Climate Investment Funds

CTF/TFC.11/11
April 10, 2013

Meeting of the CTF Trust Fund Committee
Washington D.C.
May 2-3, 2013

Agenda Item 12

Proposal for Global Private Sector Program

(Summary)

PROPOSED DECISION

The CTF Trust Fund Committee reviewed the proposal for a CTF global private sector program (document CTF/TFC.11/10) and agrees that:

a) a global private sector program should be established as an effective approach for financing programs and projects to engage the private sector at scale and with speed;

b) the program should be structured and governed as described in the paper; and

c) the CIF Administrative Unit and the MDBs should collaborate to elaborate proposals for the following sub-programs for review and approval at the Committee meeting in November 2013:
…..

The Trust Fund Committee requests the CIF Administrative Unit and the MDBs to circulate drafts of the sub-program proposals to the Committee members no later than August 16 with an invitation for written comments within a three week period so that the proposals may be revised to take into account comments received before their submission to the Trust Fund Committee for approval no later than October 7, 2013.

The Trust Fund Committee requests the CIF Administrative Unit to take, in accordance with the procedures agreed in the *Governance Framework for the CTF*, the steps necessary to seek agreement by mail for an amendment to the Governance Framework that would allow for the use of different programs or business models if the Trust Fund Committee deems them helpful to achieve the objectives of the CTF.

I. INTRODUCTION

1. Private sector participation is integral to the overall Clean Technology Fund (CTF) strategy. Although there has been tangible progress in mobilizing private investment through the judicious use of CTF resources in eligible countries, the overall sense is that more needs to and can be done. In particular, deployment of CTF funds needs to be accelerated, with greater scale and more innovation in approaches and instruments. This concept note provides some ideas for further consideration by the Trust Fund Committee.

II. CONTEXT

2. The CTF has approved USD730 million specifically for private sector programs in 10 countries, about a third of all CTF approvals. These amounts are expected to leverage an additional USD1,4 billion in MDB financing and USD2,2 billion from the private sector.[1]

3. The lessons learned from early experience in private sector interventions through MDB intermediaries have been described in a lessons learned paper which found that the CTF has leveraged significant multiples of private sector financing through the MDBs. The CTF's flexibility to structure financing and other transaction terms is essential, to leave room for the significant give-and-take associated with negotiating with the private sector. However, at a country level, fund allocation is often seen to be a "zero sum game", and recipient countries may be reluctant to allocate limited CIF resources to the private sector at the expense of the public sector. In addition, whilst the business model based on country investment plans works for the public sector, this model may be too restrictive for private sector financing given market opportunities that often exist in other non-pilot countries and in the form of regional programs that spread risk across national boundaries.

III. PRIVATE SECTOR MARKET OPPORTUNITY

4. MDB private sector interventions are targeted at seizing upon market opportunity, within the broad parameters of country and program priorities. Under current CTF procedures, MDBs' private sector proposals need to fit previously agreed country <u>and</u> sector allocations. This creates a double constraint. Achieving the full potential of private sector interventions contributing to CTF objectives will require alleviation of one or both of these constraints.

5. Innovative, transformative private sector opportunities to mitigate GHGs exist in several middle income (and lower income) countries beyond the existing CTF pilot countries. Opening up access by these countries to the CTF, would allow the MDBs to

[1] For purposes of this paper, private sector projects are those that are channeled through the private sector arms of the MDBs. Private sector investments also occur under the CTF through public-private initiatives or partnerships (PPPs) in which the private sector provides a service and is paid (usually by a public agency) for the service, and through public investment programs that include components funded by private sector entities.

pursue such opportunities. Eligibility criteria could be designed to stress particular aspects of the country's climate or low-carbon economy. Greater flexibility in sectorial allocation would allow the MDBs to respond to market transforming opportunities across the sectorial spectrum. For instance, if the overall objective is to create a critical mass of interventions in the renewable energy space, any intervention that satisfied certain criteria would be eligible in any eligible country.

