4/17/2014

Comment Received from Canada on the Dedicated Private Sector Program Phase II

Message Sent on Behalf of Michelle Kaminski

Dear Patricia,

We would like to thank the CIF Admin Unit and the MDBs for their efforts to develop options for potential deployment of additional resources under the Dedicated Private Sector Program (DPSP) Phase II.

At this time we have one overarching comment to help guide the further development of Phase II. As Germany outlined during the recent teleconference, the current cash cushion under the CTF model is too small to support any considerable expansion of the use of high risk products, as currently proposed in Phase II, without ensuring the appropriate mechanisms and the Senior Risk Management Specialist are in place. Thus, for Phase II to proceed before this is addressed, the innovation focus should continue to be on transformative programming with standard financial instruments (i.e., loans, grants and guarantees). In this respect, we would appreciate receiving more information on the new, proposed energy efficiency and self-supply renewable energy program from the MDBs.

We would be pleased to work with other CTF Committee Members to explore the connection between risk issues and CTF programming parameters, including possibly to help guide the design of DPSP Phase II proposals. To this end, we request that a paper be prepared, ideally for our next meeting, to support a discussion of appropriate parameters, including considerations related to the option of segregating donor funds and whether stand-alone CTF financing is appropriate and under what conditions.

Kind regards,
Michelle

4/17/2014

Comments received from the United Kingdom on the Dedicated Private Sector Program-Phase II

Dear Patricia,

Thank you for circulating the draft paper with DPSP Phase II projects. We welcome the ideas and efforts by the MDBs / CIF Admin Unit to prepare these. We also appreciate early sight of the paper.

Please find below questions / comments on the specific proposals which we are happy to discuss with the respective MDBs further over the phone or via email.

In terms of an overall comment, we would expect to see completed results frameworks for all of the ideas in finalising this paper.

Utility Scale RE (Geothermal)

- We would like to see more information about the additionality of DPSP finance, in particular where money is channelled to extensions of phase 1 (e.g. Turkey) or copying approaches used under the country IP (e.g. Indonesia)
- We want to see the original focus on targeting drilling risk maintained as there was a strong strategic case for this.
- We would like to understand whether IFC's current programme with Munich RE uses any public finance?

RE Mini-Grids

- Where the complementary fit and strategic case for mini-grid activities in a country hasn't been provided, could we see this?
- As the CTF typically focusses on large emitters with high mitigation potential, what is the strategic case for supporting mini-grids in countries with lower emissions?
- What is the additionality of the DPSP funds in countries that are already receiving support for mini-grids through SREP?
- The TA component of $3M is small compared to the $84M overall allocation and the ambition to exploit synergies via South-South learning. Would the requested grants include additional TA elements e.g. building capacity in local financial institutions, wider dissemination of proven business models?
- Is the regulatory environment enabling in all of these countries?

InPP

- We would like to see more evidence in support of the proposal and the approach proposed, particularly around the market demand.
- What would be the approval process for this program?
- Are IFC intending to channel these funds towards the IFC Catalyst fund? We would need detailed fund allocation prior to approval.

Mezzanine finance

- There is a space for this kind of instrument, but we would like to understand how the timing with CP3 Asia will be phased.
- Issues of governance, countries of investment, additionality, and leverage should be addressed in more detail in the full proposal.

- A number of the countries that have been listed have relatively well developed capital markets thus weakening the additionality arguments.

Small / Grid connected RE
- Is there scope for regional learning across the four countries that have been chosen?
- Why was the MENA region chosen? Would EBRD implement this program without our funding?
- It is unclear what or whom we would be financing: total project costs of private developers or only the cost of grid-interconnection? Is there market demand?
- Policy dialogue and further regulatory changes needed to get the program up and running may undermine the potential for quick disbursement of DPSP funds.
- What is the feedstock of the CHP?
- Is there an issue of moral hazard where we are protecting clients from unexpected negative revisions to regulatory law? How will this be mitigated?

Solar PV
- Given the MDBs involved, the country cast list seems peculiar.
- How much PV are the MDBs financing already (without donor finance)?
- What is the case for providing significant support to a technology that is already well proven?
- We would find this more appropriate if this proposal is piloting innovative financial instruments to make the proven technology commercially available at scale. Therefore, can the proposal be more specific about the financial tools that they plan to use and in what circumstance?

