

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.8/7
April 13, 2012

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington, DC
May 1-2, 2012

Agenda Item 8

THE USE OF FINANCING INSTRUMENTS IN CIF PUBLIC SECTOR INVESTMENTS

Proposed Decision by the Joint CTF and SCF Trust Fund Committees

The joint meeting of the CTF and SCF Trust Fund Committees welcomes the stocktaking exercise undertaken by the CIF Administrative Unit and the MDBs which shows the broad use of instruments available through the MDBs.

The joint meeting recommends that the CIF Administrative Unit, in collaboration with the MDBs, prepare an annual stock-taking of the financial instruments being employed in the CIF so as to keep the committees informed of the variety of instruments that are being used. The countries and the MDBs are invited to continue to explore innovative and streamlined financing instruments to advance the objectives, timeliness and effectiveness of the CIF.

I. INTRODUCTION

1. At its joint meeting in November 2011 the CTF and SCF Trust Fund Committees approved a series of measures to improve the operations of the CIF (see document CTF-SCF/TFC.7/4). With respect to operations, the Committees encouraged the MDBs to consider the ***broader use of instruments*** available through the MDBs, such as ***development policy loans, country trust funds, and results based financing to channel CIF funds*** and invited the MDBs to further explore innovative and streamlined financing instruments to advance the objectives of the CIF. The MDBs were further invited to report back to the joint meeting of the Trust Fund Committees.

2. The Committees also called for at least one example of a development policy loan, a country trust fund, and a results-based financing instrument to be included in the CIF portfolio.

3. This paper reports on the current and expected use of diverse financing instruments in CIF ***public sector*** operations, broken down by program. Document CTF-SCF/TFC.8/8 explores additional tools and modalities to enhance ***private sector*** participation in the CIF.

Overview on the Current and Future Use of Financing Instruments in CIF Public Sector Operations

4. The following financing instruments are available, in accordance with MDB policies and procedures, to channel CIF funding. In some cases, more than one of these instruments may complement each other in a given project. In addition, some instruments might be appropriate for one program but not for another.

Instrument for use of grant funding	
<i>Project grant financing</i>	An amount of money given, usually to a government or nonprofit organization, to fund projects without the expectation that the money be repaid. In some circumstances, project grant financing may be blended with project finance loans in order to enhance the impact of the investment and/or make it more affordable to the client. Grants provided to these institutions can be disbursed in different forms such as small grants or through an incentive-based schedule.
<i>Results based financing</i>	Results based financing is a cash payment or non-monetary transfer made to a national or sub-national government, manager, provider, payer, or consumer of relevant services after pre-defined results have been attained and verified. Payment is conditional on measureable actions being undertaken.
<i>Small grants mechanisms, including revolving funds</i>	A small grants mechanism supports small projects that can be carried out in a short period of time with limited resources. Usually, there are standardized application characteristics, requirements, preparation, and review procedures in order to accommodate solicited applications.
<i>Trust Funds</i>	There are various references to Trust Funds but no unifying definition. E.g. a trust fund grant that is provided to a third party under a grant agreement, and

	for which a development agency plays an operational role - i.e., the World Bank normally appraises and supervises activities financed by these funds. Grant funds committed in the course of a fiscal year and payments are made out of a Trust Fund account to eligible recipients, in accordance with the legal agreements.
Instruments for use of grants or concessional lending	
<i>Project finance loans</i>	<p>The extension of money from one party to another with the agreement that the money will be repaid. Nearly all loans (except for some informal ones) are made at interest, meaning borrowers pay a certain percentage of the principal amount to the lender as compensation for borrowing. Most loans also have a maturity date, by which time the borrower must have repaid the loan. There are various loan types, including development policy loans or sector investment loans.</p> <p>In some circumstances, project finance loans may be blended with project grant financing in order to enhance the impact of the investment and/or make it more affordable to the client.</p>
<i>Development policy loans</i>	<p>Development policy operations aim to help a borrower achieve sustainable poverty reduction through a program of policy and institutional actions.</p> <p>These include, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy. Development policy operations support such reforms through non-earmarked financing that is subject to the borrowing government's own financial management, procurement, auditing, and implementation processes and systems.</p>
<i>Sector investment loans</i>	Sector investment loans focus on public expenditure programs in particular sectors. They aim to bring sector expenditures, policies, and performance in line with a country's development priorities by helping to create an appropriate balance among new capital investments, rehabilitation, reconstruction, and maintenance. They also help the borrower develop the institutional capacity to plan, implement, and monitor expenditures or investment program.
<i>Credit lines, incl. microfinance</i>	A line of credit is a pre-established amount of credit extended to a borrower by a lender that the borrower can draw against as needed. An individual can apply for and receive a line of credit and so can a business.
<i>Insurance products</i>	Government-issued insurance is regulated like private insurance, but the two are very different. Most recipients of government insurance do not have to pay premiums, but they also do not receive the same level of coverage available under private insurance policies. Government-issued insurance is granted by the legislature, not bargained for with a private insurance company, and it can be taken away by an act of the legislature.