6. Rough estimates provided by the MDBs indicate that if there were more certainty about the availability of concessional finance, and flexibility with regard to both instruments and the countries where funds could be deployed, an additional pipeline of USD 3 to 4 billion worth of transactions (with approximately USD 500 million of redeployed or additional CTF resources) could be developed and deployed over 12-18 months under 2-3 sub-programs.

IV. Global Private Sector Program proposal

7. It should be kept in mind that the intention is not to replace the current country-driven investment plan model, but rather to provide a supplemental pathway through which funds can be channeled to private sector investments. The Global Private Sector Program (GPSP) would have the objective of financing programs or operations that can deliver scale (in terms of development results and impact, private sector leverage and investment from CTF financing) and speed (faster deployment of CTF resources, more efficient processing procedures), while maintaining a strong link to country priorities and CTF program objectives.

8. The GPSP would consist of an envelope of dedicated CTF resources to be deployed through a few specific sub-programs approved by the Trust Fund Committee. The GPSP sub-programs would allow access for all eligible projects through one or more of the MDBs. Any new Global Private Sector Program (GPSP) would comply with the overall principles and objectives of the CTF, including the results framework. The MDBs would be expected to monitor achievement of results, promote accountability for resource use, and document and disseminate results and lessons learned.

9. The GPSP would continue to make use of a range of financing instruments, to include debt, equity, subordinated structures, guarantees and complementary technical assistance for capacity building. Consistent with the catalytic role of the CTF and with current practice, GPSP would need to take risks that commercial lenders are not able to bear, and as a result, is likely to be placed in a higher risk position than other financiers. The principle of least concessionality will continue to hold.

V. Governance and Decision Making

10. The governance and decision making processes are proposed to increase operational efficiency, build on established best practice, and to take advantage of the existing CIF network and comparative advantages of the CIF partners. Private sector sub-

programs would be approved and funds allocated to the sub-programs by the CTF Trust Fund Committee with a view to facilitating scaling up through wholesaling while ensuring speedy deployment of the funds in line with the CTF objectives. Private sector projects, which get approved under an envelope of funding allocated through an MDB, will report at the level of portfolio supported by that allocation.

11. MDBs would engage with countries through the normal MDB processes to ensure alignment between country, MDB, and CTF strategies. At no time should GPSP have more than [20/30/40%] of its funds committed in a single country. The Trust Fund Committee may also wish to consider whether there should be regional concentration limits. An external expert panel could be involved in supporting the CTF Trust Fund Committee in making a decision on selection of sub-programs.

12. Where a sub-program is to be implemented by a single MDB, the MDB would be accountable for making relevant decisions about projects to be financed under the sub-program.

13. If a sub-program is to be implemented by more than one MDB, the proposed sub-program will specify an allocation of the approved resources among the MDBs participating in the sub-program. The MDBs will keep the funding allocations under review and may agree to shift the approved resources for the sub-program among the MDB allocations so as to facilitate better achievement of the objectives. The MDBs will inform the Trust Fund Committee of any reallocation of resources among the MDBs participating in the program. A lead MDB will be selected to ensure quality reporting to the Trust Fund Committee.

14. The Trust Fund Committee will be notified of each project approved under a sub-program in accordance with current procedures for private sector programs[2]. The MDB(s) participating in a sub-program would be responsible for communicating progress under the sub-program to the CIF Administrative Unit, the MDB Committee, and the CTF Trust Fund Committee, and for ensuring that the sub-program is implemented in line with the overall rules and procedures of the CTF. The CIF Administrative Unit and the MDB Committee could make recommendations to the Trust Fund Committee on allocation of funds among the sub-programs in cases of competition for funds or if one sub-program is able to disburse funds and achieve results more effectively than another.

