

April 16, 2014

Approval by mail: Revised document entitled, CTF Financing Products, Terms, and Review Procedures for Public Sector Operations

Dear CTF Trust Fund Committee members:

Please find below, for your review and approval, a proposal to amend the document entitled, *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations* (dated November 7, 2013) ("Public Sector Financing Paper"), to address the payment of MDB project implementation support and supervision services (MPIS).

The CTF guidelines on financing products for public sector operations currently provides the borrower with two options for the MPIS: (i) a cost equivalent to 0.45% of the total loan amount payable upfront, or (ii) a cost equivalent to 0.18% of the undisbursed balance of the loan, in which case the MPIS payments will accrue semi-annually.¹ The latter payment option shows that the MDB MPIS was designed for the disbursement profile of investment lending operations, where the loan disbursements are spread out over a period of time leaving a certain amount of the loan undisbursed during the term of the loan. If the latter payment option was applied to policy lending operations (in which the full amount of the loan may be disbursed upon loan effectiveness and an undisbursed balance may therefore never exist), the MDBs would never be able to recover any MPIS, irrespective of the level of costs incurred. This contradicts the CTF Governance Framework stating that "compensation for administrative services and project related activities will be on the basis of full cost recovery for the entities."^{2/}

Since the rationale behind the payment of MPIS was to enable MDBs to recover their incremental costs for the MDB's expenditures related to managing the project cycle,^{3/} the option to choose an MDB MPIS in the amount of 0.18% of the undisbursed loan balance cannot be applied to policy lending operations. If interpreted otherwise, the MDBs would not be able to propose any policy lending operations for the CTF anymore. Hence, it is proposed that the borrower in a policy lending operation should pay an MPIS equivalent to 0.45% of the total loan amount upfront, which ensures cost recovery by the MDBs in line with the requirements of the CTF Governance Framework.

This interpretation is reinforced by the fact that the World Bank requires the same fee for both policy lending and investment lending instruments in its own operations.

In conclusion, an upfront payment of 0.45% of the total loan is the appropriate MPIS amount in the context of CTF policy lending operations.

Accordingly, it is proposed that an additional paragraph d) be added to footnote 5 on page 7 as follows:

“In case of policy lending operations, the borrower shall pay the MDB fee referred to in b) above equivalent to 0.45% of the total loan amount, payable in a single lump sum amount.”

The following decision is proposed for your consideration and approval.

The CTF Trust Fund Committee, agrees to add the following paragraph d) to footnote 5 on page 7 of the document entitled *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations* (dated November 7, 2013),

“In case of policy lending operations, the borrower shall pay the MDB fee referred to in b) above equivalent to 0.45% of the total loan amount, payable in a single lump sum amount.”

Upon approval of the proposed amendment, the Trust Fund Committee requests the CIF Administrative Unit to post the revised document entitled, *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations*, on the CIF website.

For your information, we attach the proposed revised document, *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations* (revised April 15, 2014), with the proposed amendment highlighted in yellow.

If we do not receive an objection by close of business on **April 29, 2014**, the decision will be approved.

Sincerely,

Patricia A. Bliss-Guest
Program Manager, Administrative Unit
Climate Investment Funds
www.climateinvestmentfunds.org

^{1/} At present, the CTF Committee has approved CTF funding for 13 World Bank projects. Of these, 12 projects have selected the upfront payment option and only one project has opted for MDB fees based on the undisbursed balance of the loan.

^{2/} Paragraph 49 of the Clean Technology Fund, “Governance Framework for the Clean Technology Fund”, December 2011.

^{3/} CTF financing is generally blended with MDB financing resulting in significant transaction cost savings and the MDB fee is designed to recover only the MDB’s incremental costs for mobilizing CTF co-financing for clients, due diligence, and reporting (Paragraph 2 of Annex C to the Public Sector Financing Paper).