



June 9, 2008

THE CLEAN TECHNOLOGY FUND

Background

1. A consensus is growing that moderating and managing climate change is central to every aspect of poverty reduction, economic growth and development, and that climate change disproportionately affects the urban and rural poor worldwide. 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.
2. The Fourth Assessment Report of the Intergovernmental Panel on Climate Change found that warming of the climate change system is unequivocal, and that delay in reducing emissions significantly constrains opportunities to achieve lower stabilization levels and increases the risk of more severe climate change impacts. Under the first principle of the United Nations Framework on Climate Change (UNFCCC), it is recognized that “Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities. Accordingly, the developed country Parties should take the lead in combating climate change and the adverse effects thereof.”¹
3. Arresting increases in GHG concentrations translates into significant emission reductions by developed countries and curbing growth in GHG emissions by developing countries, with eventual stabilization in the long term. Dynamic growth in demand for energy in power, transport, building and industrial sectors in developed and developing countries in the next 10-15 years provides a finite window of opportunity for developing countries and development institutions to demonstrate and invest in ways that provide energy services and other infrastructure services, reduce emissions, and prevent irreversible climate change. However, there is a gap in the international architecture for development finance for funding available at more concessional rates than standard Multilateral Development Bank (MDB) terms and at the scale necessary to help provide incentives to developing countries to integrate nationally appropriate mitigation actions into sustainable development plans and investment decisions.
4. The 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 Global Environment Facility (GEF) has been designated as the financial mechanism of the Convention. GEF, under its mandate in the climate change area, provides new and additional financing:
 - (a) to pilot and demonstrate innovative technologies,
 - (b) to remove barriers to transform markets, particularly for renewable energy and energy efficiency and
 - (c) for capacity building, in particular the creation of an enabling environment, including establishment of codes, norms and standards.
5. 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.”

¹ United Nations Framework Convention on Climate Change, Article 3(1).

6. 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.

7. 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 country Parties.”

8. Consistent with the provisions of the UNFCCC, the Clean Technology Fund has been developed to demonstrate new approaches and provide lessons to contribute to the negotiations under the Bali Action Plan, including the following that are to be addressed, *inter alia*, in the comprehensive process launched by the Conference of the Parties:

- “(a) A shared vision for long-term cooperative action, including a long-term global goal for emission reductions, to achieve the ultimate objective of the Convention, in accordance with the provisions and principles of the Convention, in particular the principle of common but differentiated responsibilities and respective capabilities, and taking into account social and economic conditions and other relevant factors;”
- “(b) Enhanced national/international action on mitigation of climate change, including, *inter alia*, consideration of:
 - (i) Measurable, reportable and verifiable nationally appropriate mitigation commitments or actions, including quantified emission limitation and reduction objectives, by all developed country Parties, while ensuring the comparability of efforts among them, taking into account differences in their national circumstances;
 - (ii) 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;
 - ...
 - (iv) Cooperative sectoral approaches and sector-specific actions, in order to enhance implementation of Article 4, paragraph 1(c), of the Convention;
 - (v) Various approaches, including opportunities for using markets, to enhance the cost-effectiveness of, and to promote, mitigation

actions, bearing in mind different circumstances of developed and developing countries;

- (vi) Economic and social consequences of response measures;
- (vii) 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.”

....

“(d) Enhanced action on technology development and transfer to support action on mitigation and adaptation, including, inter alia, consideration of:

- (i) Effective mechanisms and enhanced means for the removal of obstacles to, and provision of financial and other incentives for, scaling up of the development and transfer of technology to developing country Parties in order to promote access to affordable environmentally sound technologies;
- (ii) Ways to accelerate deployment, diffusion and transfer of affordable environmentally sound technologies;
- (iii) Cooperation on research and development of current, new and innovative technology, including win-win solutions;
- (iv) The effectiveness of mechanisms and tools for technology cooperation in specific sectors.”

“(e) Enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation, including, inter alia, consideration of:

- (i) Improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties;
- (ii) Positive incentives for developing country Parties for the enhanced implementation of national mitigation strategies and adaptation action;
- (iii) Innovative means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation;

.....

- (v) Mobilization of public- and private-sector funding and investment, including facilitation of climate-friendly investment choices.”

9. The need for mobilizing greater and more innovative financing for climate change actions is a critical lesson of the Clean Energy Investment Framework (CEIF)². The CEIF has provided the basis for definition of a range of possible initiatives to be developed 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 the Global Environment Facility (GEF), to broader programs that help reduce poverty, foster growth and increase energy access using new low-carbon approaches to development.

10. Consistent with the experience of the CEIF, and recognizing that the Bali Action Plan decides to launched a comprehensive process by addressing, among other things, ways to strengthen the catalytic role of the UNFCCC regime in encouraging multilateral bodies to support adaptation and mitigation in a coherent and integrated way, 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), are actively pursuing ways to increase the availability of innovative 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.

11. Within this context, the World Bank Group, in consultation with the regional development banks and developed and developing countries, and other development partners is seeking to establish a Clean Technology Fund as one of two strategic Climate Investment Funds (CIF)³ and programs. Recognizing that UNFCCC deliberations on the future of the climate change regime include discussions on a future financial architecture and funding strategy for climate change, this fund is an interim measure for the MDBs to fill an immediate financing gap. The fund, therefore, includes a specific sunset clause linked to the agreement on the future of the climate change regime (see paragraphs 56 and 57) Pending final agreement on the future of the climate change regime, the CTF will seek to demonstrate how financial and other incentives can be scaled-up to accelerate deployment, diffusion and transfer of low-carbon technologies.

Clean Technology Fund

Principles

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

- (a) The core mission of the MDBs is sustainable economic growth and poverty reduction. Climate change mitigation and adaptation considerations need to be integrated into the sustainable development process as addressing these issues

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).

³ 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 programs for Climate Resilience, Greening Energy Access, and Sustainable Forest Management.

- contributes to the basic human needs of the poorest who are disproportionately impacted by the negative effects of climate change;
- (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 MDBs should mobilize new and additional financing for adaptation and mitigation programs to address climate change that are country-led and designed to support sustainable development and poverty reduction. Activities financed by the fund should be based on a country-led approach and should be integrated into country-owned development strategies, consistent with the Paris Declaration;
 - (d) Achieving sustainable outcomes will require sustaining the total wealth – produced, human, institutional and natural – on which development depends;
 - (e) The UN is the appropriate body for broad policy setting on climate change, and the MDBs should not preempt the results of climate change negotiations. Actions to address climate change should be guided by the principles of the UNFCCC;
 - (f) The MDBs, in collaboration with other development partners, should assist developing countries to build country-level knowledge, capacity and development project experience;
 - (g) It is appropriate for the MDBs to build partnerships with each other and a wide range of institutions and stakeholders on climate change, including the private sector. In doing so, each MDB should remain accountable to its governing body;
 - (h) Complementarities between activities foreseen for the CIF and activities of the GEF and the UN, especially at the country level, should be identified, and effective cooperation established, to maximize synergies and avoid overlap.
 - (i) The CTF should provide for transparency and openness in its governance and financing operations.

