

CLIMATE INVESTMENT FUNDS

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(Revised document)

CLEAN TECHNOLOGY FUND FINANCING PRODUCTS, TERMS, AND REVIEW PROCEDURES FOR PUBLIC SECTOR OPERATIONS

INTRODUCTION

1. Among the functions of the Clean Technology Fund (CTF) Trust Fund Committee is “approving programming and pipeline priorities, operational criteria and financing modalities.” This paper establishes the financing products for which the multilateral development banks (MDBs) may deploy CTF resources, the terms for such financing, including fees for MDB project development and supervision costs, and standard CTF co-financing conditions and review procedures.

2. At its meeting in May 2009, the Trust Fund Committee approved the financing products and terms for CTF public sector operations. In November 2011, the Trust Fund Committee approved adjustments to payment of project implementation support and supervision services (i.e., MDB fee) for CTF-funded public sector operations.¹ It was agreed that the MDBs will provide annual reports, starting in May 2012, to the Trust Fund Committee on project implementation support and supervision services, including reporting on payments received for such services and how they have internally allocated and managed.

Principles

3. In order to ensure the sound financial management of the CTF, its financing products and terms will be based on the following principles regarding contributions to the CTF:

- a) Contributors can provide funding to the trust fund as grants, capital contribution and concessional loans with IDA-like terms.
- b) There will be no cross subsidies among the contributors.
- c) Outgoing financing from the CTF can be no more concessional than incoming financing.
 - i. Grant contributions may be used to finance grants, concessional loans and other financial products, such as guarantees.
 - ii. Capital contributions may be used to finance concessional loans and other financial products, such as guarantees; and
 - iii. Loan contributions may be used to finance loans and other financial products, such as guarantees, on terms no more concessional than the terms of the contributions.
- d) The CTF cannot blend financing from grant and capital contributions with financing from loan contributions unless it is on terms no more concessional than the terms of the loan contributions or supports separate parts of a project (for example, grants for technical assistance and concessional loans for

¹ See document CTF/TFC.8/6

investment financing).

- e) The Trust Fund Committee is responsible for determining the terms of outgoing financing (bearing in mind principle c. and other financial management issues as determined by the Trustee), including financing and terms for the private sector.
- f) All sources of funds will be co-mingled for administrative and investment purposes. Sources of funds comprise:
 - i. Funding from contributors, as described in principle above;
 - ii. Investment income earned on the undisbursed balance of the CTF;
 - iii. Investment income returned from MDBs;
 - iv. Service charges/interest payments on outgoing loans and guarantee fees;
 - v. Principal repayments on outgoing loans; and
 - vi. Reflows from MDBs related to unused guarantee funds, grant and loan funds and administrative budget.
- g) The Trustee will keep records and report on the amount received for each source of funds on an aggregated basis.

4. A number of financing products will be available under the CTF, 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 grants and concessional loans with a significant grant element, as well as guarantees², or a combination of these. The grant element will be tailored to provide the appropriate incentive to facilitate the scaled up deployment of low carbon technologies.

5. It will be important to ensure that concessional terms do not displace investments that might have taken place anyway using commercial or standard MDB borrowing or guarantees, or carbon finance. Concessional forms of finance need to be designed to minimize market distortions and potential disincentives to long-run private investment.

6. A key feature of the CTF will be its ability to provide the MDBs with the instruments to blend CTF resources with other sources of financing to tailor terms to a target level of concessionality, which will vary depending on project-specific factors.

7. As noted in the Development Committee paper *Strengthening the World Bank's*

² The actual term of the debt would be determined by the lenders who are expected to take into account the guarantee while determining the debt terms.

Engagement with IBRD Countries (2006), while MDBs 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 MDB loans could augment the volume of financing available, and better tailor concessionality to needs, with the degree of concessionality calibrated to achieve transformative investments which would otherwise not proceed.

8. It is proposed that the CTF provide the 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.

9. Co-financing from the CTF may be provided through a variety of financing instruments utilized by the MDBs for investment lending. 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.

Grants

10. Preparation grants may be used for:

- a) Preparation of CTF investment plans, where needed; and,
- b) Preparation of CTF co-financed projects.

