a. the Clean Technology Fund,
   b. the Strategic Climate Fund, including the Pilot Program for Climate Resilience, and
   c. the Forest Investment Fund.

[2] The 2005 Gleneagles G-8 Summit in July 2005 stimulated a concerted effort by the development community to broaden and accelerate support to developing countries relating to energy access and climate change through the Clean Energy Investment Framework (CEIF).

the Global Environment Facility (GEF) through its implementing agencies, to broader programs which will help transform economies so that the objective of alleviating poverty and fostering growth can be met through new ways of approaching low-carbon growth and enhancing resilience. By building on these lessons and capitalizing on the capabilities of the World Bank Group, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank (hereinafter referred to as the MDBs), a scale-up of funding delivered in a package combining sectoral and private sector knowledge with the full range of development finance instruments will allow early transformational climate action while supporting programs which are tightly linked to a country's economic and sectoral priorities and objectives.

Clean Technology Fund

Principles

11. In developing a proposal for a Clean Technology Fund (CTF), the following principles have been taken into account:

a) The core mission of the multilateral development banks is growth and poverty reduction. Climate change mitigation and adaptation considerations need to be integrated into the development process;
b) Multilateral development banks can and should play a role in ensuring access of developing countries to adequate financial resources and appropriate technology for climate actions;
c) The multilateral development banks should provide financing for adaptation and mitigation programs to address climate change that are country-driven and designed to support sustainable development. Activities financed by the fund should be based on a country-led programmatic approach and should be integrated into country-owned development strategies, consistent with the Paris Declaration focus on country ownership;
d) The UN is the appropriate body for broad policy setting on climate change, and the multilateral development banks should not preempt the results. Actions to address climate change should be guided by the principles of the UNFCCC. The multilateral development banks should assist developing countries to build country-level knowledge, capacity and development project experience about the feasibility and implications of addressing climate change;
e) It is appropriate for the multilateral development banks to build partnerships with each other and a wide range of institutions and stakeholders on climate change, including the private sector. It doing so, each bank should remain accountable to the policies adopted by its governing bodies.

Involvement of Recipient Countries in the Clean Technology Fund

12. It is proposed that recipient countries be involved in the Clean Technology Fund at the following four levels:

a) At the country level, the recipient-country government would be responsible for exercising leadership in developing and implementing its national strategies and work programs to transition to low carbon economies;
b) Through representation in the oversight body for the fund which will be responsible for approving program criteria and financing from the fund;
c) At the MDB Boards, recipient countries would participate in the final approval of programs and projects;
d) At a Partnership Forum, a broad-based meeting of stakeholders interested in the CIF, including donor and recipient countries participating in the funds, UN and other agencies, and NGOs. The Forum would be convened to discuss the strategic directions and results and impacts of the CIF. At the time of the Partnership Forum, recipient countries participating in the Clean Technology Fund would be invited to meet to discuss their experience and views on the fund.

Scope of the Clean Technology Fund

13. The Clean Technology Fund (CTF) will aim to:

a) provide positive incentives for scaled-up action and transformational change and for solutions to the climate change challenge in developing countries, consistent with their low carbon growth, poverty reduction and sustainable development strategies and plans;
b) promote international cooperation on climate change supportive of progress towards a post 2012 climate change agreement;
c) provide experience and lessons in responding to the challenge of climate change through learning-by-doing;
d) utilize the skills and capabilities of the international financial institutions to raise and deliver concessional climate financing at a significant scale to unleash the potential of the public and private sectors to achieve meaningful reductions of carbon emissions;
e) complement the GEF and other multilateral financial mechanisms, as well as bilateral financing, and seek co-financing with them as much as possible; and
f) provide for transparency and openness in its governance.

Types of Investment

14. As country needs differ it will not be possible to prescribe which policies, measures or technologies will achieve significant advances for all countries. Investment selection criteria will be developed to allow assessment of potential for GHG reductions and an assessment of transformative potential, which is defined as one that catalyses the demonstration, deployment and commercialization of low carbon technologies, through policies, measures and programs, on a significant scale, such as:

a) a sector or sub-sector in a given country or for larger countries in a high impact province/state;
b) global or regional (beyond a country where it is being demonstrated with the help of the fund) application of a low-carbon technology; and/or

c) private sector investments to significantly move the market towards lower carbon intensity.

Public Sector Investments

15. Eligible countries would be expected to have in place low-carbon growth or other relevant strategies or to prepare such strategies if they do not already exist before accessing financing from the trust fund. When a country expresses interest in accessing the Clean Technology Fund financing, the MDBs concerned would conduct a joint programming mission to engage the government, private industry and other stakeholders on how the fund may help catalyze its transformation to a low carbon development path. The outcome of the joint exercise will be a clearly articulated approach, developed under the leadership of the recipient country, to the use of the fund's resources in targeted sectors of the recipient country through a joint MDB country program. The country programs would be submitted to the Trust Fund Committee for its approval.

16. Subsequently, proposed programs and projects consistent with the country programs would be submitted by the MDBs, prior to their appraisal, to the Trust Fund Committee for approval of trust fund financing. The further processing of programs and projects would follow the MDB's polices and procedures for appraisal, approval and supervision.

17. A business model for country investments under the CTF is presented in Annex A to this document.

Private Sector

18. As the foundation of economic growth, the private sector has a significant role to play in climate change mitigation and adaptation. In pursuing a strategy that will combine public sector reform and private sector action, the CTF would seek to provide incentives necessary to engage private sector actions in achieving the objectives of the funds. Recognizing that funding structures for engaging the private sector will need to be different to the structures applied for public sector proposal financing, a business model for private sector engagement is annexed to this paper (Annex B).

Financing

19. The CTF will provide primarily concessional lending and other forms of financing, such as guarantees, that could be blended with public and private resources to facilitate deployment of low carbon technologies at scale. In keeping with MDB practice, investment projects and programs may include financing for policy and institutional reforms and regulatory frameworks. More specifically, the CTF would seek to provide, through the MDBs:

a) concessional financing in the near-to-medium term to meet investment needs to support rapid deployment of low carbon technologies;
b) concessional financing at scale, blended with MDB financing, as well as bilateral and other sources of finance, to provide incentives for low carbon development;
c) a range of financial products to leverage greater private sector investments; and

d) financial instruments integrated into existing aid architecture for development finance and policy dialogue.

Structure of the CTF

20. Bearing in mind the goals of the CTF, it is proposed that the fund operate in accordance with the following organizational principles:

a) maintain an efficient business model that does not duplicate existing procedures or lengthen the project development and approval process;
b) respond effectively to country demand in both public and private sectors and facilitate rapid deployment of fund resources;
c) operate through a close partnership among key agencies;
d) separate responsibilities for resource allocation, fiduciary responsibilities and administrative functions; and
e) ensure full transparency and openness in processes.

21. Based on these principles, it is proposed that the CTF be organized so as to include[3]:

a) Trust Fund Committee;
b) Partnership Forum;
c) MDB[4] Committee;
d) Administrative Unit; and
e) Trustee.

CTF Trust Fund Committee

22. A CTF Trust Fund Committee will be established to oversee the trust fund. Recognizing the need for efficient and business-like operations, it is proposed that the Trust Fund Committee be limited in membership.

23. The Trust Fund Committee will consist of :

(a) five representatives from donor countries identified through a consultation among interested donors. It is expected that representation of the donor countries will be primarily guided by total contributions to the CTF. Such representatives will serve for two year terms. Representatives may be reappointed;

(b) five representatives of recipient countries chosen by recipient countries receiving financing from the fund. Such representatives will serve for two year terms. Representatives may be reappointed;

---

[3] The Partnership Forum, the Trustee, the MDB Committee and the Administrative Unit will service all the funds and programs under the CIF.

[4] For purposes of this note, MDBs include: the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank Group.

(c) whenever the Trust Fund Committee considers a country work program, program or project to be financed by the fund, the recipient country concerned will be invited to participate in the Trust Fund Committee during its deliberations on the work program, program or project;

(d) a senior representative of the World Bank, recognizing the role of the World Bank as the overall coordinator of the CIF partnership;

(e) a representative of the MDB partners to be identified by the MDB Committee and chosen on the basis of rotation among the MDBs ;

24. To ensure good linkages with key partners so as to promote the efficient use of resources and complementarity with other sources of financing, the Trust Fund Committee will invite as observers representatives of other organizations with a mandate to promote investments in clean technology to address climate change, such as the Global Environment Facility.

Chair of the Trust Fund Committee

25. The Trust Fund Committee will elect two co-chairs from among its members for the duration of the meeting. One co-chair will be a representative of a recipient country and the other co-chair will be a representative of a donor country.

Decision making

26. Several proposals have been suggested regarding decision making. There is wide agreement that the *first principle* for decision-making would be to reach decisions by consensus. Consensus is a procedure for adopting a decision when no participant in the decision-making process opposes the contents of the decision strongly enough to block a consensus. Consensus does not necessarily imply unanimity. In fact, there may well be situations in which, while not agreeing on a decision reached by consensus, the dissenting decision-maker(s) does not wish to block a decision but wants to attach a statement(s) or note(s) to the decision reached by consensus to the effect that it does not support the decision. Hence a participant, while not entirely satisfied with a decision reached by consensus may still decide not to impede such consensus by remaining silent or registering its lack of support.

27. One proposal is to agree that all decisions will be reached by consensus. If this is not possible, then the decision would be postponed or withdrawn.

28. Another alternative is to provide that when consensus is not achievable, a vote is taken in accordance with agreed procedures for voting. Such procedures would need to provide a basis for votes (for example, votes may be based on the number of seats on the trust fund committee – one seat, one vote; based on contributions to the trust fund; or based on a hybrid system based on contributions and the number of seats). The procedures will also need to specify the majority required to pass a decision and to ensure appropriate voice of all parties, including recipient countries.

Functions of the Trust Fund Committee

29. The Trust Fund Committee will be responsible for:

a) approving programming priorities and criteria and financing modalities;
b) approving joint MDB country work programs;
c) approving trust fund financing for programs and projects;
d) approving trust fund financing for administrative budgets;
e) providing guidance on the convening of the Partnership Forum;
f) ensuring monitoring and periodic independent evaluation of performance and financial accountability of MDBs;
g) approving annual reports of the fund;
h) reviewing reports from the Trustee on the financial status of the fund; and
i) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund.

Frequency of meetings

30. The Trust Fund Committee will meet at a senior level once or twice a year, depending on business needs. In the first year after its establishment, the Trust Fund Committee may decide to meet more frequently. The Trust Fund Committee may review and approve trust fund financing for programs and projects once a month, or as needed, at a level and through means and procedures appropriate to project or program review.

Partnership Forum

31. A Partnership Forum, a broad-based meeting of stakeholders, including donor and recipient countries participating in the CIF, UN and other agencies, GEF, UNFCCC and NGOs would be convened annually to discuss the strategic directions and results and impacts of the CIF. The Partnership Forum will be chaired by the World Bank Vice President for the Sustainable Development Network. At the time of the Partnership Forum, recipient countries participating in a particular fund will be invited to meet to discuss their experience and views on the fund. This would also be an opportunity for recipient countries to agree on recipient country representation at the level of the CTF Trust Fund Committee.

Supporting Units established under the CIF

32. The following units will provide services to the funds and programs to be established under the CIF, including the CTF:

(a) MDB Committee;
(b) Administrative Unit;
(c) Trustee.

MDB Committee

33. The aim of the CIF is to ensure speed and alignment with development programs by building on the structures and normal processes of the MDBs. Therefore, it is proposed that the MDBs have fair and equitable opportunity to propose programs and projects for financing from the funds and rely on their own policies and procedures in developing and managing activities financed by the funds. The MDBs will report directly to the Trust Fund Committee on operational matters and will be invited to present their views on items under consideration by the Trust Fund Committee.