<i>Guarantees, including risk sharing facilities</i>	A legally binding agreement under which the guarantor undertakes to fulfill the obligations of a borrower to a lender under an agreement, in the event of non-performance or default by the borrower of its obligations under the agreement. The underlying causes of default are generally defined <i>ex ante</i> as either commercial or political risks..

5. The following matrix presents an overview of the current and planned use of the above listed financing instruments in public sector operations under each CIF program¹. Since some investment plans are still in preparation, while for some projects and programs, a decision has not yet been reached as to the most appropriate financing instrument, this overview presents some examples of current and/or planned projects and programs using the various instruments outlined above. The list is not exhaustive. For each instrument, the matrix identifies whether it is:

Used:	Approved projects/programs use the instrument
Planned:	Planned projects/programs intend to use the instrument
Not used:	There is potential for use of the instrument but no project/program has been currently identified which uses or intends to use the instrument
Not appropriate:	Instrument not appropriate for projects/programs under the CIF program

Financing Instrument	CTF	FIP	PPCR	SREP
<i>Project grant financing</i>	Used ² 9 project preparation grants totaling US\$8.4m in funding have been approved.	Planned (DRC: Addressing Deforestation and Degradation in the Kisangani and Mbuji Mayi/Kananga Supply Areas – AfDB)	Planned (Tajikistan: Kairakkum Hydropower Plant Rehabilitation - EBRD)	Used (Kenya: Menengai Geothermal Project – AfDB)
<i>Results based financing</i>	Not used	Not used	Not used	Planned (Mali: Rural Electrification Hybrid Systems (IBRD))

¹ The provided information on the use of financial instruments reflects on the entire operation – not only the use of CIF resources.

² Limited use of grants in the CTF.

<i>Small/medium grants mechanisms, including revolving funds</i>	Not appropriate	Planned (Lao PDR: Protecting Forests for Ecosystem Services - ADB)	Not used	Planned (Honduras: Sustainable Rural Energization - IBRD)
<i>Trust Funds</i>	Planned (Colombia: Sustainable Energy Finance - IDB)	Not used	Planned (Samoa: Establishing a climate change adaptation trust fund for Samoa IBRD)	Not used
<i>Project finance loans</i>	Used (South Africa: ESKOM Renewable Support Project – AfDB)	Used (Mexico: Forests and Climate Change - IBRD)	Used (Nepal: Building Resilience to Climate-Related Hazards - IBRD)	Planned (Ethiopia: Assela Wind Farm- AfDB; - Mali: Mini Micro Hydros - AfDB)
<i>Development policy loans</i>	planned (India: Himachal Pradesh Environmentally Sustainable DPL - IBRD)	Not used	Used (Cambodia: Protecting Forests for Sustainable Ecosystem Services - ADB)	Not appropriate
<i>Sector investment loans</i>	Used (Colombia: Intermediate Cities Transport Program - IDB)	Used (Mexico: Mexico Forests and Climate Change Project – IBRD)	Used (Planned Mozambique: Coastal Cities and Climate Change (IBRD)	Planned (Ethiopia: Aluto Langano Geothermal Project - IBRD)
<i>Credit lines, incl. microfinance</i>	Used (Turkey: Private Sector	Not used	Planned (Jamaica: Financing	Planned (Nepal: Central

	RE/EE Project - IBRD)		Mechanisms for Sustained Adaptation Initiatives by the public and private sectors; and community- based organizations - IDB)	Renewable Energy Fund - ADB)
<i>Insurance products</i>	Not used	Not used	Planned (Cambodia: Climate proofing of agricultural infrastructure and business - ADB)	Not used
<i>Guarantees, including risk sharing facilities</i>	Planned (India: Partial Risk Guarantee Scheme for New Technologies in Energy Efficiency - IBRD)	Not used	Not used	Planned (Maldives: IP Projects - IBRD)

II. CONCLUSIONS

6. The above matrix demonstrates that CIF already deploys a variety of financing instruments. With respect to development policy loans, country trust funds, and results based financing instrument, all three instruments are expected to be utilized at least once in the CIF portfolio.

7. It is proposed that the CIF Administrative Unit, in collaboration with the MDBs, prepare an annual stock-taking of the use of financial instruments so as to keep the committees informed of the variety of instruments that are being employed. Such a stock-taking can provide a complete list of project and programs utilizing each of the particular instruments.

8. Recognizing earlier discussions within the joint meeting of the CTF and SCF Trust Fund Committees on the use of development policy loans, an additional paper is being prepared on this issue.