11. Since investment plans will build on existing country strategies and programs, it is expected that such grants will be used primarily for project preparation. In countries lacking an adequate basis for preparing investment plans, the CTF may provide financing for such plans. Such grants can be used to finance:

- a) Strengthening consensus among key national stakeholders;
- b) Enhancing capacity of national institutions for robust policy reform and priority setting;
- c) Ensuring that CTF investments are based on sound analytical work linking low carbon development to economic growth and poverty-alleviation strategies; and
- d) Assessing the poverty and social impacts of programs and projects.

12. The purpose of CTF project preparation grants is to develop a quality investment project by financing project feasibility studies and associated analytical and design tasks. These grants could also support project preparation-related consultations, workshops and training.

13. The maximum total CTF preparation grant for investment plans or projects will be US\$1 million. The Trust Fund Committee has approved an MDB fee of 5% from the CTF trust fund for the MDB's costs of administering and supervising individual preparation grants. Guidelines for the approval and management of CTF preparation grants are attached as Annex B.

14. Grants for investment plans will be considered by the Trust Fund Committee on a case-by-case basis. With respect to project preparation grants, the Committee will consider such grant requests for the concepts identified in the plan at the time of the Committee's review of an investment plan or thereafter if a concept is endorsed by the Committee for further development.

15. Grant financing could also be considered for project components with very high additional costs that constitute a substantial portion of the total costs or with significant risks, and innovative financing instruments to soften commercial and/or MDB lending terms for low carbon projects or programs.³ This would be on a case-by-case basis and considered by the Trust Fund Committee on the basis of an assessment of the justification for grant financing (including the amount requested) and the availability of grant funding from other sources, such as the GEF.

Concessional Loans

16. The CTF loan products will provide financing to fill the investment gap in projects and programs that contribute to the demonstration, deployment and transfer of low carbon technologies, with concessionality related to the additional costs and risks of such 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 will 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.

17. MDBs may provide CTF 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 entities⁴. The CTF loan will have the same legal ranking as the MDB loan for the project (i.e., if the MDB loan is unsecured, the CTF loan will be unsecured

³ For such grants, fees would be determined on a case-by-case basis, not to exceed 5% of the grant amount.

⁴ Sub-national entities would be eligible for support under either the public or the private sector window depending upon the source of complementary multilateral support. CTF financing could also be provided to special purpose vehicles owned either by the private sector or owned in part by the private sector and the government to carry out a project on a limited recourse basis where the resources for the project are derived from government entities. Such entities would be eligible for support under either the public or private sector windows depending upon the source of complementary multilateral support.

and if the MDB loan is collateralized, the CTF loan would also be collateralized). MDBs' standard appraisal criteria will address credit risk through their assessments of borrower creditworthiness, financial viability, corporate governance, and safeguards against irresponsible borrowing.

18. Consistent with MDBs' standard lending practice, they will not seek any guarantee or security for CTF loans to sovereign governments. If a CTF loan is made to a sub-national entity, the member country will be required to guarantee the loan, where MDB sub-sovereign lending requires such guarantees. Annex A provides further information on measures the MDBs will take to administer loans, particularly with respect to guarantee or security of loans, as well as default provisions.

19. 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 operations. Furthermore, given the potential development impacts and environmental co-benefits of the CTF's investments, IDA-like terms should offer the appropriate balance in the concessionality of funding.

20. The CTF offers two loan products on the basis of an analysis in each project of its financial internal rate of return without CTF co-financing:

- a) Harder concessional loans, for projects with
 - i. Rates of return near or above normal market threshold, but below risk premium for project type, technology or country.
 - ii. Rates of return near or above normal market threshold, but acceleration in deploying the low carbon technology will have higher opportunity costs.
- b) Softer concessional loans, for project with
 - i. Negative rates of return
 - ii. Rates of return below normal market threshold

21. The following loan terms are applied for CTF financing.⁵

⁵ a) The borrower will have two options for payment of MDB fees: (a) a fee of 0.18% of the undisbursed balance of the loan, in which case the fee payments will accrue semi-annually after loan signing, or (b) a fee equivalent to 0.45% of the total loan amount, payable in a single lump sum amount, which may be paid by the borrower out of its own resources or capitalized from the loan proceeds following the effectiveness of the loan. The fees are to be retained by the MDB for its lending and supervision costs. See Annex C for a description of the MDBs' expenses related to project development and implementation.

b) The service charge is charged on the disbursed and outstanding loan balance. Principal and service charge payments accrue semi-annually to the CTF trust fund.

c) Grant element is calculated using the IDA methodology (assumptions: 6.33% discount rate for harder loans; 6.43% discount rate for softer loans; semi-annual repayments; 8-year disbursement period).