Objectives of the Clean Technology Fund

13. The Clean Technology Fund (CTF) will aim to finance transformational actions by:
- (a) providing positive incentives for the demonstration of low carbon development and mitigation of greenhouse gas emissions through public and private sector investments;
 - (b) promoting scaled-up deployment, diffusion and transfer of clean technologies by funding low carbon programs and projects that are embedded in national plans and strategies to accelerate their implementation;
 - (c) promoting realization of environmental and social co-benefits thus demonstrating the potential for low-carbon technologies to contribute to sustainable development and the achievement of the Millennium Development Goals;
 - (d) promoting international cooperation on climate change and supporting agreement on the future of the climate change regime;
 - (e) utilizing skills and capabilities of the MDBs to raise and deliver new and additional resources, including official and concessional funding, at significant scale; and
 - (f) providing experience and lessons in responding to the challenge of climate change through learning-by-doing.

Types of Investment

14. The Clean Technology Fund will invest in projects and programs that contribute to demonstration, deployment and transfer of low carbon technologies with a significant potential for long term greenhouse gas emissions savings. As country circumstances differ, investment programs will be developed on a country-specific basis to achieve nationally-defined objectives. The range of options include::

- (a) programs and large-scaled projects⁴;
- (b) at the sectoral or sub-sectoral level in a given country;
- (c) sub-nationally, by focusing activity on a particular province/state/municipality;
- (d) regionally, particularly where regional cooperation is required;
- (e) through the private sector, or public-private partnerships.

15. Investment selection criteria will be developed to assess the potential for greenhouse gas reductions, demonstration potential, development impact and implementation potential (see Annex A, paragraph (6)). Investments may include, among others, low carbon actions addressing the power sector (renewable energy, as well as increased efficiency in generation, transmission and distribution); transportation (modal shifts to public transportation, improved fuel economy, and fuel switching); and large scale adoption of energy efficient technologies and other demand management techniques in the industrial and commercial and residential building sectors.

16. It is recognized that with respect to enhanced technology development and transfer, the Bali Action Plan calls for cooperation on research and development of current, new and innovative technology, including win-win solutions, and collaboration by institutions in developed and developing countries on technologies for mitigation. There is a gap in national and international financing for research and development. It is proposed that the World Bank collaborate with other relevant international institutions with a view to proposing innovative means to address the financing gap.

Country Access

17. Country access will be based on:

- (a) ODA-eligibility (according to OECD/DAC guidelines); and
- (b) an active MDB country program.⁵

18. When a country expresses interest in accessing CTF financing, the MDBs concerned will conduct a joint mission, involving other relevant development partners, to discuss with the government, private industry and other stakeholders how the fund may help finance scaled-up low carbon activities. The Trust Fund Committee will be kept informed of country expressions of interest and planned joint missions. The outcome of the joint exercise will be an investment plan, developed under the leadership of the recipient country, for the use of CTF resources in major sectors of the economy through a joint MDB program (see Annex A, Box 1). The investment plan should build on existing country-owned strategies or action plans and demonstrate how it is complementary to activities under other available programs, including

⁴ Recognizing that pilot projects are funded by the GEF and that the CTF would support scale-up.

⁵ An “active” program is where a MDB has a lending program and/or an on-going policy dialogue with the country.

those that are aimed at enhancing the enabling environment. Investment plans will be submitted to the Trust Fund Committee to endorse further development of activities for Trust Fund co-financing and to facilitate prioritization of the pipeline of projects.

19. Subsequently, a proposed program or project, developed pursuant to the investment plan, will be submitted by the relevant MDBs, prior to its appraisal, to the Trust Fund Committee for approval of trust fund financing. The further processing of a program or project will follow the MDB's policies and procedures for appraisal, MDB Board approval and supervision.

20. The joint missions will build on activities, experience and knowledge gained by other agencies and organizations, like the GEF and the UN organizations, in planning and executing climate change programs, including enhancement of enabling environments. The implementation of programs at country level will be actively coordinated with other multilateral agencies, such as UNDP and UNEP..The MDB joint missions will also work closely with bilateral development banks that have significant climate financing programs to identify opportunities for co-financing of CTF programs and projects. Where co-financing of a project by two or more MDBs occurs, there will be coordination of the applicable operational policies and procedures, with a general approach that the more stringent agency policy will apply.

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

Private Sector

22. 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 will seek to provide incentives necessary to engage private sector actions in achieving the objectives of the Fund. 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

23. The CTF will seek, through the MDBs, to:

- (a) finance at scale in the near-to-medium term to meet investment needs to support rapid deployment of low carbon technologies and increase energy efficiency;
- (b) optimize blending with MDB financing, as well as with bilateral and other sources of finance, to provide incentives for low carbon development;
- (c) provide a range of financial products to leverage greater private sector investments; and
- (d) provide financial instruments integrated into mainstream development finance and policy dialogue.

24. CTF financing will provide a grant element tailored to cover the identifiable additional costs of the investment necessary to make the project viable, thereby providing the appropriate incentive to facilitate deployment of low carbon technologies at scale. The CTF will utilize a range of concessional financing instruments, such as grants and concessional loans, and risk

mitigation instruments, such as guarantees and equity. The choice of financing instruments should be flexible and differentiated among sectors. CTF financing should avoid crowding out the private sector. In keeping with MDB practice, investment projects and programs may include complementary financing for policy and institutional reforms and regulatory frameworks. To the extent GEF funding is available for capacity building, in particular for the creation of an enabling environment, including establishment of codes, norms and standards, efforts will be undertaken to maximize GEF financing through such partners as UNDP and UNEP.

Organization of the CTF

25. 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, consistent with investment plans, to country demand in both public and private sectors and facilitate rapid deployment of fund resources in coordination with other available funding sources;
- (c) operate through a close partnership with other relevant development partners at the national level;
- (d) separate responsibilities for resource allocation, fiduciary responsibilities and administrative functions; and
- (e) ensure full transparency and openness in governance, oversight and evaluation processes.

26. Based on these principles, it is proposed that the CTF be governed by a Trust Fund Committee and serviced by an MDB⁶ Committee; an Administrative Unit; and a Trustee.

CTF Trust Fund Committee

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

28. The Trust Fund Committee will consist of:

- (a) eight representatives from donor countries or groups of such countries to the CTF identified through a consultation among such donors⁷, and eight representatives from eligible recipient countries or groups of such countries identified through a consultation among interested recipient countries; provided; however, (i) if there are less than eight donor countries contributing to the CTF during the first year of the CTF operations, potential donor countries, identified through a consultation among the donor and potential donor countries, may serve as representatives from donor countries, and (ii) if there are less than eight donor countries contributing to

⁶ 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.

⁷ Selection of donor country representatives is to be primarily guided by total contributions to the CTF.

the CTF in the subsequent years, the number of donor country representatives and recipient country representatives, respectively, shall be reduced to equal the number of actual donors contributing to the CTF. Representatives will serve for two year terms, except that they may serve for a one year term for the first year of the CTF operations and terms will be staggered so not all representatives are replaced each year. Representatives may be reappointed;

- (b) whenever the Trust Fund Committee considers an investment plan for a country or a 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;
- (c) a senior representative of the World Bank, recognizing the role of the World Bank as the overall coordinator of the CIF partnership;⁸
- (d) a representative of the MDB partners to be identified by the MDB Committee and chosen on the basis of rotation among the MDBs .⁹

29. Members of the MDB Committee and the Trustee may attend the Trust Fund Committee as observers.

30. 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 to its meetings the GEF as an observer. A representative of the UN will be invited as an observer at Trust Fund Committee meetings for which broad strategic discussions are included on the agenda. Representatives of other institutions with a mandate to promote investments in clean technology to address climate change may also be invited as observers at Trust Fund Committee meetings. Recognizing the special areas of competence of the observers, the Trust Fund Committee will invite observers to engage in an active dialogue.