34. To facilitate collaboration, coordination and information exchange, a MDB Committee comprising representative of the MDBs will be established. The MDB Committee will meet quarterly or with such other frequency as deemed necessary by the committee. The MDB Committee will:

(a) identify specific areas of MDB cooperation linking transformational policy initiatives with CIF programs and projects;
(b) prior to each meeting of the Trust Fund Committee, review a provisional agenda and documentation prepared by the Administrative Unit;
(c) review recommendations proposed by the Administrative Unit on program criteria and priorities and the activity cycle for approval by the Trust Fund Committee;
(d) monitor progress in implementing programs and report to the Trust Fund Committee on compliance with approved policies on the use of trust fund monies;
(e) review a draft annual consolidated report on the CTF activities, performance, and lessons, including details of the fund’s portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information;
(f) serve as a forum to ensure effective operational coordination, exchange of information and experience;
(g) advise the Administrative Unit on its work program, including the implementation of a comprehensive knowledge management system, results measurement system and learning program, taking into account opportunities for synergies with the activities of the MDBs;
(h) perform any other functions assigned to it by the Trust Fund Committee.

Administrative Unit

35. A CIF Administrative Unit will be established to assist the work of the Climate Investment Funds, including the CTF, and to support trust fund and other committees. With respect to the CTF, the Administrative Unit will:

(a) prepare all documentation required for review by the Trust Fund Committee, including developing an agenda for the Trust Fund Committee meeting, which will first be reviewed by the MDB Committee;

(b) make recommendations, in consultation with the MDB Committee, on program criteria and priorities and the activity cycle for approval by the Trust Fund Committee;
(c) conduct background research and analyses as requested by the Trust Fund Committee;
(d) advise the Trust Fund Committee of prospective projects in early stage development;
(e) prepare an annual consolidated report on the trust fund's activities, performance, and lessons, including details of the trust fund's portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information;
(f) manage a comprehensive database of the trust fund activities, knowledge management system, result measurements system and learning program;
(g) service the meetings of the Trust Fund Committee;
(h) manage partnerships and external relations, including convening meetings of the MDB Committee and the CIF Partnership Forum;
(i) collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities; and
(j) perform any other functions assigned to it by the Trust Fund Committees.

Trustee

36. The IBRD would serve as Trustee for the CTF. The Trustee would act as financial intermediary with respect to the CTF proceeds administered by other MDBs and, in that capacity, would have no responsibility to the CTF contributors for the use of such proceeds over and above those responsibilities contained in the contribution agreements with contributors, agreements with MDBs, and relevant World Bank rules and regulations. Such responsibilities will be borne by the MDB in accordance with its own fiduciary framework, policies, guidelines, and procedures. Information on the role of the Trustee is included in Annex C to this document.

Minimum Contribution

37. A contributor [or group of contributors] would be expected to make a minimum contribution to the fund, the level of which will need to be decided.

Ceiling on Trust Fund Financing

38. To promote balanced and equitable access to the trust fund, consultations thus far suggest that a cap, for example between 15% and 20%, should be established for the amount of financing that any one country could receive from the fund.

Monitoring and Evaluation

39. Monitoring and evaluation will be critical for the trust fund. There will be annual reporting by the MDBs to the Trust Fund Committee, and an independent evaluation of the operations of the Trust Fund and its activities will be carried out after three years of operations.

Results achieved through the fund should be published and publicly available. Full reporting criteria will be agreed by the Trust Fund Committee.

Reflows

40. With respect to these aspects of the fund, it is expected that the Trustee will establish a mechanism for applying reflows, on a pro rata basis, to a donor's share of the fund, as required

Duration of the CIF

41. Recognizing the on-going deliberations regarding a post-2012 climate change agreement, including an associated financial architecture, the CTF should be reviewed in light of the final agreement and consideration given to the revision or sunset of the CTF, as appropriate.

Administrative Fees

42. The Trustee, the Administrative Unit, and the MDBs will perform specific administrative services and project related activities. Compensation for administrative services and project related activities will be on the basis of full cost recovery for the entities but should be guided by the principles of cost consciousness, reasonableness, and transparency. Annex A elaborates on the administrative and project management costs for public sector investments. The administrative and project management costs for private sector investments are referred to in the private sector proposal presented in Annex B.

Annex A

Proposed Business Model for Country Public Sector Investments under the CTF

Introduction

1. The Clean Technology Fund (CTF) will support the rapid deployment of low-carbon technologies on a significant scale, with the objective of cost-effective reductions in the growth of greenhouse gas emissions. The CTF will do so by supporting policies, measures and programs that reduce the costs and risks imposed on developing countries by the adoption of low GHG-emitting technologies. The CTF will act within a country-led model and ensure country ownership of low-carbon economic growth strategies to meet its sustainable development goals.

2. The CTF would fill a specific financing gap in the international aid architecture by primarily providing finance to Countries at more concessional rates than standard Multilateral Development Bank (MDB) terms at the scale necessary to help provide them incentives to integrate low-carbon strategies into their development plans and investment decisions.

3. The goal of the CTF is to have transformational impacts. The CTF's resources must be used where it will have a transformational impact on the challenges of reducing growth in GHG emissions. Priority will be given to country investment programs with the potential for significant reduction in GHG emissions growth from a transition to a low-carbon economy.

Scope of the CTF

4. Financing from the CTF could cover one or more of the following proposed transformational investments[5]:

a) Power Sector
   - (i) Increase substantially the share of renewable energy (solar, wind, hydropower, biomass and bio-fuels, geothermal, waste-to-energy, and hybrids) in the total electricity supply
   - (ii) For existing coal-fired plants, the CTF will follow a three-pronged approach: (1) upgrading/rehabilitating plants with a reasonable remaining life; (2) decreasing the duty cycle of existing plants; and (3) early retirement of older units, where such plants account for a large percentage of capacity, with a view to achieving significant increases in energy efficiency
   - (iii) For new coal-fired assets: Recognizing that coal is forecast to remain an important component of global energy use over the next 30-50 years, the coal-fired projects would be supported where they are least cost, focusing on decreasing CO_2 emissions at scale through substantial improvements in plant efficiencies (moving from sub-critical to super and ultra-supercritical technologies as well as IGCC, oxyfuels and cogeneration) and supporting readiness for implementation of carbon capture and storage

[5] The Fund would not support technologies that are still in the research and development or pilot testing stage, but should be focused on deployment, which may include demonstration, of new low-carbon technologies.

(iv) Promote grid interconnection schemes that promote lower carbon energy production and/or significant transmission efficiency improvements
(v) Switch from coal plants to gas resulting in significantly reduced carbon intensity
(vi) Large reductions in transmission and distribution losses (new T&D systems using energy-efficient technologies, or retrofits/upgrades)

b) Transportation
(i) Modal shift to public transportation in major metropolitan areas, with a substantial change in the number of passenger trips by public transport
(ii) Improve fuel economy standards and fuel switching

c) Buildings and industry energy efficiency
(i) Large-scale adoption of energy efficient technologies that lowers energy consumption per unit of output by at least 5% in:
- Building design, insulation, lighting and appliances
- Energy-intensive industries and equipment (motors and boilers)

Joint Programming by MDBs

5. The starting point in developing operations to be co-financed by the CTF will be a request from a country for a programming mission to be undertaken by the World Bank Group and relevant RDB to begin the dialogue on how the CTF may contribute to catalyzing transformation toward a low-carbon path. The criteria for undertaking a joint programming mission would be: (a) the country is ODA-eligible (according to OECD/DAC); (b) there is an active MDB country program in the relevant sectors; and (c) the country has a low-carbon growth strategy or similar strategic framework, such as a strategy for energy security or sector plans.

6. This joint programming is critical, as each MDB is likely to have ongoing operations in key sectors or sub-sectors in the country, and this exercise will allow for coordination and collaboration of current and new activities. This is also important to ensure that possible future investments to be supported by the CTF will be additional to existing investment programs. The joint programming will be conducted within the framework of the MDBs' Country Assistance/Partnership Strategies.

7. It is envisaged that the government will play a central role in programming of the CTF's public sector related projects and in donor coordination.

8. The outcome of the joint exercise will be a clearly articulated proposal for the use of the CTF's resources in the country and a work program that each MDB would be undertaking, including a potential project pipeline and notional resource envelopes. The country program would be endorsed by the Ministry of Finance, with a designation of MDBs for individual investment operations. The country programs would be expected to promote a "co-benefits" approach, with an emphasis on both local and global environmental impacts. Results measurement will be an integral part of the programs.

Review criteria for MDB Country Programs

9. The joint MDB country program should highlight how a low-carbon strategy would provide transformational developmental benefits as well as reduction in GHG growth. As country needs differ it will not be possible to prescribe which policies, measures or technologies will achieve significant advances for all countries. Rather, the CTF will use criteria which will allow a generic assessment of transformative potential. Proposals would be assessed and prioritized on the basis of the following four sets of criteria:

a) Potential for Significant GHG Emission Reductions
   (i) Direct emissions reductions, or avoided, from the investment and per unit cost
   (i) High scalability and replicability of low carbon investments, given carbon intensity of GDP and electricity generation, economic growth rates and sector expansion plans

b) Transformative Impact: Catalyze a shift to low-carbon technologies, policies and measures consistent with the transformational scope of the CTTF and at the following scale:
   (i) A sector or sub-sector in a given country or for larger countries in a high impact province/state, reflecting a significant percentage of country emissions/carbon intensity
   (ii) Global or regional (beyond a country where it is being demonstrated with the help of the CTTF) application of a low-carbon technology; and/or
   (iii) Private sector investments to significantly move the market towards lower carbon intensity

c) Development Impact
   (i) Poverty alleviation, fuel savings, air and water quality, energy security, economies of scale, economy-wide impact, local industrial development potential

d) Implementation Potential:
   (i) Technology development/commercialization status, and policies and capacity to support technology adoption are present or can be developed in the short term
   (ii) Minimum level of macroeconomic stability and stable budget management
   (iii) Commitment to an enabling policy and regulatory environment, including planning commitment and expenditure framework in the sector or sub-sector
   (iv) Incentives for leveraging private sector financing
   (v) Institutional arrangements for implementation of policies

10. A proposed template for joint MDB country programs is contained in Box 1.

Box 1: Template for Joint MDB Country Programs

1. Program Objectives and Results Indicators

Program Objective should demonstrate that the investment would result in:

a) Achievement of national development objectives and reduction in growth of GHG emissions;
b) Transformations in technical systems, leading to step changes in GHG emissions across an entire sector or sub-sector;
c) "Demonstration effect" of an intervention beyond the sector or country in which it takes place; and/or,
d) Individual, institutional and societal transformations in norms, behaviors, attitudes, capacities and values related to climate change, encompassing civil society, public institutions and the private sector.

Results indicators could include:

a) Total GHG emissions reduction/$
b) Average carbon intensity in country/sector reduced from x to y%.
c) Share of low carbon technologies in electricity production increased from x to y%.
d) Increase in average efficiency of coal/gas-fired power plants from x to y%.
e) Improvement in transmission and distribution efficiency from x to y%.
f) Percentage of trips using lower carbon modes of transport increased from x to y%.

Eligibility criteria, priorities and notional resource allocation for projects under the investment program (including description of project pipeline and how it is additional to existing government and MDB investments).

2. Country and sector context:

a) Description of the sources of GHG emissions, distribution in emissions-intensity, and trends. Target sector or sub-sector's share.
b) Description of government's sector strategy, including plans for expansion and low-carbon growth.
c) Summary of options for mitigating emissions in the sector or sub-sector, including ranking by costs, savings, emission-reduction potential, and technical and institutional feasibility.
d) How would the proposed investments substantially change the sector/sub-sector to a low carbon growth path? Projected GHG emissions reductions and cost per unit of reduction.
e) Development impact: How does the proposed investment program fit with the country's economic growth and development strategies?
f) What is the "tipping point" and/or scale that would be needed to make this transformation occur? What element of blending of concessional finance with MDB and other finance (e.g., GEF grants and carbon finance) would make the investments viable?
g) Country commitment: Enabling policy and regulatory environment, as well as medium-term expenditure framework in the sector(s) concerned.
h) Potential for mobilization of public/private financing. How would the investments accelerate commercial capital flows and by how much?
i) Readiness for implementation, including institutional arrangements.