Box 1: CTF Loan Terms

| CTF Loans | Maturity | Grace Period | Principal Repayments Year 11-20 | Principal Repayments Years 20-40 | MDB Fee a/ | Service Charge b/ | Grant Element c/ |
|---------------------|----------|--------------|---------------------------------|----------------------------------|------------|-------------------|------------------|
| Harder Concessional | 20 | 10 | 10% | N/A | 0.18% | 0.75% | ~45% |
| Softer Concessional | 40 | 10 | 2% | 4% | 0.18% | 0.25% | ~75% |

22. Consistent with the objective of simplified loan administration procedures and streamlined project processing, the CTF has uniform financing terms, rather than terms varying by country and/or projects, or each MDB applying different terms. 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 a higher proportion of the total financing, while an investment in a technology that is lower on the abatement cost curve might merit CTF concessional financing at a lower proportion of the financing package.

Guarantees

23. Guarantee instruments are used to improve conditions for investment in, or lending to, projects by mitigating risks that lenders and investors would not be willing or able to accept. CTF resources may be deployed as guarantees to promote low carbon technology projects and programs which would otherwise fail to attract adequate capital. Proceeds from the CTF may be used to issue such guarantees by the MDBs, in accordance with their policies for determining eligible beneficiaries, eligible forms of investment, maximum tenor and maximum amounts. While guarantee support can be structured flexibly and may take various forms, these guidelines are intended to set generic parameters to guide MDBs in designing proposals which include the use of guarantees and similar risk mitigation mechanisms.

24. For each CTF operation, MDBs will appraise whether risk mitigation instruments could be an efficient and effective means to facilitate the mobilization of debt capital to finance the project, instead of, or in combination with, loan support from the CTF. Risk mitigation instruments should also be considered if the government or sub-national entity is not able to borrow debt on terms required for financial viability or attract financing without support, or if there is a perceived technology risk.

25. For purposes of CTF support, a distinction is required between conventional risks for which adequate mitigation measures are already available, and “incremental” risks that are not assumed by sponsors and lenders, despite the appearance of financial viability of the investment. The additional risks of low carbon projects can be quantified as the relative variance of a project’s returns, as perceived by the main investors, for a given level of

d) 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.

expected return.

- a) Technical and economic performance risks generally constitute conventional risks because they can be mitigated by the quality of project design and the structure of mutually reinforcing contracts. However, technical and economic performance can also represent risk barriers insofar as they are attributable to the application of commercially viable technologies in new markets. Unfamiliarity with energy efficiency or renewable energy options may create risk to project operations that may be reflected in higher rates of return required by sponsors and lenders, or an unwillingness of equipment manufacturers to warranty performance within the given operating environment. Risk mitigation instrument could address increases in operations and maintenance costs above estimates and where the operator has refused to guarantee additional cost coverage because of a new technology, or degradation of performance beyond operator's guarantees. Another technology-related risk is the intermittence of solar and wind resources.
- b) Commercial and financial risks such as high transaction costs, small project scale, weaknesses in domestic capital markets, and perceived credit risks are often primary risk barriers at the project level in the specific context of developing countries, contributing to the increased required rates of return or otherwise general unavailability of financing. Such risks are relevant to the application of risk mitigation instruments with CTF resources.
- c) While country or political risks are more easily differentiated from commercial risks in private sector projects, differentiation of these risks is more difficult for public sector projects and programs, where the project or program will be implemented by the government and its agencies. The CTF would not, therefore, provide "political risk guarantees" in public sector projects to protect lenders against specific political risks. Regulatory and institutional barriers are generally more effectively addressed through support for policy reform, capacity building and technical assistance, or other risk mitigation instruments available in the market as well as from bilateral and multilateral institutions.

26. CTF resources may be deployed for two categories of guarantee products:

- a) Loan Guarantees covering the loss on account of debt service default for lenders up to an agreed portion of the actual loss⁶, with a view to extending maturities of commercial loans for low carbon projects so that they are competitive with base case technologies, or to address specific incremental operating or construction risks that could cause default.

⁶ Depending upon the project and market needs, the amount guaranteed could be up to 100%. Some sharing could be useful for providing the right incentives to guarantee holders.

- b) Contingent Finance disbursed to the project upon underperformance of a low carbon technology and where such risk is not commercially insurable at reasonable costs or has occurred beyond the period for which commercial insurance is available.