Chair of the Trust Fund Committee

31. 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

32. Decision-making will be by consensus of the voting members of the Trust Fund Committee. Consensus is a procedure for adopting a decision when no participant in the decision-making process blocks a proposed decision. For the purposes of the CTF, consensus does not necessarily imply unanimity. A dissenting decision maker, who does not wish to block a decision, may state an objection by attaching a statement or note to the decision. If consensus is not possible, then a proposed decision will be postponed or withdrawn.

⁸ The role of representatives of the World Bank and the MDB partners will be similar to that of “non-voting” members of other Boards.

⁹ Same as above

Functions of the Trust Fund Committee

33. The Trust Fund Committee will be responsible for:
- (a) approving programming and pipeline priorities, operational criteria and financing modalities;
 - (b) ensuring that the strategic orientation of the CTF is guided by the principles of the UNFCCC;
 - (c) endorsing further development of activities in investment plans for trust fund financing;
 - (d) approving trust fund financing for programs and projects;
 - (e) approving trust fund financing for administrative budgets;
 - (f) providing guidance on the convening of the Partnership Forum;
 - (g) ensuring monitoring and periodic independent evaluation of performance and financial accountability of MDBs;
 - (h) approving annual reports of the fund;
 - (i) ensuring that annual reports and evaluations, including lessons learned, are transmitted to the UNFCCC;
 - (j) reviewing reports from the Trustee on the financial status of the fund; and
 - (k) exercising such other functions as they may deem appropriate to fulfill the purposes of the fund.

Frequency of meetings

34. The Trust Fund Committee will meet at such frequency as it may decide, but not less than once a year. The Trust Fund Committee may review and approve trust fund financing for programs and projects as needed, at a level and through means and procedures appropriate to project or program review.

Monitoring and Evaluation

35. Monitoring and evaluation of results will be critical for the Trust Fund, and each MDB will follow its procedures for monitoring and evaluation. 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 the impacts of its activities will be carried out jointly after three years of operations by the independent evaluation departments of the MDBs. Results achieved through the fund will be published and publicly available. Full reporting criteria will be agreed by the Trust Fund Committee.

Partnership Forum

36. A Partnership Forum, a broad-based meeting of stakeholders, including donor and eligible recipient countries, MDBs, UN and UN agencies, GEF, UNFCCC, the Adaptation Fund, bilateral development agencies, NGOs, private sector entities, and scientific and technical experts will be convened annually to provide a forum for dialogue on the strategic directions, results and impacts of the CIF. The Partnership Forum will be co-chaired by the World Bank Vice President for the Sustainable Development Network and a country representative elected by countries participating in the Partnership Forum. At the Partnership Forum, donor and recipient

countries will agree, within their respective caucuses, on their representation on the Trust Fund Committee.

37. The implementation of the CTF may benefit from advisory inputs from qualified individuals invited from a wide cross-section of expertise. The Partnership Forum will provide an opportunity for independent scientific, technical and other advice on major issues of implementation in integrating climate change and development. UNEP will be invited to collaborate with the Administrative Unit in proposing to the Trust Fund Committees ways to ensure scientific and expert input, based on personal qualifications and experience of experts and a balance of developed and developing country expertise, into the Partnership Forum.

38. The Partnership Forum will be a meeting for dialogue and consultation and will not lead to written outcomes, such as agreed texts or declarations, which could be used as a basis for discussions in the UNFCCC.

Supporting Units established under the CIF

39. Bearing in mind the objectives of: minimizing transaction costs, and following to the extent possible the MDB processes rather than establishing separate institutional structures, it is proposed that 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

40. 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 that the funds will finance. The share of funding allocated to an MDB will be based on country requests, the quality of proposals, the comparative advantage of the MDB and experience in a region/country. 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.

41. To facilitate collaboration, coordination and information exchange, a MDB Committee comprising representatives of the MDBs will be established. The MDB Committee will meet with such other frequency as deemed necessary by the committee but not less than once a year. The MDB Committee will:

- (a) identify specific areas of MDB cooperation to harmonize their climate change programs and actions, linking their initiatives with CTF 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 resources;
- (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, administrative costs incurred, and other pertinent information;
- (f) serve as a forum to ensure effective operational coordination, exchange of information and experience among the MDBs;
- (g) liaise with other development partners, including bilateral development agencies/banks, for purposes of promoting co-financing of activities through an annual consultation between the MDBs and development partners, including bilateral development banks;
- (h) 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;
- (i) perform any other functions assigned to it by the Trust Fund Committee.

Administrative Unit

42. A CIF Administrative Unit will be established to assist the work of the CIF, including the CTF, and to support Trust Fund and other committees. With respect to the CTF, the Administrative Unit will:

- (a) prepare, in consultation with the MDB Committee, all documentation required for review by the Trust Fund Committee, including developing an agenda for the Trust Fund Committee meeting;
- (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) 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, administrative costs incurred, and other pertinent information;
- (e) manage a comprehensive database of the trust fund activities, knowledge management system, result measurements system and learning program;
- (f) service the meetings of the Trust Fund Committee;
- (g) manage partnerships and external relations, including convening meetings of the MDB Committee and the CIF Partnership Forum;
- (h) collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities; and
- (i) perform any other functions assigned to it by the Trust Fund Committees.

Trustee

43. The IBRD will serve as Trustee for the CTF. The Trustee will act as financial intermediary with respect to the CTF proceeds administered by other MDBs and, in that capacity, will have no responsibility to the CTF contributors for the use of such proceeds over and above those responsibilities contained in the trust fund administration agreement, agreements with MDBs, and relevant World Bank policies and procedures. Each MDB will be responsible for the use of funds transferred by the Trustee in accordance with its own fiduciary framework, policies, guidelines, and procedures. 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.

44. IBRD, in its capacity as the Trustee, will hold in trust, as a legal owner, and administer the funds, assets and receipts, which constitute the CTF trust fund.

Contributions

45. Donors may make contributions in cash, or, with the agreement of the Trustee, by the delivery of promissory notes or similar obligations to the Trustee. Further, donors may make contributions in one lump sum or in installments on the terms agreed with the Trustee. In the event that a part of the donor's contribution is subject to legislative approval, the donor may enter into a trust fund administration agreement with the Trustee for the total amount of the contribution, but qualify the portion of the contribution, which is subject to legislative approval.

46. In order to be selected as a representative from donor countries to the Trust Fund Committee pursuant to paragraph 28(a), a donor or group of donors will be required to make a commitment, by way of entering into a trust fund administration agreement(s), to provide to the CTF a minimum contribution to be determined by the donors or such other amount, as may be determined by the Trust Fund Committee; provided, however, that if the donor that has not unqualified the portion of its contribution in the amount of no less than the minimum contribution within 18 months of the effectiveness of the trust fund administration agreement, the donor will not be eligible to apply for a seat at the Trust Fund Committee for the subsequent term until and unless the minimum contribution is unqualified. In no case will a donor that has not unqualified a portion of its contribution in an amount no less than the minimum contribution serve as a representative from donor countries to the Trust Fund Committee for the period exceeding two years.

47. If there are less than eight donor countries or group of donor countries making commitments equal to, or greater than, the minimum contribution to the CTF during the first 18 months of the CTF operations, potential donor countries, identified through a consultation among the donor and potential donor countries, may serve as representatives from donor countries, pursuant to paragraph 28(a).

48. Donor countries will ensure that the above contributions are new and additional resources supplementing existing ODA flows otherwise available for developing countries.