EE & Self Supply RE
- Why is this proposal additional? Why is CTF finance required to de-risk MDB projects further?
- Could the TA component, on its own, manage to reduce the risk to a great enough extent that the IDB could provide support to projects?
- What are the types of risks that we are likely to be guaranteeing against?
- Could you tell us a bit more about the guarantee facility that you already have set up in Latin America? Does this include an element of risk sharing?
- What would be the "learning" effect from this program? Wouldn't channelling funds through local banks and guaranteeing those loans mobilise greater commercial lending activity?

Kind regards,

Department of Energy & Climate Change

Kate Dowen
Policy Adviser | International Climate Finance
Kate.dowen@decc.gsi.gov.uk | 0300 068 5556
Follow us on Twitter.com/DECCgovuk

Comment Received from Germany on the Dedicated Private Sector Program Phase II

German comments on

Dedicated Private Sector Programs (DPSP) – Proposal for Phase II (April 4, 2014)

General Comments and Questions

GER welcomes the additional contribution of the UK to the CTF very much and we appreciate the efforts made in elaborating the DPSP phase II proposal for further consideration. We continue to be supportive to the DPSP in principle, but given the bias to use a very broad variety of sometimes complex and risky financial instruments we also are concerned that the financial sustainability of the CTF could be compromised in an inacceptable way. The background for our concern are the recent developments of the financial situation of the CTF, leaving no space for taking additional risks without introducing precautions. In addition, the implications of the Australian withdrawal have to be reflected, e.g. when determining the amount for the proposed phase II. Given the difficult financial situation described below (financial sustainability of the CTF) we have to insist that finding a bearable solution for these issues is a precondition for our approval of the phase II of the DPSP, because otherwise clearly significant losses have to expected, what is not acceptable to us.

We propose to consider regional concentration limits and a funding cap for the individual projects/sub-programs.

Country selection

At its last meeting the TFC noted that it is open to expand the DPSP to other CIF countries, but there was no consensus for expansion to non-CIF countries. We want to stress that already an expansion to other CIF countries might exacerbate the tense risk situation of the CTF and is making informed decisions more difficult. We are therefore not supporting an extension to non-CIF countries and would welcome some explanation on the rationale of the selection of the countries proposed, especially with respect to their eligibility as debtors.

Preferences for sub-programs

GER generally goes on to be supportive to the two existing sub-programs, the

(i) Utility-Scale Renewable Energy program with focus on Geothermal Energy and the
(ii) Renewable Energy Mini-Grids and Distributed Power Generation program.

The proposals for their scaling-up are in line with the statement of the TFC at its last meeting that it would welcome scaled-up proposals for these Programs.

We are still not convinced by and therefore not supportive of the modified programs, formerly known as “Climate Finance Equity Investment Program”, here referred as 2a and 2b (see comments below).

Comment Received from Germany on the Dedicated Private Sector Program Phase II

So far the support of the other programs is conceivable to us, subject to satisfying answers / solutions to our comments, concerns and questions below - and of course subject to a solution of our major concern, the financial sustainability (see above) -, where we clearly have a preference for the Utility-Scale PV Program (see 3b below).

We would like to point out that at this early commenting stage, based at a draft working document which is not yet fully elaborated our preferences for and comments on the presented sub-programs so far are of preliminary nature.

Financial sustainability of the CTF

For us the most alarming concern is the fact, that the cash cushion (expected Net Income - expected Defaults at the recalculation date, June 2028) melted form some 85 M$ in 2012 to some 15 M$ in 2014.[1] This does not even take into account the risky use of any innovative financial instruments (e.g. mezzanine, equity…) in the private sector (within and without the DPSP), although the TFC already approved their use for some programs. In addition further funding requests making use of innovative financial instruments are to be expected, especially within the already decided phase I of the DPSP. Taking this into account, we expect that the cash cushion will be more than depleted if no restrictions are implemented (like limits on the use of equity and mezzanine and baselines for the terms of their use). Therefore at the moment there is obviously no space for taking more risk if losses are to be avoided - what indeed is our position as a loan donor - without introducing precautions.