27. In both types of guarantees, the borrower may be a sovereign government, sub-national government, state-owned utility, or any other public sector entity which implements the proposed low carbon technology project or program. Guarantees from CTF resources offered to public sector projects will have the following general terms:

Box 2: CTF Guarantee Terms

| | Loan Guarantees | Contingent Finance |
|-----------------------|--|---|
| Guarantor | MDB will issue the guarantee acting as the Implementing Entity for the CTF (i.e., the guarantee beneficiary's recourse is solely to funds in the CTF). | MDB will be the provider of contingent finance acting as the Implementing Entity for the CTF (i.e., the Contingent Finance provider will provide funding solely from funds in the CTF). |
| Guarantee Beneficiary | Commercially-run institutions providing debt | Project entity |
| Guaranteed Debt | Any form of debt instrument (e.g., loans, bonds) | Not applicable |
| MDB Fee ⁷ | 0.18% per annum on the undisbursed balance of the guaranteed financing, or 0.45% front-end fee on the guaranteed amount, to cover the MDB's appraisal, negotiation, supervision, disbursement, and reporting costs and any costs associated with restructuring and dispute resolution. | One-time charge of \$200,000, to cover the MDB's appraisal, negotiation, supervision, disbursement, and reporting costs. |
| Guarantee Charge | 0.1% per annum on the disbursed and outstanding amounts of the guaranteed financing (accrues to the CTF trust fund). | 0.1% per annum of the committed and undisbursed balance of the contingent finance (accrues to the CTF trust fund). |

⁷ See Annex C for explanation of the MDBs' project development and supervision costs.

28. The following general terms are applicable for both types of guarantees:

Fund management: In order to maintain the creditworthiness of the guarantor in the eyes of commercial financiers, the MDB will retain CTF funds in an amount to match guarantees committed on a one-to-one basis.

Currency of Denomination: US Dollars.⁸

Per Project/Program Maximum Amount: Subject to CTF requirement that no one country receives more than approximately 15% of the CTF's resources.

Maximum Maturity: Loan Guarantee term will be consistent with the maturity of the guaranteed debt. The term of the contingent finance will be decided on a case by case basis but not exceeding 20 years.

Minimum Maturity: No restriction. MDB will ensure that the proposed tenor for either Loan Guarantee or Contingent Finance will make the proposed project or program financially viable and affordable in the given regulatory environment of the country.

Counter-Guarantee: No requirement for sovereign government indemnity for any Loan Guarantee or Contingent Finance. Credit risk exposure under the CTF financing will be borne by the CTF trust fund.

Cross Default Clause: There will be an optional cross default clause with MDB loans for the project/program.

Conditions: Application of standard MDB policies and procedures. This should also ensure that the borrower has in place acceptable warranties and insurance consistent with industry practice.⁹

Financing Procedures and Conditions

29. The Trust Fund Committee will be requested to endorse a CTF resource envelope for individual projects in an Investment Plan 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 will seek approval from the Trust Fund Committee for allocation of Fund financing for each investment operation. A business

⁸ In the event that an MDB issues a guarantee in another currency, it bears the foreign exchange risk.

⁹ The MDBs will determine, in accordance with its policies and procedures, if and what action shall be taken to protect, defend or secure the interests of the CTF guarantee; provided that the procedures set out in Paragraph 5 and 6 of Annex A shall mutatis mutandis apply to such action. Accordingly, (i) the MDB will, where reasonably feasible, consult with the Trust Fund Committee and relevant contributors to the Trust Fund, as applicable, on its proposed course of action, and (ii) Trust Fund resources shall be allocated to reimburse the MDB the costs incurred by it in connection with the MDB's action, in both cases, in accordance with Paragraphs 5 and 6 of Annex A.

process flow chart for CTF operations is attached as Annex D.

30. Individual operations under the Investment Plan will be processed through the MDBs selected by the country. Each operation will follow the investment lending policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards. Each MDB will apply its own appropriate procedures in appraising, approving, supervising, monitoring and evaluating operations to be financed from the CTF.

31. The MDB will re-circulate a project to the Trust Fund Committee, if the final project design results in (i) GHG savings that are less than 85% of the original estimate; and/or (ii) the changes require an increase in CTF co-financing of the project's budget; and/or (iii) the ratio of funding from MDB/other financing sources to CTF funding decreases more than 10% from the original leverage ratio. In such cases the project document will be resubmitted to the Trust Fund Committee for approval of CTF financing on a no-objection basis for a period of 10 working days prior to being submitted through the MDB's internal approval processes. Other changes to a project design will be reported by the MDB through annual reports but will not require further approval by the Trust Fund Committee.