49. Bilateral development agencies/banks, are encouraged to contribute to the achievement of the objectives of the Trust Fund through bilateral projects or co-financing of projects funded by the Trust Fund. Donors may report on this bilateral financing to the Trust Fund Committee for

its review and confirmation that such bilateral financing conforms to the objectives of the Trust Fund. Activities confirmed by the Trust Fund will be included in the annual report on the Fund.

Commitment of Trust Fund Resources

50. In approving financing for programs and projects, the Trust Fund Committee will seek to achieve an allocation of resources so that no one country receives more than approximately 15% of the Trust Fund resources.

51. The Trust Fund Committee may approve allocation of CTF resources for programs, projects and other activities, subject to the amount of resources available in the trust fund. The Trustee will make commitments to MDBs for transfer of funds in accordance with approval of the Trust Fund Committee, but only to the extent that such resources are available in the trust fund.

Reflows

52. Donors will have beneficiary interests in any reflow of funds returned to the CTF, together with other funds held in the CTF, on a pro-rata basis. Where a donor has made a contribution to the CTF through the SCF, the donor's pro-rata share will be returned to the SCF in accordance with the terms of the CTF.

53. Upon termination of the CTF, the Trustee, on behalf of donors, will endeavour to transfer donors' pro-rata shares to another fund which has a similar objective as the CTF as determined by the Trust Fund Committee, unless a donor otherwise agrees with the Trustee.

54. In the event that a donor decides to withdraw its contribution to the CTF prior to the termination of the CTF, the Trustee will return to the donor: (a) its pro-rata share of the outstanding unallocated balance, including any reflow of funds received, at the time of the donor's withdrawal, and (b) its pro-rata share of any reflows of funds received by the Trustee after the date of withdrawal, to the extent that such reflow of funds is received from the financing made prior to the date of the withdrawal.

Administrative Fees

55. The Trustee, the Administrative Unit, and the MDBs will perform specific administrative services and project related activities. Consistent with MDB policies on management of trust funds, 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 value for money, reasonableness, and transparency. The costs of the Partnership Forum will be included in the administrative budget of the Administrative Unit and will be shared between the CIF funds. 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.

Sunset Clause

56. Recognizing that the establishment of the trust fund is not to prejudice the on-going UNFCCC deliberations regarding the future of the climate change regime, including its financial architecture, the CTF will take necessary steps to conclude its operations once a new financial

architecture is effective. Specifically, the Trustee will not enter into any new agreement with donors for contributions to the trust fund once the agreement is effective. The Trust Fund Committee will decide the date on which it will cease making allocations from the outstanding balance of the Trust Fund.

57. Notwithstanding the above paragraph, if the outcome of the UNFCCC negotiations so indicates, the Trust Fund Committee, with the consent of the Trustee, may take necessary steps to continue the operations of the CTF, with modifications as appropriate.

Legal Document and Amendments

58. The terms of the governance arrangements of the CTF will be set out in the governance framework document. The Trust Fund Committee may recommend amendments to any terms of the governance framework document which will become effective with the consent of all donor countries to the CTF, all recipient countries that have been allocated funding from the CTF, and the Trustee.

59. In addition, the Trustee will enter into a trust fund administration agreement with each donor, which sets out the terms and conditions of administration of donors contributions.

60. The Trustee will enter into a Financial Procedures Agreement with each MDB, which will set out the terms and conditions of commitment and transfer of funds by the Trustee to the MDB as well as financial reporting from the MDB to the Trustee.

Annex A
Proposed Business Model for Country Public Sector Investments
in the Clean Technology Fund

Scope of CTF Investments

1. The CTF will focus on high abatement opportunities at the country level (but could support sub-regional and regional initiatives) and will be technology-neutral. There will be no *a priori* allocations to specific proven technologies or sectors. Financing from the CTF could cover, among other low carbon technologies, one or more of the following proposed transformational investments:¹⁰

(a) Power Sector

- (i) Increase substantially the share of renewable energy (including solar, wind, hydropower, biomass and bio-fuels, geothermal, and waste-to-energy), in the total electricity supply;
- (ii) Switch to highly efficient gas plants resulting in reduced carbon intensity of power generation;
- (iii) Achieve significant greenhouse gas reductions by adopting best available coal technologies with substantial improvements in energy efficiency and readiness for implementation of carbon capture and storage;
- (iv) Promote grid interconnection schemes that support lower carbon energy production and/or significant transmission efficiency improvements;
- (v) Large reductions in transmission and distribution losses (new T&D systems using energy-efficient technologies, or retrofits/upgrades);
- (vi) Adopt utility managed demand management programs for retail and wholesale customers.

(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) Energy Efficiency in buildings, industry and agriculture

- (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;
 - District heating
 - Energy-intensive industries and equipment (motors and boilers).

Investment Plans

2. 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 regional development bank to begin a dialogue on how the CTF may contribute to

¹⁰ The Fund would not support technologies that are still in the research stage, but should be focused on deployment which may include demonstration of new low-carbon technologies.

scaled-up low carbon activities. The Trust Fund Committee will be kept informed of country expressions of interest and planned joint missions. The criteria for undertaking a joint programming mission will be: (a) the country is ODA-eligible (according to OECD/DAC), and (b) there is an active MDB country program in the relevant sector(s).¹¹

3. The outcome of the joint mission would be the development of an investment plan, which is critical as it allows potential activities and investments from the CTF to be structured to respond to each country's existing strategies and plans and to take account of on-going MDB operations in key sectors or sub-sectors in the country. 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. The investment plan will take into account the framework of the MDBs' Country Assistance/Partnership Strategies, other relevant national planning exercises, and activities of other international programs, including the GEF. A key feature of the programming missions will be engagement at the country level with UN and bilateral development and investment agencies, particularly with a view to mobilizing co-financing and ensuring harmonized policy support.

4. The investment plan will be a clearly articulated proposal for the use of the CTF's resources in the country, including a potential project pipeline and notional resource envelopes. The investment plan will be expected to reflect the range of transformational outcomes described in Paragraph 13 of the main document. It should also outline the desired sectors for private sector investments and highlight what measures will be taken to improve the policy and regulatory environment for the private sector, where necessary. The investment plan will 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. The investment plan will be endorsed by the Government, with a designation of MDBs for individual investment operations.

5. In some cases, an alternative to taking a nationally-based approach to investment plans might present the option of focusing on a particular sub-national area, such as state, province or city, or a regional multi-country approach. An area-based approach would identify an appropriate "champion" area within a recipient country, and then develop an investment program around transformational action at that level. In all such cases, endorsement by the central government would be required. Furthermore, a regional approach could provide opportunities for sector-based programs across countries, as well as significant economies of scale.

Review criteria for Investment Plans

6. The investment plan should highlight how it is embedded in national development plans or programs that include low carbon objectives. As country circumstances differ investment programs will be developed on a country-specific basis to achieve nationally-defined objectives. The CTF will use criteria which will allow a generic assessment of transformative potential, consistent with the objectives of the CTF, and aim to maximize GHG reductions per dollar spent. Investment plans, and the proposed pipeline of projects and programs, will be assessed and prioritized on the basis of the following four sets of criteria:

a) Potential for Long-Term GHG Emissions Savings

¹¹ An "active" program is where a MDB has a lending program and/or an on-going policy dialogue with the country.