3. Replication and scalability potential for technology adoption at the sector, country and global levels.

Explain how, why and at what rate the new technology could be adopted.

4. Risk Assessment

Provide initial description of potential risk factors: country and sub-national level risks, sector policies and institutions, technology, environmental and social.

5. Financing Plan and Instruments

Estimated total cost and potential sources of financing
Identify whether CTF loans/credits, guarantees, or grants

Technical Assistance for Country Program Preparation

11. Evaluations of aid effectiveness have demonstrated that sound analytical work is essential for strengthening confidence among key national stakeholders in the public policy debate, enhancing the capacity of national institutions for robust policy reform and priority setting, improving the quality of investment operations, and assessment of the poverty and social impacts of programs. Therefore, it is proposed that the Trust Fund Committee could approve an up-front grant of a maximum of $1 million per country for technical assistance activities for further elaboration of country programs[6]:

a) Economic and sector work linking low carbon development to economic growth and poverty-alleviation strategies;
b) Developing and preparing country investment programs and project proposals;
c) Non-lending measures, such as policies, regulations, standards, and institutional capacity building.

12. The country would determine the appropriate MDB for administration of the technical assistance resources. It is proposed that there be flexibility in the sequence of technical assistance activities and joint work programming, so that the CTF is responsive to country needs and provides streamlined support.

Program-based Approach

13. The joint MDB initiative would provide the basis for a program-based approach to investment lending, which emphasizes comprehensive and coordinated planning in a given sectoral or thematic area of intervention. Such programmatic financing is intended to support country-owned programs of development, so the word "program" in the expression refers to the program of a developing country government.

14. Program-based approaches are characterized by:

a) Sustained, country-led partnership among development partners and key stakeholders in support of country-owned sector policies and strategies;
b) A common framework for planning, implementation, expenditure, and monitoring & evaluating;
c) A single program and budget framework;
d) Donor coordination and harmonization of procedures.

15. Adopting a program-based approach can facilitate streamlined processes and alignment with country processes, reducing the financial and non-financial transaction costs of MDB lending. The expected development benefits of programmatic lending include:

a) Stronger country ownership and leadership;
b) Coordinated policy dialogue for an entire sector;

[6] It is recognized that some donors may be constrained in contributing to such technical assistance funding.

c) More rational and predictable resource allocation based on priority;
d) Scaling-up of benefits to entire sector;
e) Sector-wide accountability with common fiduciary and environmental/social safeguard standards;
f) Strengthening of country's capacity, systems and institutions at a feasible pace;
g) Reduced duplicative reporting and transactions;
h) Greater focus on program or sector-wide results.

Lending Instruments and Procedures

16. The program-based approach may be supported by a variety of financing instruments utilized by the MDBs for investment lending. For example, in the World Bank, these would include Adaptable Program Loans, Financial Intermediary Loans, Specific Investment Loans, as well as risk mitigation instruments, such as partial risk and credit guarantees.

17. The Trust Fund Committee's approval of a joint MDB country program -- including eligibility criteria and priorities for individual investment operations, identification of support needed for a program of investment operations, and a general description of a potential pipeline of projects -- would constitute (a) an identification of a resource envelope for individual projects and (b) an authorization to the designated MDB to proceed with development and preparation of individual investment operations. Prior to appraisal, the MDB would seek approval from the Trust Fund Committee for allocation of Fund financing for each investment operation. Attachment 2 outlines the cycle of activities for programs/projects financed by the CTF.

18. Individual loans/grants under the work program would be processed through the MDBs selected by the country. Each operation would follow the investment lending policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards. As an example, Attachment 1 provides a summary of the processes that the World Bank and the Inter-American Development Bank will use to approve projects within its own institution.

Modalities for blending with MDB Loans

19. A key feature of the CTF would be its ability to blend financing to tailor terms to a target level of concessionality, which would vary depending on project-specific factors. As noted in the Development Committee paper *Strengthening the World Bank's Engagement with IBRD Countries* (2006), while multilateral development banks would be ready to provide additional lending for projects and programs related to the MDGs and global public goods (such as climate change mitigation activities), governments are reluctant to borrow on non-concessional terms for projects and programs that generate little additional revenue. Concessional forms of finance could help unlock demand for the financing of such projects and programs. Blending Fund resources and multilateral development bank loans could augment the volume of financing available, better tailor concessionality to needs, with the degree of concessionality calibrated to achieve transformative investments which would otherwise not proceed.

20. It is proposed that the CTF provide the multilateral development banks (MDBs) with a menu of blending options to accommodate different needs of client countries and program interventions:

a) Co-finance MDB non-concessional loans or provide additional financing of new components within ongoing investment lending operations, on concessional terms. Resources from the CTF would thereby increase the concessionality of the overall financing for the project. The development of such co-financing arrangements can be done in a relatively low-cost manner when fully embedded in the project preparation and supervision process.[7]

b) Buy-downs of interest and repayments of MDB loans. A project with an MDB buy-down would be developed as a normal MDB loan with standard financing terms, measurable performance indicators and targets and a commitment from the CTF to reduce the project's interest rate on the MDB loan by a specified amount. There are a number of options for such arrangements. For example, at project completion, an independent performance audit could be commissioned to verify that the targets are achieved. If successful, the CTF would release a grant to the MDB to reduce some of the project debt. If the performance targets are not achieved, then the borrower would be obligated to re-pay the loan on standard terms. Alternatively, funds could be disbursed as the proceeds of the MDB loan are disbursed and used at the time to prepay a portion of the loan, thus reducing accrual of interest charges on the loan.

21. A set of principles and/or eligibility criteria would be established for selecting blending options in order to provide the greatest incentives to invest in low carbon technologies.

Proposed Financing Products and Terms

22. There are a number of financing products for which MDBs could use the CTF's resources. These include loans or credits, guarantees, grants, and a combination of these.[8] A set of criteria for selecting the range of products offered by the CTF will help ensure that the CTF meets its intended objectives. The criteria may include (amongst others) nature of target investments, simplicity of operation, speed of processing transactions, ease in disbursement, borrower demand, extent to which donor funds need to be leveraged, and the extent to which the CTF needs to have a rate of return. Below is a preliminary list of possible financing products. The Trust Fund Committee will review and approve financing modalities, including appropriate terms.

(a) Loans

23. The loan product will provide financing to fill the investment gap in transforming sectors or sub-sectors to low-carbon technologies, or in scaling up the adoption of such technologies, with concessionality related to the additional costs and risks of deployment. MDBs may provide financing support through: (a) lending to national governments; (b) lending to national governments for on-lending to sub-national entities; or, (c) lending to sub-national entities.

[7] CTF co-financing could also be used to "top up" concessional finance allocations of "blend countries".
[8] An issue for further examination is the final disposition of reflows to the Fund.

Security for the debt will be project revenue and assets.[9] For sub-national lending to entities that are not considered creditworthy by the MDB, additional credit enhancement would need to be provided, such as a guarantee from the government (or a creditworthy government entity).

24. MDBs' standard lending criteria will address credit risk through their assessments of borrower creditworthiness, financial viability, corporate governance, and safeguards against irresponsible borrowing. MDBs will need to demonstrate to the Trust Fund Committee that due diligence, transaction structuring and portfolio management will be key elements of credit management procedures. The credit risk of a borrower's default will be borne by the CTTF.

25. There is potentially substantial headroom between the commercial rates of interest available in the country and highly concessional terms that the CTTF may consider offering. The choice of interest rate adopted will depend on how important it is for the CTTF to have a rate of return, levels of cash flows likely to flow from the project being developed, and alternative credit terms available to the implementing institution. It will be important to ensure that highly concessional or grant terms do not displace investments that might have taken place anyway using commercial or standard MDB borrowing. Concessional forms of finance need to be designed to minimize market distortions and potential disincentives to long-run private investment.

26. In view of the fact that many of the potential recipient countries borrow in the commercial markets for their infrastructure financing needs without having exhausted their credit lines with IBRD and other multilateral financiers, and given the objectives of the CTF to address the costs and risks of scaled-up deployment of low carbon technologies by these countries, it is proposed that the CTF adopt lending terms similar to IDA for its loan/credit operations (see Box 2). Given the potential development impacts and environmental co-benefits of the CTF's investments, IDA-like harder terms might offer the appropriate balance in the concessionality of funding. Based on further consultations, including with potential borrower countries, a more detailed proposal on concessional terms will be presented to the Trust Fund Committee for its approval.[10] Program/project submissions to the Trust Fund Committee for approval of allocation of CTF financing will provide an explanation of how proposed concessional terms relate to the needs of investments to be supported.

---

[9] In such situations, negative pledge clause issues will need to be consulted. In the event that it is not practicable to obtain security from the borrower, alternative arrangements adequate to cover the relevant loan exposure may be considered.

[10] Including presentation of background information on concessional financing terms of the regional development banks.

Box 2: Current IDA Terms (as of July 1, 2007)

	Maturity a/	Grace Period	Principal Repayments Year 11-20	Principal Repayments Years 20-40	With Acceleration Clause b/	FY08 Commitment Charge for Credits c/	FY08 Commitment Charge for Grants c/	Service Charge for Credits d/	Interest Rate
IDA-only	40	10	2.0%	4.0%	Yes	0.10%	0.00%	0.75%	NA
Blend	35	10	2.5%	5% e/	Yes	0.10%	0.00%	0.75%	NA
Hardened Term f/	20	10	10.0%	NA	No	0.10%	0.00%	0.75%	NA
Hard Term Lending h/	35	10	2.5%	5% e/	Yes	0.10%	0.00%	0.75%	4.2%
Guarantee	NA	NA	NA	NA	NA	0.10% i/	0.00%	0.75% g/	NA

Footnotes from table[11]

27. Furthermore, consistent with the objective of simplified loan administration procedures and streamlined project processing, it is proposed that the CTF have uniform financing terms, rather than terms varying by country and/or projects, or each MDB applying different terms. Illustrative financing terms are presented in Box 3.

[11] a) The maturity of IDA credits approved by the Board through June 30, 1987, is 50 years. The maturity of IDA credits approved by the Board after June 30, 1987 are 20, 35 or 40 years.
b) IDA credits include an acceleration clause, providing for doubling of principal payments from creditworthy borrowers where per capita income remains above eligibility thresholds.
c) IDA's commitment charge is a variable charge set (annually) within a range of 0%-0.5% of the un-disbursed balance of IDA credits and grants.
d) The service charge is 0.75% of disbursed and outstanding credit balance.
e) Year 20-35.
f) The hardened term lending was approved in IDA 13 and is effective from July 1, 2002. All IDA countries with GNI per capita above the operational cutoff for more than two consecutive years will be subject to IDA lending on hardened terms. Lending on hardened terms supersedes the accelerated repayment provision.
g) This fee is applied on the disbursed and outstanding amounts of a guaranteed financing, in the same way service charges on IDA credits are applied. The guarantee fee is currently fixed at 75 basis points (bps) per annum, equal to the fixed level of service charge on IDA credits.
h) Countries eligible for hard-term IDA credits under a defined lending window in IDA 14. These are blend countries with both (a) per-capita income below the operational cut off for IDA eligibility and (b) an active IBRD lending program. Standard IDA service and commitment charges apply plus a fixed interest charge for the life of each credit.
i) This fee is applied on the un-disbursed balance of the guaranteed financing and is analogous to the commitment charge on IDA credits. The standby fee is currently 10 bps per annum.