32. The following requirements will apply to all financing products financed by the CTF:

- a) Each operation will be approved and administered in accordance with the applicable guidelines of the concerned MDB, which will discharge its responsibilities with the same degree of care as it exercises with respect to its own resources;
- b) Allocations by the Trust Fund Committee will be denominated in United States Dollars or Euros. However, MDBs may denominate individual financing provided by them to the beneficiaries 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;

In each eligible country, the principle of sovereign programmatic prior no-

objection will be a foundation of the investment plan. 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.

Recommended Trust Fund Committee Decision

33. Based on the above, the trust fund committee is invited to approve:
- a) The objectives, scope, eligibility criteria and approval procedures for CTF preparation grants (as described in Annex B).
 - b) An MDB fee of 5% of the CTF preparation grant amount, from the CTF trust fund.
 - c) Two loan products: harder and softer concessional loans (on terms described in Box 1, including MDB fees).
 - d) Two guarantee products: loan guarantees and contingent finance (on terms described in Box 2, including MDB fees, and paragraph 26).
 - e) Financing procedures and conditions as described in paragraphs 29-32.

Annex A

1. MDBs will need to follow the principles below in order to receive allocations of resources from the CTF for providing concessional loans to borrowers for public sector operations^{10, 11}
2. The MDB will administer CTF loans in accordance with its policies and procedures (including, for the avoidance of doubt, its policies and procedures for the CTF operations, if any), subject to the understanding that the MDB's measures regarding non-payments on CTF loans will be based on the following principles:
 - a) In determining i) whether any guarantee or security for the CTF loan will be obtained, and ii) whether to call such guarantee or security in case of a payment default on the CTF loan, the MDB will, unless otherwise agreed between the MDB and the Trust Fund Committee, follow the same approach as the one used in MDB's own lending operations.
 - b) In respect of negative pledge covenants, the MDB will, unless otherwise agreed between the MDB and the Trust Fund Committee, follow the same approach as the one used in MDB's own lending operations.
 - c) In respect of suspension, cancellation, and acceleration of CTF loans, the CTF loan agreements will, unless otherwise agreed between the MDB and the Trust Fund Committee and subject to the following paragraphs (d) through (h) below, include suspension, cancellation and acceleration events like those included in the MDB's own lending operations, so as to avoid further exposure to the project which no longer has financial/operational prospects. Those events will include optional cross-suspension and cross-acceleration clauses between the CTF loan and the MDB co-financing loan.
 - d) The determination to suspend or cancel the CTF loan will be made by the MDB on the same basis as applied by the MDB for its own loans.
 - e) If the MDB co-financing loan is suspended or cancelled prior to the full disbursement of the CTF loan, the MDB will at the same time, unless otherwise agreed with the relevant contributors, suspend or cancel the undisbursed amount of the CTF loan to avoid further exposure to the project.

¹⁰ The principles set out below may be amended by a decision of the Trust Fund Committee subject to the agreement of the Trustee after consultation with the MDBs

¹¹ CTF loan under public sector operations means that any loan provided to, or guaranteed by, a sovereign government, a central bank or some comparable agency of the sovereign government.

- f) If the CTF loan has been fully disbursed, a payment default on the CTF loan would not generally trigger acceleration of the MDB co-financing loan or suspension or acceleration of other MDB loans, although the MDB will have an option to do so at its own discretion.
- g) The determination to accelerate the CTF loan or commence enforcement proceedings with respect to the CTF loan will be made by the MDB in accordance with paragraph 5 below.
- h) There will not be any sharing of payment proceeds received or mandatory cross-default clauses between the CTF loan and MDB co-financing loan or any other MDB loans.

3. The MDB will be responsible for returning to the Trustee any interest and principal payments on the CTF loan received by it from the borrower. Return of those interest and principal payments will be made in accordance with the Financial Procedures Agreement entered into between the Trustee and the MDB. In any event, the risk of any payment defaults by the borrower in respect of or arising under the CTF loan agreement will be borne by the CTF.

4. If any borrower of a CTF loan defaults on any payment on the CTF loan for no less than 30 consecutive calendar days, the MDB will promptly report such default to the Trustee, so that the Trustee may promptly report to the Trust Fund Committee, as agreed between the Trustee and the Trust Fund Committee.