- (i) Cumulative emissions reductions¹², or avoided, from the investment and per unit cost
 - (ii) Reductions in carbon intensity
 - (iii) Scalability and replicability of low carbon investments, given carbon intensity of GDP and electricity generation, economic growth rates and sector expansion plans
 - (iv) Significant opportunity for reducing growth in GHG emissions.
- b) Demonstration Potential: Accelerate deployment, diffusion and transfer of low carbon technologies, consistent with the objectives of the CTF, at the following scale:
- (i) thematic programs and large-scale projects;
 - (ii) sector or sub-sector in a given country;
 - (iii) sub-nationally, by focusing activity on a particular province/state/municipality;
 - (iv) regionally, particularly where regional cooperation is required;
 - (v) through the private sector, or public-private partnerships.
- c) Development Impact
- (i) Poverty alleviation, fuel savings, efficiency gains, air and water quality, energy security and access, economies of scale, economy-wide impact, local industrial development potential, and environmental co-benefits.
- 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

¹² A methodology will be developed to take into account direct emissions savings from the project itself, potential emissions savings from replication through demonstration, and the potential for wider emissions savings as a result of policy and regulatory change.

7. A proposed template for an investment plan is contained in Box 1.

Box 1: Template for Investment Plans

1. Program Objectives and Results Indicators

Program Objective should demonstrate that the investment will result in:

- a) Achievement of national development objectives and reduction in growth of GHG emissions that would not be achieved without CTF financing;
- b) Transformations in technical systems; and/or
- c) “Demonstration effect” to accelerate deployment, diffusion and transfer of low carbon technologies.,.

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 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 nationally appropriate mitigation actions by the country in the context of sustainable development.
- 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?
- e) Projected GHG emissions reductions and cost per unit of reduction.
- f) Development impact: How does the proposed investment program fit with the country’s economic growth and development strategies?
- g) What element of blending of concessional finance with MDB and other finance (e.g., GEF grants and carbon finance) would make the investments viable?
- h) Enabling policy and regulatory environment, as well as medium-term expenditure framework in the sector(s) concerned.
- i) Potential for mobilization of public/private financing. How would the investments accelerate commercial capital flows and by how much?
- j) Readiness for implementation, including institutional arrangements.

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

Justification of the proposed amount of financing of the Fund; including the comparison of other technologies.

Estimated total cost and potential sources of financing, including grant element required.

Identify whether CTF loans/credits, guarantees, or grants.

Preparation of Investment Plans

8. 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 the following work related to the elaboration of investment plans:

- (a) Economic and sector work linking low carbon development to economic growth and poverty-alleviation strategies; and,
- (b) Developing and preparing investment plans and subsequent project proposals;

9. Each recipient country would determine the appropriate MDB for administration of such grants. It is proposed that there be flexibility in the sequence of analytical work and joint programming by the MDBs, so that the CTF is responsive to country needs and provides streamlined support.

10. The investment plan would provide the basis for an approach to investment lending which emphasizes comprehensive and coordinated planning in a given sectoral or thematic area of intervention. This is intended to support country-owned programs of development, 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) Coordination with donors and other relevant development partners and harmonization of procedures.

11. Adopting a coordinated approach can facilitate streamlined processes and alignment with country processes, reducing the financial and non-financial transaction costs of MDB lending and bring the expertise to bear of other development partners, including in the area of capacity development. The expected development benefits include:

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

12. The investment plans may be supported by a variety of financing instruments utilized by the MDBs for investment lending, which could also be applied to CTF financing. For example, in the World Bank, these would include Specific Investment Loans, Adaptable Program Loans, and Financial Intermediary Loans, as well as risk mitigation instruments, such as partial risk and credit guarantees.

13. Investment plans will be submitted to the Trust Fund Committee for review of the eligibility criteria and priorities for individual investment operations, identification of support needed for a program of investment operations, and general description of a potential pipeline of projects. The Trust Fund Committee will be requested to endorse a CTF resource envelope for individual projects and to authorize the designated MDB to proceed with development and preparation of individual investment operations for CTF co-financing. 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.

14. Individual operations under the investment plan 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

15. 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 CTF 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.

16. 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. The CTF could 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.¹³ Other options for innovative financing will be explored, including the buy-down of interest and repayments of MDB loans.

17. A set of principles and/or eligibility criteria would be established by the Trust Fund Committee for selecting blending options in order to provide the greatest incentives to invest in low carbon technologies, consistent with the broader sustainable development and poverty reduction objectives.

Proposed Financing Products and Terms

18. There are a number of financing products for which MDBs could use the CTF's resources, all of which will include a grant element tailored to the identifiable additional cost of the investment, or the risk premium required, in order to make the investment viable. These products could include concessional finance in the form of 100% grants and concessional loans with a significant grant element, as well as guarantees on highly concessional terms, or a combination of these. The grant element would be tailored to provide the appropriate incentive to facilitate the scaled up deployment of low carbon technologies.

19. 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 and contribute to the long term sustainability of development paths and poverty reduction. Below is a preliminary list of possible financing products. The Trust Fund Committee will review and approve financing modalities, including appropriate terms.

(a) Loans

20. 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 concessional related to the additional costs and risks of deployment. Concessional lending from the CTF could be used, possibly in combination with revenues from emissions reductions, to make low carbon investments financially attractive by improving the internal rates of return on such investments. It is important to note that lending on concessional terms would contain a grant element, which is defined as the difference between the loan's face value and the sum of the present value of debt service to be made by the borrower, expressed as a percentage of the face value of the loan.

21. 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. Security for the debt will be project revenue and assets.¹⁴ 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).

¹³ CTF co-financing could also be used to "top up" concessional finance allocations of "blend countries".

¹⁴ 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.

22. 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 CTF trust fund.

23. There is potentially substantial headroom between highly concessional terms and the commercial rates of interest available in the country. The choice of interest rate adopted will depend on how important it is for the CTF 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.

24. 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). Furthermore, given the potential development impacts and environmental co-benefits of the CTF's investments, IDA-like terms might offer the appropriate balance in the concessionalism of funding.

25. 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.¹⁵ 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.

¹⁵ 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 table¹⁶

26. 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.¹⁷ Increasing or decreasing the proportion of CTF concessional financing blended in the overall financing plan would calibrate the grant element to the country, sector and project contexts. For example, a project with relatively high marginal abatement cost could have CTF concessional financing accounting for 25% of the total financing, while an investment in a technology that is lower on the abatement cost curve might merit CTF concessional financing at about 10% of the financing package.

(b) Guarantees

¹⁶ 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.

¹⁷ An MDB fee -- for example, of 0.25% of the un-disbursed loan balance -- paid by the borrower, would accrue semi-annually to the MDB to recover its costs related to project preparation and appraisal, loan negotiations, project supervision, and implementation status and completion reporting. The MDB fee would also be applicable to grants.

27. The objective of the guarantee instrument is to improve conditions for private sector investment in, or lending to, public sector projects, including public-private partnership 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.

28. 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 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, or if there is a perceived technology risk.

29. 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.

30. As in the case of loans, it is proposed that guarantee products generally follow IDA-like terms. Box 3 presents illustrative terms for guarantee operations, with concessionality in guarantee fees and charges.

Box 3: Illustrative terms for guarantee operations

An MDB fee of 0.25% would be applied on the committed but undisbursed balance of the guaranteed financing and will be analogous to the MDB fee on loans. These would accrue to the MDB for preparation, appraisal, negotiation, supervision and reporting costs. The fee rate would need to be sufficient to ensure that the MDB has adequate resources to cover its costs for the duration of the guarantee, e.g., until the guaranteed loan is repaid. As in the case of loans and grants, all investment income earned by the MDBs on undisbursed balances would accrue to the Trust Fund.