Box 3: Illustrative loan financing terms

Loan financing could be on the terms similar to IDA “hardened terms” (i.e. no interest):

(a) Maturity: 20 years
(b) Grace Period: 10 years
(c) Principal Repayments: 10% (years 11-20), to be returned to the Trust Fund, along with any investment income earned by the MDB
(d) Lending Fee: 0.1% of un-disbursed loan balance accrues to MDB to recover its costs related to project preparation and appraisal, as well as loan negotiations
(e) Service Charge: 0.75% of disbursed and outstanding loan balance (per annum) accrues as cost recovery to MDB for project supervision and implementation status and completion reporting.[12]

(b) Guarantees

28. The objective of the guarantee instrument is to improve conditions for private sector investment in, or lending to, public sector projects. Guarantees take the form of partial credit guarantees or partial risk guarantees. Partial credit guarantees cover debt service defaults from borrowers on a specified portion of a loan. Partial risk guarantees cover defaults due to a government's failure to meet its obligations under project contracts to which it is a party. Guarantees could also cover technology risk.

29. For each guarantee operation, MDBs will appraise whether risk mitigation instruments could be an efficient and effective means to facilitate the mobilization of private capital to finance the public sector project, instead of or in combination with loan support from the CTF. In the event that there is sufficient debt and/or equity capital to finance the project, risk mitigation instruments should be considered if the government or sub-national entity is not sufficiently creditworthy or does not have a proven track record in the eyes of private financiers to be able to borrow debt or attract private investment without support.

30. Proceeds from the CTF may be used for such guarantees by the MDBs, in accordance with their policies for determining eligible beneficiaries, eligible forms of investment, maximum tenor and maximum amounts.

31. As in the case of loans, it is proposed that guarantee products generally follow IDA-like terms. Box 4 presents illustrative terms for guarantee operations.

[12] Also applicable to grants.

Box 4: Illustrative terms for guarantee operations

a) The initiation fee of 0.10% would be applied on the committed but undisbursed balance of the guaranteed financing and will be analogous to the lending fee on loans. These would accrue to the MDB for preparation, appraisal and negotiation costs. As in the case of loans and grants, all investment income earned by the MDBs on undisbursed balances would accrue to the Trust Fund.
b) Guarantee fee: 75 basis points (bps) per annum, applied on the disbursed and outstanding amounts of a guaranteed financing, in the same way service charges on loans will be applied. Accrues to MDB for guarantee supervision and reporting.

32. Guarantees for conventional energy projects have proved to be highly successful in catalyzing private sector investments – with successful deployment leading to leverage ratios of the order of 1 to 4 or 1 to 5. A fund with a strong priority on leveraging private sector funds is likely to make significant use of guarantee products. Leverage and other financial requirements will need to be developed for the use of guarantee instruments.

(c) Grants

33. Grants create limited leveraging of donor funds and should therefore only be used where concessional loans or guarantees would have little take-up for otherwise important activities. Grants are likely to be used for project investments that have no associated returns or that contribute to technological developments with returns at some time in the future or with returns dispersed over several projects. The primary purpose would be to demonstrate technical viability and to promote buy down of costs.

34. The CTF could also provide grants to recipient countries to enhance their capacity to understand new technologies and manage the operations and maintenance risk associated with such technologies, as well as for limited and focused economic and sector work and pre-investment and feasibility studies, related to low-carbon investment programs. Grant financing offered by the CTF could be used to buy down the cost of commercial or MDB loans that might form part of the wider financing package for a project.

35. The positive trade off of grant financing is that there is greater ease in disbursement as counterparty credit checks and repayment funds flows do not have to be set up and monitored.

Financing Conditions

36. Consistent with the objectives of the Paris Declaration, each MDB will apply its own appropriate procedures in appraising, approving, supervising, monitoring and evaluating operations to be financed from the CTF. Each MDB will provide to the Trust Fund Committee a summary of its ground rules/procedures for administrating the activity including project/program appraisal and approval, procurement and anti-corruption plans, flow of funds, financial reporting, accounting and audit arrangements (including technical audits), quality assurance arrangements and a results-based monitoring and evaluation framework.

37. The following will apply to all financing products[13] financed by the CTF:

a) Each operation will be approved and administered in accordance with the applicable guidelines of the concerned MDB;
b) Allocations by the Trust Fund Committee will be denominated in United States Dollars. However, MDBs may denominate individual financing provided by them to the beneficiaries[14] according to their own policies and procedures, subject to the MDB assuming any exchange rate risk;
c) The MDB will, for purposes of each financing, conclude an agreement with the beneficiary, indicating in particular that the resources have been provided from the CTF. The agreement will, among other clauses, include the various items bulleted in this paragraph;
d) The procurement of goods, works and services financed under the loans/grants will adhere to the principles of economy, efficiency, and transparency in the implementation of the approved activity while giving all eligible bidders a fair and equal opportunity to bid on a competitive basis;
e) Eligible expenditures under individual financing will be determined in accordance with the policies and procedures of the respective MDBs;
f) The design and implementation of activities financed with CTF resources will ensure that appropriate governance, environmental, and social safeguards arrangements are established and carried out in accordance with principles that build ownership, prevent and mitigate undue harm to people and their environment, through the participation of recipients and other stakeholders;
g) Financial accountability arrangements in loan/grant agreements should be adequate to ensure that proceeds from the CTF are used only for the intended purposes, and take into consideration economy and efficiency.
h) In each eligible country, the principle of sovereign programmatic prior no-objection will be a foundation of the investment program. The MDB will agree with the government on the overall program framework and will consult with the central government and request its endorsement on the engagement in each country. The MDBs will not seek their Boards' approval for any financial transaction which is not acceptable to the national government. The MDBs will follow their own operational procedures regarding notification of the national government of a proposed financing before Board consideration.

Results Measurement

38. The CTF will assess operational quality and outcomes by tracking results. The purpose of the results measurement framework is to: (a) monitor aid flows, project activities and achievement of results and enable funding or activities to be adjusted as necessary; (b) to promote accountability for resource use and achievement of results; and (c) to document, provide feedback on, and disseminate results and lessons learned. Independent evaluation of activities and outcomes will be an essential element of the results framework.

[13] Includes loans or credits, guarantees, and grants.
[14] The beneficiaries include the borrowers of loans or credits, the recipients of grants and the beneficiaries of guarantees.

39. The results measurement system will measure results at three levels:

Tier 1: Fund Impact Indicators

a) Demonstrate and deploy low-carbon technologies on a significant scale aggregating [x] GW of electricity production per year, representing [y%] share of electricity production in the target countries.
b) Reduce average carbon intensity of the target countries from [x%] to [y%].
c) Leverage at least [x%] of total investment cost from other public and private sources of financing.

Tier 2: Country Outcome Indicators

a) Average carbon intensity in country/sector
b) Share of low carbon technologies in electricity production
c) Average efficiency of coal/gas-fired power plants
d) Transmission and distribution efficiency
e) Low carbon energy capacity installed
f) Additional financing mobilized from public and private sector
g) Percentage of trips using lower carbon modes of transport

Tier 3: Portfolio Performance Indicators

a) Development outcomes of exiting projects
b) Risk to development outcomes
c) Aggregate GHG emissions reduction (total and per unit of funding)
d) Projects at risk
e) Proactivity Index
f) Quality-at-Entry
g) Quality of Supervision
h) Elapsed time

40. A key component of the results measurement framework should be the wide dissemination of performance reports. Where possible, these will be made available in real time through the use of information technology, including a Fund web-site.

41. Proposals for funding by the CTF should have adequately defined arrangements for monitoring achievement of results. These will include (a) precisely defined indicators and targets; (b) Implementation Status Reports with satisfactory baseline data for outcome monitoring; and, (c) Implementation Completion Reports with satisfactory data on project outcomes.

Administrative and Project Management Costs

42. The Trustee, the Administrative Unit, and the MDBs would agree to perform specific administrative services and project related activities. Compensation for administrative services and project related activities would be on the basis of full cost recovery for the entities and will be guided by the principles of cost consciousness, reasonableness, and transparency. In addition, it is recommended that each entity use an activity based approach to construct an annual administrative budget which would be submitted to the Trust Fund Committee for approval and for payment from the Trust Fund resources. It is also proposed that the MDBs' expenditures related to managing the project cycle would be recovered through fees and service charges paid by borrowers.

Administrative Services

43. Administrative services include all services and activities not linked directly to project management but required for the effective participation of an entity in the corporate activities of a Trust Fund.

Trustee

44. The Trustee would have financial responsibility over all assets in the Trust Fund and would perform the following services and functions each of which will incur costs:

a) Financial management: collection, holding and managing of donor contributions and other receipts of the Trust Fund; recording Trust Fund Committee decisions; managing commitments and cash transfers to MDBs; managing reflows from MDBs, cash flow management; financial risk management, including currency and risk rate risk management; and provision of financial and operational controls;
b) Investment management: investment of funds based on benchmark; currency conversions; periodic review of risk profile and asset composition of benchmark; and allocation of investment income to the Trust Fund on a monthly basis;
c) Accounting and financial reporting: maintenance of accounting records and financial data; provision of required financial reports; preparation of annual, audited financial statements; audit coordination; audit fees; and monitoring the quality and consistency of specified financial data provided by the MDBs to the Trustee;
d) Legal services: the provision of legal services related to trust fund design and administration, including preparation, negotiation and revision of legal documents for the Trust Fund; preparation, negotiation and revision of legal agreements with MDBs; advice on policies that affect the operations of the Trust Fund to ensure compliance with governing documents and other agreements; review and, if necessary, legal interpretation of audited financial statements; and participation in meetings with donors and MDBs with respect to Trust Fund matters, as required;
e) Relationship management: provision of documents and ad hoc reports to donors and the Trust Fund Committee; participation in meetings as required; liaise and collaborate with MDBs to maintain the integrity of financial reporting; ensure

best practice; and develop robust and efficient reporting and transactional processes and procedures; and

f) Systems and infrastructure: provision of infrastructure and general operations costs, including system maintenance, office overhead, equipment, supplies, and communications.

Administrative Unit

45. The Administrative Unit would coordinate the work of the CTF and support the Trust Fund Committee. In this capacity, it would perform the following administrative services and functions which will require resources for staffing and other budgetary requirements:

(a) Servicing the Trust Fund Committee: conduct background research and analyses; compile an annual consolidated report on the funds' activities, performance, and lessons, including details of the funds' portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information; and service the meetings of the Trust Fund Committee;

(b) Inter-agency coordination: manage a comprehensive database of the CTF activities, knowledge management system, result measurements system and learning program;

(c) Legal services: the provision of legal services as required with respect to the preparation and revision of the governing documents for the CTF as well as general legal advice with respect to CTF governance matters;

(d) Outreach and external relations: manage CTF's partnerships and external relations, including convening meetings of the MDB Committee and the Partnership Forum; and collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities.

Multilateral Development Banks

46. The MDBs are expected to incur administrative costs related to their interaction with the Trust Fund Committees, the Trustee and the Administrative Unit. The tasks and deliverables would include the following:

a) Policy and program preparation and coordination: preparation of joint MDB country programs;

b) Meeting participation: attend and participate in the MDB Committee meetings (and jointly carrying out functions assigned to it) and attending meetings of the Trust Fund Committee, Partnership Forum, and the Trustee;

c) Operational reporting: reporting through the Results Measurement System; preparation of an annual report on the activities, performance, and lessons learned, including details of the portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information, contributing to the CTF's knowledge management and learning programs;

d) Financial management: cash flow management, management of the resources committed and transferred to the MDB by the Trustee; management of reflows from borrowers; negotiation and revision of legal agreements with the Trustee; and provision of financial and operational controls;
e) Accounting and reporting: maintenance of accounting records and financial data; provision of required financial reports to the Trust Fund Committee and the Trustee; and preparation of annual, audited financial statements, audit coordination, and audit fees;
f) Investment management: of the resources transferred to the MDB by the Trustee; and
g) Processes, systems and infrastructure: integration of operations in mainstream policies and procedures, provision of infrastructure and general operations costs, including system maintenance, office overhead, equipment, supplies, and communications.