15. Strategic operational monitoring of the GPSP would be responsibility of the CIF Administrative Unit, in close co-operation with the MDB Committee, based on MDB reporting pursuant to the monitoring guidelines. The CTF Trust Fund Committee will review the GPSP annually, and may decide: on mid-course corrections to sub-programs

[2] See CTF Financing Products, Terms and Review Procedures for Private Sector Operations, October 24, 2102, Annex B, page 16: *To ensure accountability under the programmatic approach used for private sector projects and as agreed by the Trust Fund Committee, and also to ensure that useful data is available to the Members of the Trust Fund Committee to allow them to exercise their role with respect to private sector projects, MDBs will report to the Trust Fund Committee, at the financial closing of each project (when details of the project are available) on how each project meets the 10 CTF investment criteria.*

objectives, criteria, and priorities[3]; to allocate more funds, if appropriate; and/or to cancel unused funds from the original commitment if the program is not meeting its milestones.

VI. LEGAL IMPLICATIONS

16. For the Trust Fund Committee to have the authority to agree to a new business model for the allocation of CTF resources, such as that proposed in this document, it will be necessary to amend the *Governance Framework Document for the CTF* (adopted November 2008 and amended December 2011), specifically, paragraphs 14 and 15 under the section entitled, Country *Access to the CTF*.

VII. IDEAS FOR POTENTIAL SUB-PROGRAMS

Wholesale Risk Mitigation and Funding

17. This sub-program proposes to scale up the RSF/ credit line products by structuring larger transactions with FIs. The sub-program could consist of a menu of possibilities allowing banks to source the support they most need: risk sharing, or access to long term debt accompanied by technical assistance. These could be with large global, regional or local banks.

Dedicated Energy Efficiency and Renewable Energy Fund

18. This sub-program would provide funding for dedicated energy efficiency and renewable energy funds, which would in turn use it to provide finance to project developers and commercial banks for climate-related projects. The GPSP funding would be used in two ways: the first would be to provide long-term first loss/ risk capital to establish the fund and act as a credit enhancement tool on the back of which other investors (particularly private sector investors) would invest, while the second would be used to provide technical assistance to support pipeline development.

Guarantee to Mitigate Regulatory Risk

19. This sub-program would aim to provide a partial risk guarantee to backstop regulatory and contractual offtake risk arising out of government, state own utility or regulatory commitments in the sector. It could be structured on a portfolio or project basis, with or without a co-guarantee from an MDB[4].

Structured Debt Finance

20. This sub-program would provide funding to a structured credit fund, which would in turn use it to purchase climate-related debt (loans/portfolios) using call options from

[3] Funds already committed to projects would need to be grandfathered.
[4] that such guarantees may need to be complimented by other MDB guarantees of traditional political risk, include those from MIGA and commercial insurance providers.

commercial banks. These loans would be packaged into a global debt portfolio and sold to institutional investors in the form of notes.

Emerging Utility-Scale Renewable Energy Technologies

21. Private developers are often hesitant to engage their capital in developing renewable energies because of uncertainties surrounding availability of the resource such as with geothermal energy. A second constraint is the potential upside from investments given the absence of international markets and regulatory controls on power prices. This sub-program would provide a dedicated channel of support to such projects, in the form of concessional debt or risk sharing alongside other financiers (government incentives, MDB support) to make projects bankable.

Market-Driven Private Sector CTF Sub-Program

22. The requirement to tie CTF support to private sector investments within Government approved Investment Plan has been a big hindrance for private sector projects. In addition, given that the CTF on average offers much more concessionality to sovereign operations there is an embedded incentive to prioritize public sector investments. It is proposed that relevant and/or innovative project be allowed to benefit from CTF resources on a case by case basis. These projects would not have to be part of a country CTF investment plan but would be identified by MDB’s and supported by a government(s).

23. Projects submitted through this sub-program would need to demonstrate how the CTF contribution would benefit the sector in concrete financial terms. It is expected that proposals would be for transformative renewable energy/ energy efficiency/transport projects which require plain vanilla debt funding for a longer tenor and/or at concessional interest rates in countries would qualify But also potential new approaches whose relevance are context specific, such as mezzanine debt/subordinated debt and/or equity/grants for higher risk projects, could also be proposed.