31. 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

32. Grants are likely to be used for the preparation of investment plans as well as 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 also be used to buy down the cost of commercial or MDB loans that might form part of the wider financing package for a project.

33. 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 for the CTF financing.

Box 4: Illustrative Financing Plans for CTF Investments

Case 1: A financial analysis of a scaled-up solar thermal energy generation investment program, with sponsor equity and MDB and other non-concessional loans, shows that the rate of return on sponsor's equity is 3%, given the higher capital cost of the technology. Anticipated revenues from emissions reductions would increase the IRR to 5%, still below the target rate of return on equity investment for the sponsor. A concessional loan from the CTF could increase the IRR on sponsor's equity to 12%, making the investment financially attractive compared to other power generation options.

Case 2: The cost of the most efficient coal generation technologies is 100-150% more than conventional advanced power plants. Two commercial-scale demonstration plants of the high efficiency technology would have a projected cost of \$1 billion. After taking into account sponsor equity, MDB non-concessional financing, and carbon revenues, there remains a financing gap of \$400 million. A CTF concessional loan of \$200 million, co-financed with an equivalent amount from a bilateral development bank (factoring efficiency gains and local environmental benefits), would complete the financing package.

Case 3: A country plans to introduce bus rapid transport systems, with diesel bus technologies, in five cities over ten years in order to achieve significant efficiency gains in fuel use, improve air quality, and reduce congestion. The current investment program of \$2 billion over the ten years balances multiple budget demands on municipal and regional authorities. A program to accelerate adoption of BRT systems in these five cities over the next five years, with the adoption of more efficient, hybrid drive buses, would require financial incentives through concessional loans for local governments to deploy planned levels of investment capital on infrastructure and rolling stock over five years, rather ten.

Case 4: The government pays wind power producers 5 cents per kilowatt hour, which is equal to the cost of conventional power generation, but too low to attract investment in wind power. Carbon finance could help increase the tariff to 8 cents and trigger some new investments. CTF funding that bridges the gap to bring the tariff to 10 cents per kilowatt hour could attract significant investor interest in the near-term, accelerating the adoption of the technology.

Case 5: A consortium of private lenders is financing a large-scale geothermal power project. The lenders would like to have the benefit of an MDB guarantee against certain non-commercial risks relating to the loan, such as those related to breach of contract by government on power purchase agreements and feed-in tariffs. In addition, there are specific risk barriers that are characteristic of geothermal technology that translate into higher financial costs and result in a financing gap. Such risks include construction delays, increase in O&M costs, performance degradation, and inadequate resource supply, and where the operator has refused to guarantee additional cost coverage because of new technology. The MDB would deploy CTF resources to extend a partial risk guarantee to cover construction and operating risks, alongside the MDB guarantee from its own resources for conventional non-commercial risks.

Financing Conditions

34. 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.
35. The following will apply to all financing products¹⁸ 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 beneficiaries¹⁹ 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;
 - (d) Eligible expenditures under individual financing will be determined in accordance with the policies and procedures of the respective MDBs;
 - (e) The design and implementation of activities financed with CTF resources will ensure that appropriate environmental and social safeguards arrangements are carried out in accordance with MDB's policies and procedures;
 - (f) 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

36. 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.
37. The results measurement system, to be approved by the Trust Fund Committee, will measure results at three levels. An illustrative set of indicators is provided below.

¹⁸ Includes loans or credits, guarantees, and grants.

¹⁹ The beneficiaries include the borrowers of loans or credits, the recipients of grants and the beneficiaries of guarantees.

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;
- (d) Provide GHG benefit of x tons per dollar of CTF funding.

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) Energy consumption per unit of output in industrial and building sectors;
- (g) Additional financing mobilized from public and private sector;
- (h) 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.

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

39. 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

40. 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 for administrative services (defined below) 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 (outlined below) would be recovered through fees charges paid by borrowers.

Administrative Services

41. 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 the Trust Fund.

Trustee

42. 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; external audit; 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 support in connection with 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

43. 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; solicit and coordinate the inputs from other development partners; and 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

44. 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 investment plans;
- (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;

- (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; and
- (h) Legal services: the provision of legal services as required with respect to the preparation and revision of the legal agreements between the MDB and the Trustee, as well a general legal advice concerning the relationship between the MDB and the Trustee.

Project Development and Supervision Costs

45. 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

46. 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:

- (a) Staff salaries and benefits;
- (b) Consultant fees;
- (c) Travel;
- (d) 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);
- (e) 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);
- (f) Contractual services; and
- (g) External audit fees.

Approval of Administrative Budget by the Trust Fund Committees

47. 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

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

Reporting

Administrative Services and Project Costs

49. 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.

50. 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**

1. 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.²⁰

- (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.

²⁰ 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 guaranteed²¹ (NSG) operations

2. 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.

²¹ 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 FUND²²

Steps/Actions Required	Who is Responsible?	Performance Standards
1. MDBs conduct joint programming mission to prepare investment plans. Approval of Investment Plan by Government.	MDBs & Recipient Country Government	According to criteria and templates established by TFC.
2. TFC reviews Investment Plan, and endorses 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.
5. MDB submits pre-appraisal document to TFC for no-objection approval of financing, which authorizes	MDB & TFC	Monthly virtual review.

²² For the proposed activity cycle for private sector investments, please see background paper on an approach to engage the private sector.

appraisal of individual projects. Upon TFC approval, Trustee commits funding to MDB.	Trustee	
6. Designated MDB organizes and conducts appraisal, negotiates legal agreement with borrower, and submits projects for approval by its Board. Resubmission to TFC if there are substantial changes.	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	As agreed with the Trustee. As agreed with the Trustee.
9. Project implementation, including monitoring of physical and financial progress in achieving results. Disbursement of funds following processing of withdrawal applications. MDB submits subsequent 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

Proposed Business Model for Private Sector Engagement

Introduction

1. *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 outcomes and progress towards low carbon development 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 policy and regulatory environment, full engagement, and wide scale growth of the private sector will only occur if the policy and regulatory environment is both attractive and stable within a country. An appropriate business environment is particularly important for promotion of small and medium-sized enterprises that are critical to broad-based growth and technology adoption.

2. Experience has shown that private sector initiatives, especially those where the market barriers are not regulatory, can successfully proceed and at times even be a trend setter for subsequent regulatory change. Advances in technologies and opportunities for high impact GHG reducing private sector initiatives change over time, requiring an interactive and fluid approach to strategy development. Private sector initiatives can sometimes be best 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 policy and regulatory change.

3. *Demonstration, replication, scale-up:* Private sector initiatives are used to address two primary market challenges: a) a dichotomy between perceived risks and real risks; and b) the disincentive for private investors created by the high costs associated with being a first mover in a new market. In both cases, private investors are discouraged from entering a new sector on their own²³. CTF private sector initiatives will seek to achieve scale-up (a significant proliferation of the types of projects being supported - without a subsidy) by demonstrating, and creating a track record with a few initial investments. Once the private sector can observe the real market risks, and/or the costs of the new technology decrease, replication is expected and a subsequent scale-up in the market.

4. *Engaging the Private Sector:* This Annex describes how the CTF will engage the private sector and implement an effective public/private strategy, recognizing that CTF funding arrangements for engaging the private sector may have to be different than the arrangements applied for public sector proposal financing. Attachment 1 provides examples of financial instruments that have been successful in doing so.