Project Development and Supervision Costs

47. Project management costs are the MDBs' expenditures related to the identification, preparation, appraisal, approval, supervision and evaluation of a specific project. The MDBs would apply their investment lending policies and procedures to all operations financed by the CTF. These policies and procedures would include internal MDB requirements for the following:

Project Preparation

(a) Project concept review;
(b) Quality enhancement and assurance to meet quality at entry standards;
(c) Risk management;
(d) Financial management and procurement assessments of project implementing entities;
(e) Country dialogue on and appraisal of the sector policy, technical, economic, financial, institutional, fiduciary, environmental and social aspects of projects;
(f) Preparation and negotiation of legal agreements; and
(g) Board approvals

Project Supervision

(a) Implementation status reporting;
(b) Adaptive management of project strategy and design;
(c) Loan/grant disbursement management;
(d) Implementing project at-risk systems;
(e) Supervision of project monitoring, evaluation, environmental and social safeguard measures, procurement and financial management by borrower/recipient;
(f) Implementation completion reporting; and
(g) Independent evaluation of completion reports.

Cost Recovery

Administrative Services

48. In constructing an annual administrative budget, it is proposed that the Trustee, the Administrative Unit, and the MDBs use common, standard expense categories. The expense categories used should be comparable across all entities and can be broken down into the following expenditure categories:

(i) Staff salaries and benefits;
(ii) Consultant fees;
(iii) Travel;
(iv) Indirect/Operating costs (includes translation, communications, computing and information systems, printing and publications, office equipment and supplies, office space, support/temporary staff, training, seminars, honoraria, representation);
(v) Institutional /Fixed costs (includes chargeback services from the parent organization for administrative, personnel, accounting, auditing, legal, financial reporting, funds disbursement services and office space/facilities;
(vi) Contractual services; and
(vii) External audit fees.

Approval of Administrative Budget by the Trust Fund Committees

49. It is proposed that each entity would prepare, on an annual basis, a proposal for compensation for the agreed administrative services for the upcoming year. The Trust Fund Committee would endorse the entities' activities for the upcoming year and approve the request for compensation. Upon approval by the Trust Fund Committee, the Trustee would be authorized to commit and transfer the entire amount approved to the entities. Each approval would be subject to an end of year adjustment based on actual costs.

Compensation for Project Management and Supervision

50. Cost recovery for the MDBs' expenditures related to managing the project cycle would be based on standard fees and service charges approved by the Trust Fund Committee and paid by borrowers, similar to IDA operations. For example, a one-time lending fee on the undisbursed loan balance of a loan could accrue to the MDB to recover its staff, consultants, travel and related costs of project preparation and appraisal, including due diligence, as well as loan negotiations. Similarly, an annual service charge could cover the MDBs' implementation support, supervision and reporting costs.

Reporting

Administrative Services and Project Costs

51. Reporting of administrative costs and project costs is important to maintain transparency, highlight common issues that may need to be addressed, and highlight and remedy inefficiencies. Additionally, in the case of project costs, annual reporting is recommended so as to ensure that the fees and service charges are sufficient to cover the actual costs of MDBs for project preparation and supervision, but are also not burdensome to the borrower.

52. Each entity that is compensated for administrative services would report directly to the Trust Fund Committee on actual services provided during the fiscal year and the related associated end of fiscal year expenditures. For project costs, MDBs would report to the Trust Fund Committee on the end of fiscal year actual costs. On an annual basis, all entities would be required to report to the Trustee on actual expenditures for administrative services and project costs as well.

Annex A
Attachment 1

World Bank procedures for approving operations financed by the Clean Technology Fund

All operations financed by the Bank with the proceeds of the Clean Technology Fund will follow the Bank's operational policies and procedures for investment lending. They would be approved by the Board, regardless of whether there is IBRD/IDA lending associated with CTF co-financing[15].

a) Programming will be integrated in the Bank's country sector dialogue. Bank regional vice-presidencies will be responsible for identification, development, appraisal and supervision of operations, as part of their annual work programs.
b) Regional management will oversee Project Concept Note Reviews, Quality Enhancement Reviews, Appraisal Decisions, and Negotiation Clearances, and submit projects for Board Approval.
c) The Bank will apply its investment lending policies and procedures for loan signing and effectiveness, as well as supervision, audits and financial reporting, procurement, disbursement, amendments, suspensions, extensions and closing.
d) Documentation requirements will be the same as investment operations: Project Concept Notes, Project Appraisal Documents, Implementation Status Reports, and Implementation Completion Reports.
e) Management review arrangements for the preparation of investment operations, including for risk assessment and risk control, will apply.
f) Operations will require assessments of project financial management and procurement capacity of the borrower. PADs will require a description of the financial management and disbursement arrangements, including audits, funds flow, disbursement schedule, eligible expenditures, accounting and financial reporting. Similarly, a procurement plan will be required, in which the different procurement methods, estimated costs, prior review requirements and timeframe are agreed between the recipient and the Bank.
g) Operations will be subject to the Bank's environmental and social safeguard policies and procedures, as well as information disclosure policies for investment lending.
h) Bank management will monitor the same indicators of portfolio performance as for the IBRD/IDA portfolio, such as projects-at-risk, realism, proactivity, and net disconnect.
i) Operations will be subject to QAG's quality at entry and quality of supervision assessments.
j) Upon completion, ICRs will be reviewed by IEG, which will also conduct Project Performance Assessments, according to its procedures.

[15] This would be consistent with the practice established for World Bank GEF operations, which have been mainstreamed in Bank procedures.

Inter-American Development Bank (IDB) procedures for approving non-sovereign guaranteed[16] (NSG) operations

All NSG operations financed by the Clean Technology Fund will follow the IDB's Non-Sovereign Guarantee Operations Processing for investing lending and would be approved by the Board of Directors.

a) Origination and identification of potential transactions will be done in a joint effort by the Structured and Corporate Finance Department (SCF) and the IDB respective Field Office. Then, SCF will be responsible for eligibility, analysis and due diligence, credit review, final approval, administration and/or restructuring, if appropriate, as part of the annual work program.
b) SCF will oversee Project Concept Documents (PCD), Preliminary and Final Loan or Guaranty Proposals (LGP), Pre-closing memorandums, Annual Supervision Reports and Evaluations, as well as, Environmental and Legal documents.
c) The IDB will apply its policies and procedures for loan signing and effectiveness, as well as, supervision, audits, financial reporting, procurement, disbursement, amendments, restructurings, extensions and closing.
d) Operations will be subject to the IDB's environmental and social safeguard policies and procedures, as well as, information disclosure policies for investment loans.
e) The composition of the committees that (1) grant eligibility to a Project Concept Document (PCD) and (2) review the Preliminary Loan/Guarantee Proposal (LGP) in the Credit Review Meeting are as follows:

    (i) Eligibility will be granted by the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP) on a non-objection basis by Vice Presidency for Countries (VPC), Vice Presidency for Sectors and Knowledge (VPS), Legal Department / Non-Sovereign Guaranteed Operations Division (LEG/NSG) and Private Sector Credit Risk Assessment Office (RMG)
    (ii) The Credit Review Meeting will be chaired by the SCF Manager and members will include: Private Sector Credit Risk Assessment Office (RMG), Vice Presidency for Countries (VPC), Vice Presidency for Sectors and Knowledge (VPS), Legal Department / Non-Sovereign Guaranteed Operations Division (LEG/NSG) and Finance Department (FIN)

f) Final approval is granted by the Board of Executive Directors of the Bank.

[16] Such operations include private sector operations and sub-sovereign operations that do not benefit from government guarantees.

Annex A
Attachment 2

CYCLE OF ACTIVITIES FOR CLEAN TECHNOLOGY TRUST FUND[17]

Steps/Actions Required	Who is Responsible?	Performance Standards
1. MDBs conduct joint programming mission to prepare work program. Approval of Joint MDB Country Program by Ministry of Finance.	MDBs & Government	According to criteria and templates established by TFC.
2. TFC reviews and approves Joint MDB Country Program, including investment strategy, MDB designation for operations, eligibility criteria and priorities for individual projects, and indicates notional resource envelope for individual projects.	TFC	Decisions taken at regular meetings of the TFC. Formal decision of the Committee will be communicated to the government, Trustee, and MDB
3. Where it is designated that project administration will be undertaken by an MDB other than IBRD, an agreement will be executed between IBRD, as Trustee, and the designated MDB (to cover all projects financed by the Fund). This agreement will be concluded when the first CTF project or program is agreed for the MDB concerned, and will apply for all subsequent projects and programs	IBRD, as Trustee, and designated MDB	Executed within one month of the TFC meeting.
4. Designated MDB supports preparation of individual projects by borrower.	MDB & Borrower	According to MDB's operational policies and procedures, consistent with endorsed country program.

[17] For the proposed activity cycle for private sector investments, please see background paper on an approach to engage the private sector.

5. MDB submits pre-appraisal document to TFC for no-objection approval of financing, which authorizes appraisal of individual projects.	MDB & TFC	Monthly virtual review.
6. Designated MDB organizes and conducts appraisal, negotiates legal agreement with borrower, and submits projects for approval by its Board.	MDB	Within 3 months of TFC no-objection approval. According to MDB's operational policies and procedures, consistent with endorsed country work program. Target: Country Work Program approval to Board submission in 12 months.
7. Signing and Effectiveness of Legal Agreement	MDB and borrower	Applicable MDB standards
8. MDB submits cash transfer request to IBRD as Trustee, adjusted for any drops, cancellations or amendments to projects, investment income and undisbursed or unused funds. IBRD as Trustee makes initial cash transfer to MDB.	MDB IBRD as Trustee	Within [ ] working days of effectiveness of CTTF financing. Within 7 working days of receipt of cash transfer request.
9. Project implementation, including monitoring of physical and financial progress in achieving results. Disbursement of funds following processing of withdrawal applications. MDB submits cash transfer requests to IBRD as Trustee, on the basis of disbursements.	Borrower or executing agency MDB MDB and IBRD as Trustee	As provided for in the legal agreement and project operational manual. Applicable MDB policies and procedures. Agreed financial procedures
10. Supervision and amendments of project activities under implementation, including reallocation of loan proceeds.	MDB	Applicable MDB policies and procedures.

11. Evaluation	Borrower or executing agency	As provided for in legal agreement and project operational manual.
12. Implementation Completion Report (ICR) Upon submission of ICR to MDB Board, MDB submits final ICR to Administrative Unit	MDB	Applicable MDB policies and procedures. Within [ ] working days of Board submission.
13. Independent review of ICR	MDB evaluation department	Applicable MDB policies and procedures.
14. Annual Portfolio Review submitted to Administration Unit. Administrative Unit convenes annual portfolio review meeting, prepares overview report on Fund operations, and forwards MDBs' annual portfolio reviews to TFC. Review and adoption of Annual Report on Fund operations.	MDB Administrative Unit TFC	Reporting from Results Measurement System Decision at regular meetings of Fund Committee.

Annex B
Business Model for Private Sector Engagement

Summary of Annex

Objective: The CTF seeks to achieve large-scale transformation towards low-carbon and climate-sensitive market environments (for example, of an entire industry sector or sub-sector, in a particular country or set of countries), and in so doing, support the economic development and social well being of people negatively impacted by climate change. CTF expects to achieve maximum impact by engaging in initiatives focused on a few select countries.

Role of the Private Sector in an overall CTF strategy: As the foundation of economic growth, the private sector has a significant role to play in the reduction of greenhouse gas emissions. Strategies for achieving transformational impact and a low carbon economy will therefore need to include a combination of public and private initiatives. The relationship between public sector reform and private sector action is clear; while many private initiatives can be tested and operate in a less than optimal regulatory environment, full engagement, and wide scale growth of the private sector will only occur if the regulatory environment is both attractive and stable within a country. At the same time experience has shown that private sector initiatives can successfully proceed and at times can even be a trend setter for subsequent regulatory change.