5. If the borrower or the guarantor of a CTF loan remains in default on any payment on the CTF loan following cancellation of the CTF loan by the MDB and a call of the guarantee or security, if any, by the MDB in accordance with paragraphs 2(a) and (d), the MDB will promptly (a) consult the Trust Fund Committee and all relevant contributors to the Trust Fund¹² on the proposed course of action in respect of the CTF loan, and (b) seek agreement with the relevant contributors on the course of action to be taken. If as a result of any action agreed to be taken, the MDB is expected to incur any cost, the MDB will seek an approval by the contributors for allocation of the Trust Fund funds to cover such costs. The MDB will take appropriate action in accordance with its own procedures, but only to the extent that the related costs for such actions are borne by the Trust Fund and resources have been allocated to the MDB on a full-cost recovery basis.

6. A prior approval by the contributors for allocation of resources will not be needed for any reasonable costs incurred by the MDB in good faith when immediate or urgent action was needed to protect, defend or secure the CTF loan. Subject to availability of resources in the Trust Fund and upon submission of a request by the MDB showing the amount incurred and the action taken, the contributors will allocate the resources to reimburse the MDB any such reasonable costs.

¹² Submission of such proposal will be made through the Trustee.

Annex B
Guidelines for the approval and management of CTF preparation grants for Investment Plans and Projects

1. Objectives. The purpose of Clean Technology Fund (CTF) preparation grants is to develop a quality investment portfolio by: (i) strengthening consensus among key national stakeholders and development partners; (ii) enhancing capacity of national institutions for robust policy reform and priority setting; (iii) ensuring that CTF investments are based on sound analytical work linking low carbon development to economic growth and poverty-alleviation strategies; and, (iv) assessing the poverty and social impacts of programs and projects.

2. Grant Execution Arrangements. Preparation grants will be generally Recipient-executed. All preparation grants will be supervised by the MDB in order to ensure compliance with its operational policies and procedures, including procurement and financial management guidelines. The closing date of CTF grants should not exceed 2 years from the date of signature of the grant agreement by the MDB.

3. Eligible Grant Activities. CTF preparation grants may be used for developing CTF investment plans and preparing CTF co-financed projects by recipient countries. The following activities will be eligible:

- a) Analytic work to inform a country's policies and programs
- b) Design of policy reforms and preparation of legislation and regulations
- c) Consultation workshops
- d) Training
- e) Institutional development
- f) Feasibility Studies
- g) Environmental and social impact assessments
- h) Technical¹³, managerial, and financial project design

4. Maximum total CTF preparation grant allocation for an investment plan or a project will be US\$1 million.

5. Eligible Expenditures. The preparation grant will finance expenditures for: (i) consultants' services, local training, workshops and seminars and, (ii) operating costs and office equipment for the implementation management of grant activities not to exceed 10%

¹³ Including environmental and social consultants.

of the grant amount.

6. Ineligible Expenditures. The following expenditures will be ineligible: (i) salaries for civil servants in recipient countries hired as consultants or otherwise; (ii) purchase of vehicles; (iii) foreign training and study tours; and (iv) salaries and travel of MDB staff and consultants.

7. Reallocation of Grant Activities and Funds. If the reallocation requires a formal amendment to the grant agreement according to the MDB's policies, then the MDB will seek approval by the Trust Fund Committee prior to amendment. If no amendment is required according to the MDB's policies, the MDB may reallocate according to its procedures and will inform the Trust Fund Committee upon such revision.

8. Grant Cancellation Policy. The balance of preparation grants may be subject to cancellation under the following circumstances: (i) the grant agreement has not been signed six months after approval of the grant; or (ii) there has been no implementation progress, including zero disbursements for 12 months after signature of the grant agreement. The MDB may approve exceptions on the basis of a satisfactory explanation, which will be reported to the CTF Trust Fund Committee.

9. Schedule. Submissions for CTF preparation grant funding may be submitted on a rolling basis to the Trust Fund Committee. Upon approval by the Trust Fund Committee, the appropriate authority in the MDB will be authorized to sign a grant agreement.

Annex C

MDB Project Development and Supervision Costs

1. Cost recovery for the MDBs' expenditures related to managing the project cycle will be based on MDB fees approved by the Trust Fund Committee and paid by CTF recipients in the case of loans and guarantees, and by the CTF trust fund in the case of grants. The MDB fee will reimburse the MDB for its incremental staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and reporting. In particular, the MDBs will carry out the following tasks:

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.