²³ Note, i) if the real risks (e.g., of technology failure) are as high as the market perceives, or ii) if the eventual costs of the projects (beyond those for the first movers) remain high, so as to make the projects financially unfeasible without a subsidy, then these projects should not be undertaken. This would result in significant market distortions.

Private Sector Proposals

5. Private sector proposals will be submitted in the form of Programs which may consist of individual “Large-scale” projects or “Envelopes” of smaller thematically-linked projects. Proposals will explain how the underlying sub-projects in the proposal are expected to contribute towards the objective of achieving transformational outcomes in a sector, sub-sector, country, or sub-national region while demonstrating that these outcomes would not be possible without support from the CTF.²⁴

Programming by MDBs

6. MDBs may submit private sector proposals consistent with investment plans (see Annex A, paragraphs 2 to 5). In order to facilitate an early start-up to the CTF’s operations, MDBs may, during the first six months of CTF operations, submit to the Trust Fund Committee, after consultation with the recipient country government, an initial tranche of investment programs pending finalization of the investment plans. These project proposals would have to be in countries in which preparation of investment plans are underway, and any proposal for an investment would need to demonstrate that it is consistent with review criteria for the investment plans (see Annex A, paragraph 6). The Trust Fund Committee would also be responsible for approving each interim proposal. Within the first six months of the CTF operations, the Trust Fund Committee will review the above arrangements to determine whether they are sufficient to engage the private sector and make adjustments as necessary.

Review Criteria for Private Sector Proposals

7. Proposals for a Private Sector Program may be submitted to the CTF Trust Fund Committee for consideration at any time throughout the year. MDB’s may submit multiple proposals for Private Sector Programs simultaneously or sequentially and without limitation. Attachment 2 outlines the private sector cycle of activities for the CTF.

8. *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 how the MDB Program expects to achieve transformational action towards low carbon development in a sector, sub-sector, country or sub-national region. It will discuss how the Program’s large-scale projects and envelopes fit within: a) the identified role of the private sector as described in the investment plan (see Annex A, paragraphs 2 to 5), b) already established country objectives and strategies, and c) 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.

²⁴ 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.

- (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 third parties are not to be included in the project pipeline description. The project pipeline may consist of a) individual large-scale projects which each use more than \$50 million of CTF funds; or b) envelopes which aggregate several small and medium sized projects each utilizing less than \$50 million of CTF funds and 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 large-scale 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 Reporting 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 the Program’s elements that go beyond supporting the financing needs of a project, such as advisory services and knowledge management initiatives and instruments.

9. Proposals will be assessed based on the same review criteria outlined in Annex A, paragraph 6, as well as the financing conditions outlined in paragraphs 34 and 35(a),(b) and (d)-(g). In addition, each sub-project within a Proposal will need to comply with the following investment criteria:

10. 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. All sub-projects within a Program are subject to the following investment criteria.

- (a) *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.
- (b) *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 sub-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).

- (c) *Mitigation 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.

11. Attachment 3 includes a template for Private Sector Proposals.

Program Support

12. In keeping with MDB private sector practice 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. These activities may include capacity building for private sector entities, particularly small- and medium-sized enterprises, and knowledge products aimed at sharing information among private sector entities, between MDBs, and among MDBs, government entities and other relevant development partners.

Strategy-based Approach

13. Private Sector Proposals will seek to achieve transformation by developing strategies for addressing market barriers that include CTF and MDB investments coupled with knowledge sharing between the public and private sectors, and among the MDBs. When appropriate a strategy-based approach would entail developing joint public sector/private sector programs.

Financial Instruments and Procedures

14. Each Proposal must describe, in broad terms, the financing mechanisms to be available to its pipeline of large-scale projects and envelopes (see paragraph 5 above), and justify the use of each mechanism in light of the impact, objectives, and need to limit market distortions. Attachment 1 highlights the financial instruments currently anticipated to be used in private sector projects but is not limited to such instruments. The Proposal will explain if and how subsidies are limited to specific project components, and discuss why this approach would provide significant additionality, i.e. why such projects would not go forward as contemplated without subsidized funds.

Modalities for blending with MDB financing

15. To achieve greater leverage, private sector projects will seek to blend CTF financing with MDB financing in the most efficient and effective way possible. Proposals initially communicated to end-clients may or may not differentiate between funds provided by the CTF and funds provided by the MDB's own account as this can often lead to the private sector entity demanding more subsidy than it otherwise would accept to undertake a given project.

Proposed Financing Products and Terms

16. *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 large-scale project and envelope described in the Program proposal. 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.

17. *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 large-scale 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.

Results Measurements

18. Program proposals must include performance indicators for each large-scale project and envelope proposed, along with a timeline for such indicators. Please also refer to Annex A, paragraph 36 to 39.

Administrative and Project Management Costs

19. 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.

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

Cost Recovery:

20. *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.

21. *Approval of Administrative Budget by the Trust Fund Committee:* 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 Trust Fund Committees 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.

22. *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.

Reporting

23. 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 large-scale projects and envelopes, in particular vis-à-vis the application of the CTF investment criteria.

Annex B

Attachment 1

Moving markets through the use of Financial Mechanisms

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 with proven technologies 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 clean tech 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. *Risks:* 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; i.e. 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.

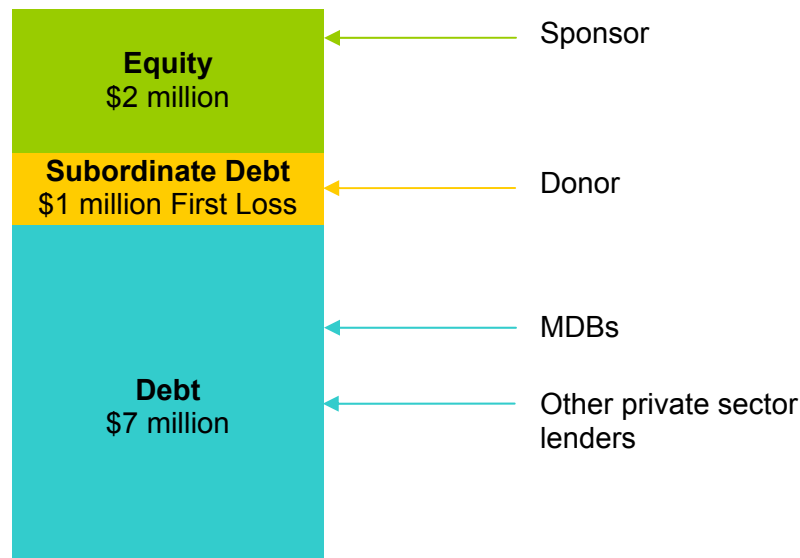
18. *Relevance for Climate Change:* Risk-sharing is an effective way to engage a financial intermediary to lend for sectors such as energy efficiency and small scale renewable energy.