To achieve the CTF's objectives, MDBs will capitalize on their individual organizational strengths and experiences to develop strategies (at a country, sector or sub-sector level) which comprise: i) engagement with governments to design and implement regulatory frameworks that would encourage – rather than discourage - GHG reducing private and public initiatives, ii) providing private investors the financial and technical support needed to engage in wide scale GHG reducing behaviors and investments and iii) addressing non-financial barriers to market transformation such as information and knowledge gaps, consumer misperceptions, and fears and other behavioral challenges. It must be noted that advances in technologies and opportunities for high impact GHG reducing private sector initiatives will change over time, requiring an interactive and fluid approach to strategy development. Private sector initiatives may be tested in markets before regulatory issues are addressed or before official country strategies are developed. In these instances, the information obtained from undertaking such private sector initiatives becomes the foundation and basis for future regulatory change.

Engaging the Private Sector: The proposal below describes a framework for the CTF to engage the private sector and implement an effective public/private strategy, recognizing that CTF funding structures for engaging the private sector may have to be different than the structures applied for public sector proposal financing. Attachment 1 outlines a further rationale for private sector participation in the CIF and the efforts to reduce greenhouse gas emissions; Attachment 2 provides examples of financial instruments that have been successful in doing so.

Private Sector Approach for CTF Proposals

Private Sector Proposals to the CTF:

1. *Eligibility:* All Multilateral Development Banks (MDBs) are eligible to submit proposals for Private Sector Programs[18]. Private sector entities [and bilateral banks] will be able to access CTF funds through Programs managed by the MDBs.

2. *Scope of private sector proposals:* Private Sector Programs will leverage CTF funding to achieve transformational impact in a sector, sub-sector, and/or country[19]. Proposals need to explain how the underlying projects and/or Envelopes contained in a Program will contribute towards this objective and address the specific elements of the transformation that would not be possible without support from the CTF[20].

3. *Approval Procedures:* Proposals for a Private Sector Program may be submitted to the CTF Trust Fund Committee for consideration at any time throughout the year. The Trust Fund Committee will respond to all proposals with a formal approval, rejection or request for additional information within [XX calendar days] of the project's submission. MDB's may submit multiple proposals for Private Sector Programs simultaneously or sequentially and without limitation. Attachment 3 outlines the private sector cycle of activities for the CTF.

4. *Content of Private Sector Proposals:* Programs will be evaluated based on their merits as described in each proposal. Each Program proposal must include the following information:

   (a) Description of the Program's Strategy: This section will describe the MDB's strategy for achieving transformational impact to a low carbon economy in a sector, sub-sector and/or country. It will discuss how the Program's "mega" projects and Envelopes fit within i) the MDB's transformation strategy, ii) already established country objectives and strategies, and iii) the existing regulatory environment, and if relevant, how regulatory issues are being addressed to ensure the Program's success. Programs must also describe how they leverage the MDB's currently ongoing activities and existing strengths.

   (b) Description of the Program: Private Sector Programs proposed to the CTF should contain the following elements:

      (i) A description of the Program's pipeline, providing details about each of the projects in generic terms; for purposes of confidentiality, company names and details that would make the project identifiable by

[18] 'Programs' may include any combination of individual large-scale projects and/or 'envelopes' of smaller thematically-linked projects.
[19] The donor group may need to consider establishing a common definition of "transformational impact"; alternatively, clarity on what exactly "transformational impact" means could be achieved through case-by-case discussions of individual proposals.
[20] This part of the proposal – which discusses the specific role of subsidized funds in achieving transformational impact – will have to be part of a proposal's overall strategy. Understanding, and discussing, the "additionality"-of a particular intervention, describing the "case without", is already part of many MDBs' regular project approval processes for private sector finance.

third parties are not to be included in the project pipeline description. The project pipeline would consist of i) individual "mega" projects which each use more than [$XX million] of CTF funds; and ii) Envelopes which aggregate several small and medium sized projects each utilizing less than [$XX million] of CTF funds and in total not exceeding [$XXX million], all having a shared focus and objective. Pipeline projects within a Program will require CTF approval only at the Program approval stage, unless agreed otherwise. Final approvals for individual "mega" projects and Envelopes will be subject to the internal approval processes of the implementing MDB, which should be described in the proposal. Updates on changes to the Program's pipeline will be provided by the MDB through semi-annual reports (see below). Such reports will describe substantive changes to the pipeline but will not be subject to additional approvals unless the changes require amendments to the Program's budget.

(ii) A description of how the Program pipeline will support the CTF objectives and the Program's strategy.

(iii) A description of the Program's elements that go beyond supporting the financing needs of a project, such as advisory services and knowledge management initiatives and instruments.

(c) Justification of Financing Mechanisms: Each Program proposal must describe, in broad terms, the financing mechanisms to be available to its pipeline of "mega" projects and Envelopes, and justify the use of each mechanism in light of the impact, objectives, and need to limit market distortions. Specifically, the Program proposal will explain if and how subsidies are limited to specific project components, and discuss why this approach would provide significant additionality[21], i.e. why such projects would not go forward as contemplated without subsidized funds.

(d) Performance Indicators: Program proposals must include performance triggers for each "mega" project and Envelope proposed, along with a timeline for such triggers.

(e) Investment Criteria: The Program proposal will commit the submitting MDB to operate within investment criteria outlined below and explain, as necessary, how they will be applied specifically within the Program's pipeline.

(i) *Transformational Impact*. Underlying project investments must contribute to market transformation towards a low-carbon and climate resilient environment in developing countries (ie. a significant reduction in GHG emissions). This criteria needs to be applied by the MDB in the choice and scope of specific

[21] Further conversations may be required among the MDBs to ensure a similar approach to defining "additionality".

technologies, specific projects, sectors, and countries that are to be financed.

(ii) *Avoidance of Market Distortions*. Program proposals must discuss how they would seek to minimize or avoid distorting markets, displacing private sector investment or reducing market competitiveness.

(iii) *Effectiveness.* Underlying project investments will be expected to lead to significant GHG reductions in the medium term. The expected GHG reduction will then be compared against the amount of CTF funds invested to determine project efficiency. Units of measurement for impacts beyond GHG reduction may need to be defined within each Program proposal.

(iv) *Financial Leverage*. CTF funds are expected to leverage other resources, specifically from the MDBs, other financial institutions, and the sponsor. All Program proposals will be required to consider the full range of financial mechanisms available in the market, including carbon finance. The MDB's decision to proceed with a particular underlying project should take into account the degree of leverage obtained, while also considering whether the specific project elements to which CTF resources are applied, are well defined. The use of CTF funds should only be authorized by the MDB if these elements are clearly delineated and if it is unlikely that the project would go forward as contemplated without these resources (additionality).

(v) *Risks*. Individual project investment decisions need to be taken in full awareness of a project's inherent risks, and considering possible risk mitigation strategies. The MDB will be required to discuss, in later reports, why it believed it had the ability to implement a particular project as described, and to achieve the results expected.

(vi) *Financial Sustainability.* The investment decision will need to take into account the likelihood of long-term financial sustainability of a particular project once the subsidized funds are not available/have been used. Projects should not be approved if they are dependent on a continuous flow of subsidized funds. Particular emphasis should be on a project's ability to perform profitably under prevailing and projected market conditions. Investments constituting a subsidy must be clearly limited in scope, in terms of project finance component and time.

5. *Use of CTF funds*: Once approved, CTF resources can be used in the following ways.

(a) *Pricing and terms*. The pricing and terms of the CIF funds offered to private sector clients will be tailored to address the specific risk, market, and structural aspects of each "mega" project and Envelope in the Program's pipeline. MDBs will seek to ensure that pricing and terms of the subsidized financing do not distort the market.

(b) *Financial Instruments.* MDBs may use or create financial instruments as appropriate to meet the needs of their private sector clients. Each MDB must explain in the Program proposal why it believes it can structure and implement the financial instruments proposed for each "mega" project and Envelope described in the Program proposal. Attachment 2 describes some examples of financial instruments used to-date to encourage maximum impact in the goal of transformation. CTF resources may be combined with other instruments and mechanisms available in the market, such as GEF resources, other donor funds, and/or carbon credits. In the case of such resource pooling and to the extent available at the time of submission, underlying project proposals may need to explain the particular advantages of combining these tools in the specific project circumstances.

(c) *Country Eligibility:* Private sector programs/projects will be implemented in countries that meet the eligible country criteria established by the CTF.

(d) *Investments vs. Technical Assistance**:*** At least XX% of a proposed Program's budget should be used to finance private sector projects. Up to [XX%] of a proposed Program budget may be used for initiatives and projects aimed at reducing information barriers or other non-finance based barriers to market transformation toward allowing climate resilient and low-carbon growth.

6. *Administrative & Project Management Costs:*

(a) <u>Definition of Project Costs</u>: Project costs refer to the MDBs' expenditures related to the identification, preparation, appraisal, approval, supervision and evaluation of a specific project. The MDBs would apply their investment lending policies and procedures to all operations financed by the Funds.

(i) *Project Preparation includes:* project concept preparation and review; due diligence; structuring, approval preparation and review; preparation and negotiation of legal agreements; and, board approvals.

(ii) *Project Implementation includes*: loan/grant disbursement management; oversight of, or management costs related to, sponsor capacity building or completing knowledge management products; and procurement and management of consultants.

(iii) *Project Supervision includes:* monitoring and completion of reports, site visits, negotiation and implementation of waivers and restructurings; monitoring and evaluation of individual projects including independent evaluation of completion/performance reports.

(b) <u>Cost Recovery:</u>

(i) *Program Management & Administrative Services*: In constructing an annual administrative budget, it is proposed that the Trustee, the Administrative Unit, and the MDBs use common, standard expense categories. The expense categories used should be comparable across all entities and can be broken down into the following expenditure categories: staff salaries and benefits; consultant fees; travel; indirect/operating costs (includes translation, communications, computing and information systems, printing and publications, office equipment and supplies, office space, support/ temporary staff, training, seminars, honoraria, representation); institutional /fixed costs (includes chargeback services from the parent organization for administrative, personnel, accounting, auditing, legal, financial reporting, funds disbursement services and office space/facilities; contractual services; and external audit fees.

(ii) *Approval of Administrative Budget by the Trust Fund Committees:* It is proposed that each entity prepare, on an annual basis, a proposal for compensation for the agreed administrative services for the upcoming year. The respective Trust Fund Committees would endorse the entities' activities for the upcoming year and approve the request for compensation. Upon approval by the Trust Fund Committees, the Trustee would be authorized to commit and transfer the entire amount approved to the entities. Each approval would be subject to an end of year adjustment based on actual costs.

(iii) *Compensation for Project Preparation, Implementation and Supervision Budget (PPISB):* It is proposed that the budget for PPISB be prepared for the whole project life cycle and include estimated annual expenditures. The total budget, including an annual breakdown of expenditures, will be submitted together with the project envelope proposal. Upon approval by the Trust Fund Committee, the Trustee will commit the entire PMSB; the Trustee will transfer the annual amount approved to the respective MDBs on a yearly basis. The fiscal year allocation within the approved PMSB will be subjected to annual adjustment based on actual costs. PMSB will cover staff, consultants, travel and related costs of project preparation and appraisal, including due diligence, as well as investment negotiations.

(c) Reflows: All reflows generated from CTF funded sub-projects will flow back to the CTF Trust Fund [on an annual basis].

7. *Reporting to the Trust Fund Committee:* MDBs will report on the progress of each Program semi-annually or more frequently if requested by the Trust Fund Committee. At each reporting date, an updated Program pipeline must be provided if the originally proposed pipeline list has been changed. To ensure consistency in reporting and evaluation, universal measurement criteria will be developed by the MDB Committee. The measurement criteria will be in line with already existing best practice. Semi-annual reports submitted by the MDBs should also include updates on the progress of "mega" projects and Envelopes, in particular vis-à-vis the application of the CTF investment criteria.