At the same time no professional and comprehensive risk management is yet in place, e.g. neither the Risk Management Officer has been hired nor is the ERM Dashboard operational. To go forward with the phase II of the DPSP therefore requires fundamental changes with respect to (i) how risks will be managed and/or (ii) what risks might pertain to grant, capital and loan contributors:

(i) This approach could, among others, comprise an assessment of projects/programs making us of innovative financial instruments on their impact on the CTF portfolio; the introduction of limits, depending on the available cash cushion – which has to be build up initially!; more risk adequate pricing; an overhaul of the CF model (which e.g. so far is not able to include equity)…

(ii) This approach could mean that the use of risky financial instruments (like mezzanine, equity…) / the phase II of the DPSP will be sourced from grant and capital contributions only and ring-fenced / segmented from loan contributions.

We are afraid that at least the former approach would take some time – eventually beyond the June TFC meetings. Nevertheless, we hope that these suggestions help to find a way forward.

Comments and Questions on each Proposal

Proposal 1a: Program Proposed for Scaling Up: Utility-Scale Renewable Energy – Geothermal

[1] One of the reasons is the decreased investment income rate (2010: 1,50% p.a.; 2012: 1,25% p.a.; 2010: 0,86% p.a.) but also decreased interest rates for private sector loans (2010: 2,00% p.a.; 2012: 1,29% p.a.; 2010: 1,25% p.a.).

Comment Received from Germany on the Dedicated Private Sector Program Phase II

At its last meeting the TFC noted that it would welcome scaled-up proposals for this Program. GER welcomes the envisaged further support to private sector involvement in the development of the geothermal potential. The mitigation of exploration and drilling risks is crucial to overcome the barrier these risks constitute to more private sector engagement. However, this involves the use of innovative financial instruments like “loans convertible to grants” and hence a substantial amount of grant funding. Concerning the use of innovate financial instruments sourced from all kind of contributions, we want to reiterate, that in the absence of a sufficient cash cushion and robust risk management these issues have to be tackled first. The envisaged expansion to other CIF countries might also increase the default risks and as stated above, we are not in favour to include non-CIF countries.

Specific comments / questions:

- Given the high geothermal potential in CTF countries already supported in phase I (Group 1, Annex 2, p. 19) and in addition in CTF countries not yet supported in phase I (e.g. Indonesia, Philippines; Group 2) one should consider not to expand the program to non-CTF countries (Group 3), or even to non-CIF countries (Group 4).
- Why is Ethiopia mentioned as a possible target country in the text (p. 14) but not given in the table with the indicative pipeline of AfDB (p. 16)?

Proposal 1b: Program Proposed for Scaling Up: Renewable Energy Mini-Grids and Distributed Power Generation

At its last meeting the TFC noted that it would welcome scaled-up proposals for this Program. It also noted that it is open to expansion to other CIF countries. GER goes on to be supportive to the approach of RE Mini-Grids, which are particularly offering plenty potential for co-benefits. We also appreciate the proposed measures for capacity building and deem the demonstration of business models as very useful.

However we have some concerns related to the broad use of innovative financial instruments proposed (see general comments above) and would prefer CTF funds not to be deployed on a stand-alone basis but alongside with MDB investments, especially in the case of (quasi-)equity and the likes.

We so far don’t understand the rationale and therefore do not support the selection of target countries (see specific comments / questions below).

Specific comments / questions:

- Some LDCs might not be eligible for debt financing and for the use of highly complex financial instruments.
- There might be some overlap with the SREP, e.g. in the case of Mali.

Comment Received from Germany on the Dedicated Private Sector Program Phase II

- Some proposed target countries have high electrification rates (see appendix I, p. 30), e.g. Mexico (95%), Brazil (93%) and Columbia (92%) and might therefore not fit to the program's rationale.
- As already mentioned, we are not in favour to include non-CIF countries.

Proposal 2: Modified Programs (previous: Climate Finance Equity Investment Program)

With respect to the previous proposal "Climate Finance Equity Investment Program" the TFC asked at its last meeting for "further information regarding how risks will be managed and what risks might pertain to grant, capital and loan contributors." Unfortunately the document does not provide any information in this regard. Our overall impression is that not much more substance has been provided with the modified proposals.

Proposal 2a: Modified Programs (previous: Climate Finance Equity Investment Program) Income Participation Program (InPP)

It is proposed to adopt new technologies (p. 31). This is not in line with CTF's priority on the deployment of technologies, which are commercially available / approaching the market take-off.