2. CTF financing will generally be seamlessly blended with MDB financing, resulting in significant transaction cost savings. However, there will be some incremental costs to the MDBs for mobilizing CTF co-financing for clients, due diligence, and reporting, which will be recovered through the MDB fee. Such costs include:

- a) Analysis of consistency with CTF investment criteria
- b) Additional financial analysis to justify CTF concessional financing
- c) Calculation of GHG emissions reductions benefits
- d) Inclusion of technology specialists in operations teams, including addressing technology-specific procurement issues
- e) Monitoring and evaluation for CTF results measurements system
- f) Additional cost of legal, loan and accounting departments to administer CTF trust fund resources

3. The MDBs will provide an annual report to the Trust Fund Committee on their project processing and supervision costs, which may provide the basis for any adjustments to the MDB fee by the Trust Fund Committee.

Annex D
Business Process Flowchart for Clean Technology Fund Public Sector Operations

| Steps/Actions Required | Who is Responsible? | Performance Standards |
|--|---|--|
| <p>I. Concept & Preparation</p> <p>1. MDBs conduct joint mission to prepare Investment Plans.</p> <p>MDB identification mission and project concept review for individual investment operations proposed as part of Investment Plan</p> <p>Approval of Investment Plan by Government.</p> | <p>MDB and Recipient Country Government</p> | <p>According to criteria and guidelines established by Trust Fund Committee (TFC), including coordination with other development partners.</p> <p>MDB Investment Lending guidelines for identification and project concept review.</p> |
| <p>2. TFC reviews Investment Plan, and endorses MDB designation for operations, eligibility and priorities for individual projects, and indicates notional resource envelope for individual projects.</p> | <p>TFC</p> | <p>Virtual review by the TFC on a monthly basis.</p> |
| <p>3. MDB supports preparation of individual projects by borrower.</p> <p>Examples of key MDB steps: project concept note review, quality enhancement review, appraisal decision.</p> <p>MDB to include an external technical peer reviewer in its standard review/clearance steps for project processing.</p> | <p>Borrower & MDB</p> | <p>According to MDB operational policies and procedures, consistent with CTF investment plan</p> |

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| <p>II. Appraisal-Negotiations-Board-Effectiveness</p> <p>4. MDB submits pre-appraisal project document to TFC for no-objection approval of trust fund financing.</p> <p>Upon TFC approval, Trustee commits funding to MDB</p> | <p>MDB & TFC</p> <p>Trustee</p> | <p>Virtual review as necessary.</p> |
| <p>5. MDB conducts appraisal, negotiates legal agreement with borrower, and submits project for approval by its Board.</p> <p>Resubmission to TFC if there are substantial changes in project objectives, design and/or financing.</p> | <p>MDB</p> | <p>Appraisal within 3 months of TFC no-objection approval. According to MDB operational policies and procedures.</p> <p>Target: Investment Plan review by TFC to Board submission in 12 months.</p> |
| <p>6. Signing and Effectiveness of Legal Agreement</p> | <p>MDB and borrower</p> | <p>Applicable MDB procedures and standards</p> |
| <p>III. Implementation & Supervision</p> <p>7. Project implementation, including monitoring of physical and financial progress in achieving results.</p> <p>Disbursement of funds following processing of withdrawal applications.</p> | <p>Borrower or executing agency</p> <p>MDB</p> | <p>As provided for in the legal agreement and project operational manual.</p> <p>Applicable MDB policies and procedures.</p> |
| <p>8. Supervision and amendments of project activities under implementation, including reallocation of loan proceeds.</p> | <p>MDB</p> | <p>Applicable MDB policies and procedures.</p> |

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| IV. Evaluation & Completion Reporting | | |
| 9. Evaluation | Borrower or executing agency | As provided for in legal agreement and project operational manual. |
| 10. Implementation Completion Report (ICR) Upon submission of ICR to Board, MDB submits final ICR to CIF Administrative Unit | MDB | Applicable MDB policies and procedures. Within [10] working days of Board submission. |
| 11. Independent review of ICR | MDB Evaluation Department | Applicable MDB policies and procedures |
| 12. Annual Portfolio Review submitted to CIF Administrative 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 CTF Annual Report on Fund operations. | MDB Administrative Unit TFC | Reporting from Results Measurement System Decision at regular meetings of TFC. |