Annex B
Attachment 1

Rationale for Private Sector Engagement in the Clean Technology Fund

1. **Rising Greenhouse Gases (GHGs) present an urgent challenge to the well-being of all countries**. The Intergovernmental Panel on Climate Change (IPCC) makes clear that warming of the climate system is unequivocal and delays in reducing emissions significantly constrain opportunities to achieve lower stabilization levels and increase the risk of more severe climate related impacts. The impacts of GHGs are global and include, among others: increased frequency and severity of droughts, floods and storms, water stress, decline in agricultural productivity and food security, and further spread of water-related diseases, particularly in tropical areas. Stabilization of GHG concentrations within levels that would keep climate related impacts manageable, require limiting global GHG emissions.

2. **Financing GHG reductions: Focus on developing market-based solutions that would leverage the private sector.** Successful global action to tackle GHG reduction requires substantial financial and technology flows from developed to developing countries. The United Nations Framework Convention on Climate Change (UNFCCC) estimates that by 2030 financial flows to developing countries should be in the order of US$100 billion annually to finance mitigation[22] and somewhere between US$28-67 billion for adaptation. Over 80 percent of these investment flows are expected from the private sector. Investment in private sector activities is necessary to test and fast-track the evolution of **financially sound business models** that can form the basis of market-based solutions for addressing GHG reduction. Dynamic growth in demand for energy in the power, transport, building and industrial sectors in developing countries over the next 10-15 years provides a finite window of opportunity to implement transformational investments that reduce emissions. Appropriate incentives need to be implemented now as investment decisions being made today will impact the environment for the next 40 to 50 years.

3. **Public-Private synergies**: An integrated approach with public and private sector involvement should fast-track the development of long-term sustainable market solutions to reduce GHGs. Public sector financing can assist in creating the enabling environment for climate sensitive private sector development, securing private financing flows fast enough to make a difference in current investment decisions. At the same time, private sector action may well precede – rather than follow – changes in regulatory frameworks. Availability of subsidized funding for the financing of clearly delineated private sector expenditures that would replace or reduce carbon-intensive economic activity can set off important market trends and technology evolutions. The strategy for engaging the private sector through subsidized funds would be to encourage early adopters by partially buying down incremental investment costs or specific risks associated with clean energy technologies or sustainable management practices, with the assumption that such early adoption, if large enough in scale, would eventually lead, through

---

[22] The costs and financing required are a function of the assumed level of greenhouse gas concentrations in the atmosphere, in this study 550 ppm. The IPCC and other recent studies indicate lower levels may be needed in which case costs will be higher.

falling technology costs and emerging best practice and standards, to long-term changes in industries as well as in their regulatory environments.

4. **Multilateral Development Banks (MDBs) as market catalysts.** MDBs are in a unique position to engage with the private sector in mobilize action that would address GHG reduction. In addition to sectoral and country expertise, MDBs have the ability to design innovative financial structures to meet private sector project finance needs and to support those projects with financing, technical assistance and knowledge sharing. MDBs also have strong client bases which include market leaders in the sectors and therefore the potential for maximum demonstration effect and market impact. Many private sector firms are hesitant to enter new markets or to engage in the early stages of product development and testing without the support of partner institutions like the MDBs who work with them to ensure project success. By leveraging their market position MDBs can therefore intervene in emerging markets to accelerate commercialization of proven emerging technologies and to test new ones. Building on their client networks of global industrial players, as well as their local presence on the ground across developing country markets, MDBs are positioned to play an honest broker role in addressing barriers to market development and mobilizing private sector investment.

5. **Preventing distortionary subsidies.** The availability of large sums of subsidized financing obviously poses significant risks of market distortion – irrespective of whether these funds would be channelled through MDBs or country governments. These risks are exacerbated here by the urgent need for markets to develop projects that would deliver low-carbon growth solutions in a long-term sustainable manner. Wrongly placed subsidized funds could exacerbate the climate challenge as subsidies may well increase the prices that firms can set for clean technologies or by preventing firms to take investment decision that would reduce the carbon intensity of their production as they wait for subsidies to become available later. At the same time, subsidies may end up only with the less successful market players as these would be more eager to apply for subsidies than firms whose products are winning over market share due to inherent product or firm advantages; having been placed with the "losers" the subsidies will not achieve their transformative goals and may in fact result in negative demonstration impacts. It is imperative that CTF financing mechanisms, both for engaging the public sector and for engaging the private sector, are designed to specifically address risks associated with market distortions.

6. **Project finance offers market discipline for the use of subsidized financing in the private sector context.** By integrating and linking subsidized funds into "regular" project finance activities, the CTF will introduce market discipline in the decisions about allocation, shape and size of the inherent subsidy elements injected into markets. "Riding alongside" otherwise commercially viable investments will allow the subsidized funding elements to be placed such that they achieve minimal market distortion and can focus on accelerating and spreading the application of particular (clean) technologies and/or sustainable management practices that would enhance transition towards climate-sensitive economic activity. Using the screening processes applied by project finance officers – as opposed to "application" approaches otherwise used when distributing for example technology-related subsidies – will ensure the allocation of subsidized financing to market players that are successful in their business and leaders in their sectors.

7. **Maximizing the use of CTF funds – the effect of reflows**: Subsidized finance used in the form of non-grant modalities generates principal and interest repayment reflows which can then be used to finance additional GHG reduction projects. Reflows extend both the duration of the fund and the size of the impact compared to when used in traditional grant investment forms. In the case of the CTF, all reflows generated through the MDB managed CTF sub-projects will flow back to the CTF Trust Fund.

8. **The benefits of competition**. Engaging several financial institutions in parallel in placing subsidized funding with private sector activities considered to have transformational potential will create beneficial competition. Such competition will benefit the private sector and donor objectives in that it ensures maximum creativity and innovation on the product offering side while keeping product pricing fair. It is also an important element in limiting possible distortionary market effects that could emerge from only one MDB being able to offer subsidized funding to specific industries or sectors. CTF funds will initially be available only to MDBs, in light of their development mandate and willingness to work with the CTF donor committee in testing and fully understanding allocation and reporting mechanisms. Eventually, it may be important to broaden the eligibility for proposal submission to private financial institutions active in the CTF countries.

Annex B
Attachment 2

Moving markets through the use of Financial Mechanisms

Experience in using financial mechanisms to encourage uptake of new technologies or business models.

1. This attachment describes examples of selected financial products suitable to engage the private sector in pursuing climate-sensitive investment strategies. While these products have been, or are in the process of being, tested, it is important to note that as new market barriers emerge new, or amended forms of these financial instruments will be created to effect change.

Equity:

2. Equity is a capital investment in a company or project that is not repaid on a fixed schedule but provides the investor with ownership rights. Equity is generally used to support firms that have viable business plans to implement and test new technologies but where sponsors do not have the financial wherewithal to implement the project alone. Early stage equity investing refers to direct investing in high risk, high innovation, early stage (often) technology companies via equity or mezzanine finance (instruments with both debt and equity characteristics). Concessionary funds may be needed when (a) there is a high relative transaction cost due to the small size of the transaction; (b) high perceived risk due to the investor's lack of experience in the targeted sector, or the untested nature of the technology; and/or (c) specifically in commercializing the technology's application in a developing country.

3. *Relevance for climate change*: Supporting highly innovative companies in environmental sectors can create strong demonstration cases which could accelerate market change including leapfrog technologies. IFC has a track record in early stage direct investments in the IT, life sciences and cleantech sectors in emerging markets.

4. *Risks*: Direct investing may not be quickly scalable given the deal by deal approach and the time required for screening and to process each transaction. However, direct investing gives a development bank the opportunity to support highly developmental transactions that the private sector alone would shy away from.

Credit lines & loans (with built in incentives):

5. Credit lines and loans with incentive characteristics such as performance bonuses or interest rate reductions provide a client with the opportunity to reduce overall funding costs if it meets certain milestones or targets established at the onset of the program. These instruments are most effective with local banks that are comfortable with the risk of a new initiative but that want to use the incentive for clients or loan officers to "kick-start" a new business area (such as clean energy lending). In this financial structure the

donor's funds are coupled with, and leverage, MDB funds to provide the client with one aggregate loan. The bonus or interest rate reduction is deducted from the donor's portion of the loan.

6. *Relevance for climate change*: This product has been used to encourage local banks to develop lending programs for small sized carbon mitigating investments such as small-scale renewable energy projects and energy efficiency investments in housing, buildings and small businesses. Working through local banks is particularly appealing in these instances given the scale required to have a climate change impact; in this structure scale is achieved through a local bank's network and client relationships.

7. *Risks*: Despite the incentives in the financial instrument and the financial attractiveness of most energy efficiency transactions, adoption on a large scale requires a change in awareness, capacity, behaviour and attitude, both on the bank's part and on the consumer's part. An effective program is therefore dependant on the commitment of a bank's management team to integrate the new line of business into their regular operations, the willingness to train its loan officers, the bank's ability to influence their client base, and on the competencies of the client base to understand and apply for such financing.

Subordinated Debt (Mezzanine Finance):

8. Subordinated debt, a form of mezzanine financing, refers to loans that in case of payment defaults or bankruptcy have a lower repayment priority compared to other company or project loans. Subordinated debt strengthens a company/project's equity position in a bank's credit analysis and enables/encourages a local bank to provide senior debt financing. Donor funds that are used as subordinated loans effectively leverage senior financing. While this type of debt has some equity characteristics, it is normally repaid on a regular schedule.

9. *Relevance for climate change*: Subordinated debt has high potential for impact and is currently being tested with financial institutions to fill the 'equity gap' that exists with many small renewable projects. For viable renewable energy projects, this structure is used to cover the difference between the project costs a local bank is *willing* to cover and the costs the project sponsors are *able* to cover.

10. *Risk*s: Subordinated debt is currently in the testing phase as a market catalyst for small renewable projects.

Guarantees (& Insurance):

11. Guarantees and insurance products enhance the credit worthiness of a transaction because the guarantor agrees it will cover some, or all, of any defaulted payment or repayment per an original contract; guarantees are sought when payment or repayment flows are risky. Guarantees allow MDBs to use their strong credit rating to provide comfort to decision makers that cash flows will take place. This can influence banks and

other financiers to provide funding for low carbon technologies (by extending tenors, a project's financial viability becomes more attractive to a sponsor and enables them to make the investment). In general guarantees can be used to cover any of the risks the market will not bare, including credit risk, technology risks, or changes to the project's regulatory environment. Donor funds would be used to provide guarantees for climate change initiatives when no party is willing to pay for such guarantee.

12. *Relevance to climate change*: Guarantees can be applied in different ways to support the development of the renewable energy sector, for example, by enhancing the expected revenue stream from a Power Purchase Agreement, by increasing access to bank finance, or by extending loan tenors and improving the financial viability of a project.

13. *Risks*: Excessive guarantees can distort markets and encourage poor investment decisions. Care must be taken to ensure that guarantees are offered on the right types of transactions and in levels that still require some private sector risk taking.

Leasing:

14. Leasing is a way of financing the use of equipment or new technologies. Leasing allows a company or an individual to utilize an asset even though it is legally owned by a leasing company or bank. It is an attractive form of financing for a borrower because it does not require large up front incremental costs; it is attractive for the financier because the equipment is still owned by the lender during the financing period. An effective leasing market requires that an established secondary market exist for the equipment being leased; ie. leasing companies need to be confident they can sell the used equipment if the original borrower defaults and the equipment must be reclaimed. Donor funds could be used as performance incentives to encourage leasing companies and banks to engage in, or establish, a new line of business for clean energy equipment. Donor funds could also be used as guarantees to mitigate the risk of resale while a secondary market is being established for the clean energy equipment.

15. *Relevance for Climate Change*: Leasing could be an effective way of promoting the change to widely applying cleaner technologies, especially for smaller scale upgrades by small and medium sized companies. Leasing companies can handle large volumes of relatively small sized transactions.

16. *Risks*: Leasing may be less attractive in sectors where the new technology is integrated with the companies' other processing equipment or operations and cannot be discreetly separated and sold in a secondary market if a payment default occurs.