The statement that the program initially "may pick countries with a more structured legal framework and relatively developed financial markets" (p. 32) is contradicted with the statement that "all market/sub-sector segments" are targeted (p. 32).

The refusal to "introducing a geographic or sectoral focus" might help "to build a pipeline and deploy funds" (p. 34) but doesn't seem an appropriate strategic approach to us.

Proposal 2b: Modified Programs (previous: Climate Finance Equity Investment Program) Mezzanine Finance for Climate Change Program

The information in the document on the approach and the rationale of the program is not convincing to us. We can't support the program The envisaged use of CTF funds as subordinated debt and a leverage ratio of 1:73 involves very high risk, as stated above without proposing how this risk will be managed. This high risk level could even be reinforced with the envisaged deployment in lower-income and post-conflict markets.

Proposal 3a: Additional Sub-Programs under the Utility-Scale Renewable Energy Program: Small/ medium-sized Grid Connected Renewables

The rationale of this proposal is rather vague. E.g. as well in Jordan as in Morocco IPP models are already authorized and proven for renewable generation and it seems questionable that the additional value to develop auto generation models really justifies this intervention. Furthermore EBRD wants to engage in the same four countries under the Utility-Scale PV program (see 3b below) leading to overlaps.

Comment Received from Germany on the Dedicated Private Sector Program Phase II

Specific comments / questions:

- Overall the regulatory risk seems to be high. One measure even envisages to protect clients from unexpected negative revisions to regulatory laws (p. 47). How would the moral hazard problem be adressed?
- Which fuel is intended for the “grid-connected co-generation” (p. 47)?

Proposal 3b: Additional Sub-Programs under the Utility-Scale Renewable Energy Program: Solar Photovoltaic Financing

This is a promising approach. PV is a mature technology and PV projects can be implemented in a comparably short period. Given high solar radiation, the substitution of (imported) fossil fuels in Latin America and the Caribbean as well as serving the growing demand for electricity in Africa via PV makes sense. We would therefore welcome a further elaboration of this program (more information is needed for an assessment, e.g. the indicative pipeline of EBRD is still sketchy). Again, we prefer not to include non-CIF countries.

Proposal 4: New Program:
Energy Efficiency and Self-Supply with Renewables

On the one hand the approach could be interesting, especially the different EE measures provided in table 1 (p. 59) seem to be promising but information on how the Industries and Project Types are selected and what the eligibility criteria are - e.g. minimum requirements on efficiency (increase) - is missing (so far).

On the other hand it seems questionable if the pipeline is robust enough, especially without non-CIF countries. Even more critical: first-loss guarantees come with high risk and hence in any case sourcing form loan contributions would not be adequate.

If these two problems can be tackled this program could be worth for further development.

May 1, 2014

U.S. Comments on the Dedicated Private Sector Program – Phase II Draft Paper

- We appreciate efforts to make the CIF more accessible to private projects which have the potential to bring transformational technologies and business models to new countries, in particular (but not limited to) geothermal, distributed energy and energy efficiency.
- In order to compare the projects and make a good decision in June, it would help our decisionmaking to get comparative estimates of their impact according to CTF criteria – such as the amount of co-financing mobilized per CTF$, the expected GHG reduction impact, the potential for scale up and replication, the cost in CTF terms of each ton of GHG reductions and what would differentiate this intervention from status quo in CTF or general MDB financed private sector activities.
- As a grant contributor to CTF, we are comfortable with the use of CTF finance in a variety of financial instruments (including equity and subordinated debt) and contexts, provided that there is a compelling argument for the overall impact of doing so.
- We hope that worthy proposals are not excluded from the June papers simply to avoid challenging discussions about portfolio management and risk.
- It would help the committee decision-making to get a sense of the relative risk of each of these interventions and drivers of risk (technology, regulation, business model, target market, sponsor, instrument etc.).
- In order to make good decisions within the CIF framework, we would like responses in two areas
    - How do the MENA proposals in the DPSP relate to proposed update of the MENA regional IP? Why are these proposals included here rather than in the IP update?
    - What is the relationship between the proposed uses of funds in SREP countries or non-CIF countries that could be SREP candidates?
    - Could some of these projects be funded via SREP?

A. Demopulos 5/1/2014