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 INSTRUMENTS

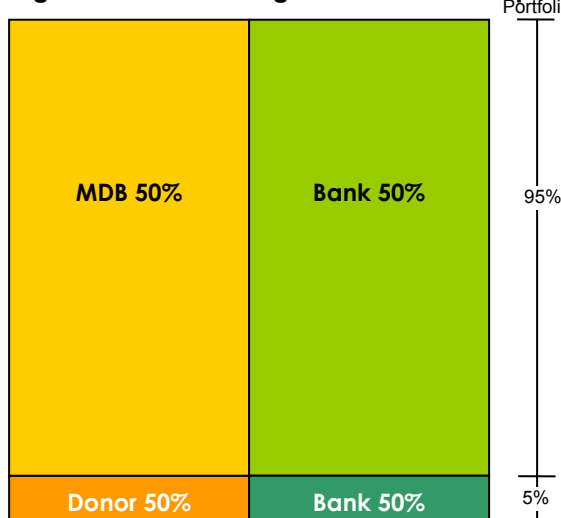
1. **Example A: Subordinated debt** (mezzanine finance) provided to private sector investors to catalyze debt financing for renewable energy projects. In this example, MDBs and/or other private sector lenders require a 30% equity investment in order to provide debt financing for a project. Concessional 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



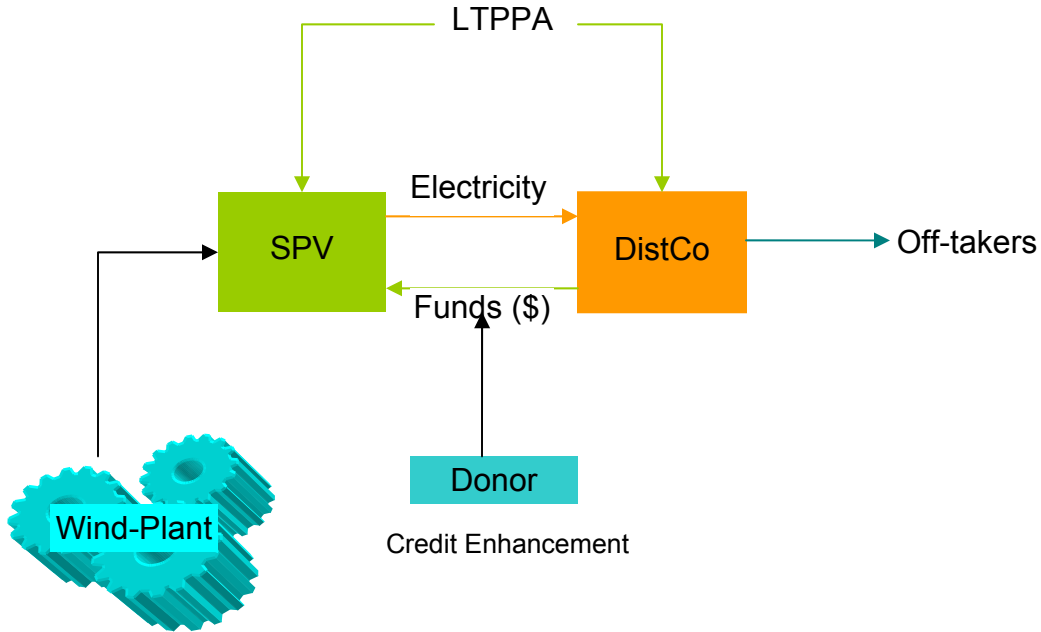
2. **Example B: A Risk-sharing Facility** to support a portfolio of loans from a commercial financial intermediary (banks and leasing companies). In this example the first 5% of losses on the portfolio would be shared equally between the bank and donor with the future losses being shared equally between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

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



3. **Example C: Credit enhancement** to strengthen the credit-worthiness of 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 wind 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 Wind Power Plant



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

**Annex B
Attachment 2**

PROPOSED PRIVATE SECTOR CYCLE OF ACTIVITIES

Steps/Actions Required	Responsible Party	Performance Standards
1. Preparation of investment plans including identification of areas for private sector activity	Recipient country Government, MDBs and private sector	According to template approved by TFC
2. Prepare and submit proposals for approval	MDB	Proposals to include information provided in Annex B, Attachment 3 (proposal template)
3. TFC reviews proposals and approves	TFC	Per the template provided in Annex B Attachment 3 and based on the CTF criteria outlined in paragraphs 8-10 of Annex B
4. Trustee commits amount of approved proposal	Trustee & MDB	As agreed with Trustee
5. Appraise, structure, and negotiate Large-scale and individual Envelope projects	MDB	Based on CTF investment criteria established in paragraphs 8-10 of Annex B
6. Resubmission of any project/proposal that differs substantially from Approval	MDB to TFC	Memorandum circulated on a no-objection basis
7. MDB Investment Review Meeting	MDB	According to MDB's operational policies and procedures
8. 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)
9. MDB obtains board approval for individual projects	MDB Board	According to MDB's operational policies and procedures
10. MDB submits cash transfer request to IBRD as Trustee	MDB and Trustee	As agreed with Trustee
11. MDB signs legal contracts with client	MDB & private sector	According to Mob's operational policies and procedures
12. Supervision and management of the portfolio projects	MDB	Consistent with MDB's operational policies and procedures
13. Annual Report submitted to Administration Unit	MDB	Based on the Performance Indicators established at Project Approval

**Annex B
Attachment 3**

CTF PRIVATE SECTOR PROPOSAL TEMPLATE

<i>Name of project</i>	
<i>CTF amount requested (US\$):</i>	
<i>Countries targeted</i>	
<i>GHG reduction projected: (in tons annually and for 10 years of project continuance; direct reduction only)</i>	
<i>Expected leverage ratio: (US\$ requested: US\$ invested by sponsor and others in overall project cost)</i>	
DETAILED DESCRIPTION OF PROJECT PIPELINE	
<i>For each <u>LARGE-SCALE PROJECT OR ENVELOPE</u> Project include:</i>	
<p><i>Describe the Proposal’s strategy for achieving market transformation.</i></p> <p><i>Include:</i></p> <ul style="list-style-type: none"> ➤ <i>countries and sectors targeted</i> ➤ <i>technologies supported including any prior consideration of other technologies</i> ➤ <i>explain how the Project or Envelope of projects address the objective of transformation to a low carbon economy and how sustainability is expected to be achieved (i.e. why similar future proposals would not need concessional finance)</i> ➤ <i>describe how the Proposal fits within a country’s existing regulatory environment & government policies; and where it doesn’t how this will be addressed/ mitigated</i> ➤ <i>explain how the MDB will leverage its ongoing activities & existing strengths</i> ➤ <i>Note the expected life of the project from date of commissioning (investment & supervision period)</i> 	

Annex B
Attachment 3 cont'd

<p><u><i>A Project Description including:</i></u></p> <ul style="list-style-type: none"> ➤ <i>Profile of type of companies to be targeted (sector, average size, geography, etc.)</i> ➤ <i>Financial structures expected to be used including how the concessional finance portion will be used (which components of the project, % of overall financing, etc)</i> ➤ <i>Number of investments expected in portfolio</i> ➤ <i>A description of the elements that go beyond the envelope portfolio's financing needs, such as advisory services and knowledge management initiatives and instruments.</i> 	
<p><u><i>Co-benefits:</i></u> <i>Describe and quantify where possible any environmental, social and economic co-benefits (in particular poverty reduction benefits) achieved as a result of the project</i></p>	
<p><u><i>Concessional Finance:</i></u></p> <ul style="list-style-type: none"> ➤ <i>Justification of why the concessional finance is needed (why the projects would not go forward without concessional finance);</i> ➤ <i>why the structure suggested is most appropriate for achieving the proposal's goals.</i> ➤ <i>Use of any other concessional or carbon related finance in the project</i> 	
<p><u><i>Market Distortions:</i></u> <i>Discuss how the Project or Envelope of projects will seek to minimize or avoid distorting markets, displacing private sector investment or reducing competitiveness.</i></p>	
<p><u><i>Risks:</i></u> <i>Discuss the risks inherent in the project and how these are being mitigated/addressed.</i></p>	
<p><u><i>Performance Indicators:</i></u> <i>List relevant "Performance Indicators" for the project</i></p>	

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.