Risk Sharing

17. Risk Sharing is a way of "sharing" the risk of a portfolio of sub-projects with a local bank or financial institution. While the bank funds the sub-project loans from its own account, MDBs guarantee a portion of the repayments from borrowers if a sub-project defaults. A risk-sharing product gives a bank comfort that their risks are

mitigated during the period when they are learning a new line of business and a performance track record is being established for the underlying loans. In this structure, donors play a critical role by covering the losses from the first few defaults (if any) which occur in a portfolio of projects (first loss). To date the experience with risk sharing structures has been positive both in terms of low to no losses and the amount of funding leveraged from financial institutions.

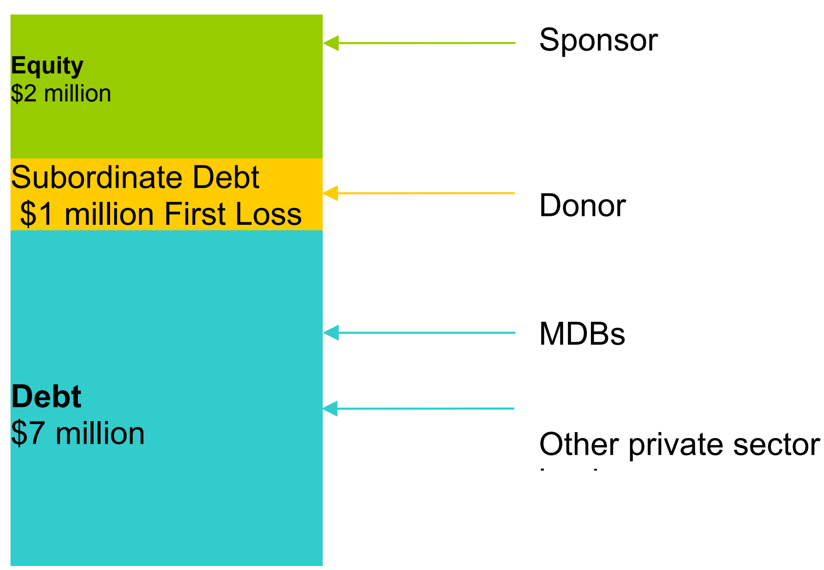
18. *Relevance for Climate Change*: Risk-sharing is an effective way to engage a financial intermediary to lend for sectors such as energy efficiency and small scale renewable energy.

19. *Risks*: Even with the best risk-sharing structure, success with this approach is dependant on whether a bank's management fully integrates the line of business into their operations.

EXAMPLES OF FINANCIAL INSTRUMETNS

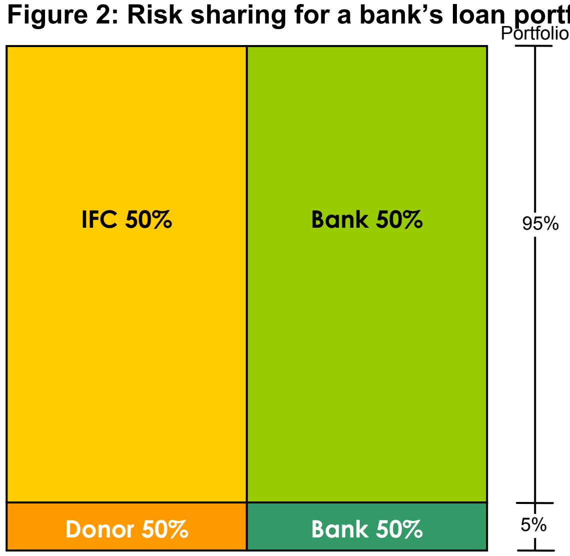
1. **Example A: Subordinated debt** (mezzanine finance) provided to private sector investors to catalyze debt financing for renewable energy projects. In this example, MDBs and/or other private sector lenders require a 30% equity investment in order to provide debt financing for a project. Concessional funds (donor funds) are used to supplement the equity structure of a project when sponsors have a viable clean energy project but do not have the ability to increase their equity stake. This type of structure can be used for individual projects and for bundled projects through a financial institution.

Figure 1: Subordinated debt for a $10 million



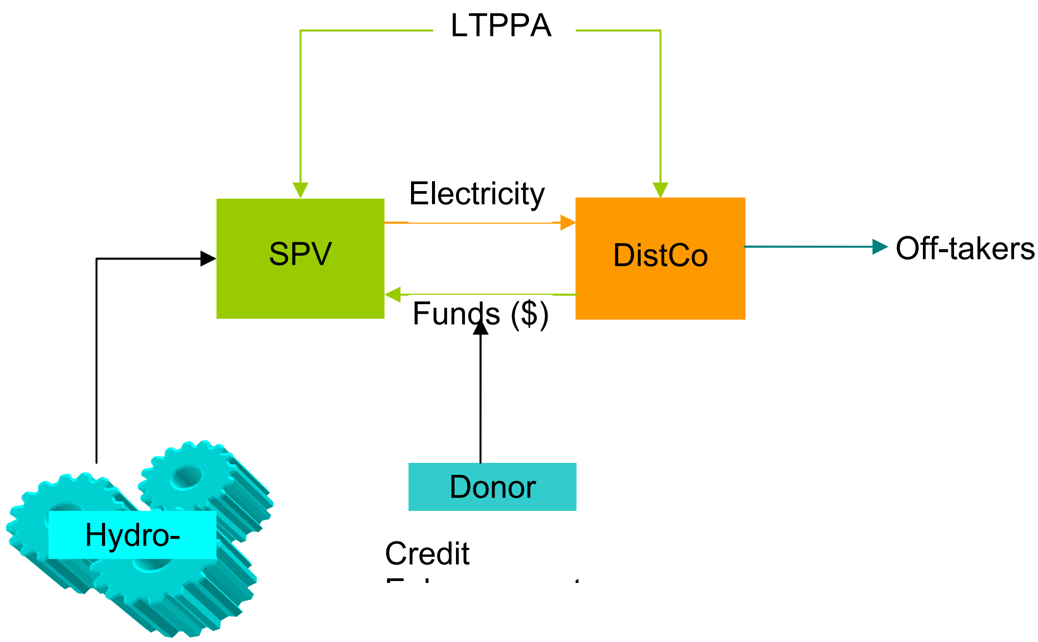
2. **Example B: A Risk-sharing Facility** to support a portfolio of loans from a commercial financial intermediary (banks and leasing companies). In this example the first 5% of losses on the portfolio would be shared equally between the bank and donor with the future losses being shared equally between the bank and MDB

Figure 2: Risk sharing for a bank's loan portfolio



3. **Example C**: **Credit enhancement** to strengthen the credit-worthiness f a power generation project by ensuring long-term viability of utility off-take agreements related to the project's renewable energy portion (or co-generated steam). In this example, donor funds are used to guarantee payments from a distribution company to a hydro power SPV. Without this level of comfort on their future revenue stream project sponsors may not develop RE projects

Figure 3: Credit Enhancement Facility for a Hydro Power Plant



Notes: LTTPA: Long-term power purchase agreement; DistCo: Electric distribution company (utility); SPV: Special-purpose vehicle /project company.

Annex B
Attachment 3

PROPOSED PRIVATE SECTOR CYCLE OF ACTIVITIES FOR THE CLEAN TECHNOLOGY FUND
(under discussion)

Steps/Actions Required	Responsible Party	Performance Standards
1. Identify target countries and sectors	MDB	Based on CTF investment criteria established by Donors and MDBs <u>up front</u>.
2. Prepare and submit project proposals for approval	MDB	Proposals to include: <u>For Large-Scale projects (utilizing more than US$[ ] of CTF funds):</u> • Amount of CTF funds requested • Investment Country • Company size • Sector • Technology supported • Use of CTF funds in the financing structure • A description of any advisory services/ knowledge management components • Justification for the use of subsidized funds • Total GHG reduction expected • Effectiveness of the CTF funds (GHG/$1 CTF spent) • Leverage expected from the private sector (including the participant MDB) • Description of how the project supports "transformation" to a low carbon economy • Explanation of how the project seeks to minimize or avoid market distortions • Risks & mitigants of the project • Performance Indicators for the project <u>For Envelope projects (Small-mid scale projects each utilizing less than US$[ ] of CTF funds):</u>

		• Amount of CTF funds requested • Investment Country(ies) • Size of companies in the portfolio • Sector(s) targeted • Technology(ies) supported • Use of CTF funds in the expected financing structures • A description of any advisory services/ knowledge management components • Justification for the use of subsidized funds • Total GHG reduction expected • Effectiveness of the CTF funds (GHG/$1 CTF spent) • Leverage expected from the private sector (including the participant MDB) • Description of how the project supports "transformation" to a low carbon economy • Explanation of how the project seeks to minimize or avoid market distortions • Risks & mitigants of the project • Performance Indicators for the project
3. TFC reviews proposals and approves	TFC	Based on CTF investment criteria established up-front.
4. MDB submits cash transfer request to IBRD as Trustee.	MDB	Within [ ] working days of effectiveness.
5. IBRD as Trustee makes cash transfer to MDB.	IBRD as Trustee	Within [ ] working days of receipt of cash transfer request.
6. Identify, appraise, structure, and negotiate Large-scale and individual Envelope projects;	MDB	Consistent with CTF investment criteria and additional criteria approved by the TFC in the Proposal Document
7. Resubmission of any project/ proposal that differs substantially from the Approved Proposal	MDB	Memorandum circulated on a no-objection basis.

Steps/Actions Required	Responsible Party	Performance Standards
8. MDB Investment Review Meeting	MDB	According to MDB's operational policies and procedures
9. Summary of Proposed Investment (SPI) information circulated to TFC when it is released to the public	MDB	30-60 days prior to MDB Board approval (for information purposes only)
10. MDB obtains board approval for individual projects and signs legal contracts.	MDB Board	According to MDB's operational policies and procedures
11. Supervision and management of the portfolio projects	MDB	Consistent with MDB's operational policies and procedures
12. Annual Report submitted to Administration Unit	MDB	Based on the Performance Indicators established at Project Approval

Annex C
Role of Trustee

Management of funds

1. The World Bank (IBRD), through its Multilateral Trusteeship and Innovative Financing Department (MTIF) under the Concessional Finance and Global partnerships Vice Presidency (CFP), would serve as Trustee of the Funds. In this capacity, it will be responsible for the following functions:

(a) establishing and maintaining appropriate records and accounts to identify contributions and other receipts, including reflows;
(b) recording all funding decisions made by the Trust Fund Committees to monitor funding status of the CIF;
(c) making commitments to the MDBs in accordance with the decisions of the Trust Fund Committees against the available resources of the Trust Fund and making corresponding cash transfers;
(d) preparing financial reports and audit coordination for each of the funds; and
(e) investing the proceeds of the funds, including currency conversions and cash management.

2. Pending disbursement of the proceeds, IBRD will invest the Funds' resources in accordance with World Bank policies and procedures for the investment of trust funds that it administers. Income earned on each Fund will be credited to the Fund, thus increasing resources available for operations.

3. IBRD will act as financial intermediary with respect to the CIF's proceeds administered by the MDBs and, in that capacity, will have no responsibility to the Funds' contributors for the use of the proceeds of such funding over and above those responsibilities contained in the contribution agreements and agreements with MDBs. Such responsibilities will be born by the MDBs in accordance with their own fiduciary frameworks, policies, guidelines, and procedures.

Financial Reporting

4. The Trustee will be accountable to the Trust Fund Committees for the performance of its fiduciary responsibilities. The Trustee will submit regular reports to each Trust Fund Committee on the financial status of the respective fund. The Trustee will provide for an external annual audit of the accounts of the funds. The Trustee will forward to the Trust Fund Committees a copy of the annual, audited financial statements of the CTF together with the auditor's written report of the audit findings.

Execution of Legal Agreements

5. As Trustee, IBRD will execute contribution agreements with each contributor to the CTF or any of the funds, which sets out the terms and conditions applied to administration and management of the contributions made to the fund. The Trustee will also enter into agreement with each of the MDBs, which sets out the terms and conditions of commitment, including remedies in case of breach of the agreement, and transfer of CTF resources to the MDBs as well as reporting requirement.