

# CLIMATE INVESTMENT FUNDS

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## **UPDATE ON THE USE OF FINANCING INSTRUMENTS IN CIF INVESTMENTS**

## I. INTRODUCTION

1. At its joint meeting in May 2012 the CTF and SCF Trust Fund Committees reviewed document CTF-SCF/TFC.8/7, *The Use of Financing Instruments in CIF Public Sector Investments*, and recommended 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 together with a brief analysis of lessons learned and the context in which they are used.” The countries and the MDBs were invited to continue to explore innovative and streamlined financing instruments that best meet client country demand while advancing the objectives, timeliness and effectiveness of the CIF.
2. During its meeting in November 2012, the CTF and SCF Trust Fund Committees reviewed document CTF-SCF/TFC.9/11, *The Clean Technology Fund and Development Policy Operations*, and welcomed the information provided by the MDBs on their use of development policy operations and efforts to use this instrument in the CIF programs. The Committees agreed to keep the use of development policy operations under review as specific projects or programs making use of this instrument are submitted to a Trust Fund Committee or Sub-Committee for funding approval.
3. This paper provides an update on the current and expected use of diverse financing instruments in CIF public and private sector operations, broken down by program. A brief analysis of early lessons learned and the context in which they are used is provided for projects and programs which have been in implementation for more than six months.

## II. OVERVIEW ON THE CURRENT AND FUTURE USE OF FINANCING INSTRUMENTS IN CIF 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 or program. In addition, some instruments might be appropriate for one CIF program but not for another. For each instrument, it is indicated whether the instrument can be used in public or private sector operations.

Instrument for use of grant funding	
<b><i>Project grant</i></b>  ✓ Public  ✓ Private	<p>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.</p> <p>Often, project grant financing complements concessional financing e.g. grants and is used to provide technical assistance to a financial intermediary or project developer to provide new or enhanced services to clients interested in</p>

	concessional financing, or to assist in project preparation and implementation.
<b><i>Sector Investment Grants</i></b> ✓ Public	Sector investment grants are investment operations with a focus on the long-term (5 to 10 years). These grants finance goods, works and services associated with a specific sector, e.g. agriculture, urban development, rural infrastructure, education or health.
<b><i>Trust Funds</i></b> ✓ Public	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.
<b><i>Results based financing</i></b> ✓ Public ✓ Private	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.
<b>Instruments for use of concessional lending</b>	
<b><i>Project finance loans</i></b> ✓ Public ✓ Private	<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. All loans also have a maturity date, by which time the borrower must have repaid the loan.</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>
<b><i>Adaptable program loans</i></b> ✓ Public	<p>Adaptable program loans (APLs) provide phased support for long-term development programs. They involve a series of loans that build on the lessons learned from the previous loan(s) in the series.</p> <p>An APL involves agreement on (1) the phased long-term development program supported by the loan, (2) sector policies relevant to the phase being supported, and (3) priorities for sector investments and recurrent expenditures. Triggers define when to move to the next phase. Subsequent loans in the series are phased on the basis of satisfactory progress in meeting the defined milestones, benchmarks or triggers.</p>
<b><i>Development</i></b>	Development policy operations aim to help a borrower achieve sustainable

<p><b><i>policy loans</i></b></p> <p>✓ Public</p>	<p>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>
<p><b><i>Sector/ specific investment loans</i></b></p> <p>✓ Public</p>	<p>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. SILs are also used to finance sector-related investments on the ground.</p>
<p><b><i>Credit lines, incl. microfinance</i></b></p> <p>✓ Public</p> <p>✓ Private</p>	<p>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. In the case of the CTF, lines of credit are most likely to be extended to local financial institutions (banks or leasing companies)</p> <p>In some cases, this instrument may be complemented with grant financing to provide technical assistance to a financial intermediary to provide new or to provide enhanced services to the borrower interested in the credit.</p>
<p><b><i>Insurance products</i></b></p> <p>✓ Public</p> <p>✓ Private</p>	<p>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.</p>
<p><b><i>Guarantees, including risk sharing facilities</i></b></p> <p>✓ Public</p> <p>✓ Private</p>	<p>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.</p>

5. The following matrix presents the most recent overview of the current and planned use of the above listed financing instruments in operations under each CIF program<sup>1</sup>. While for some

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

projects and programs in preparation, 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<sup>2</sup>. 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

6. If an instrument is already in use, an example of a project or program is provided. In case there is no project in which the instrument is actually used already, an example of a project which has indicated the use of the instrument is provided.

<b>Financing Instrument</b>	<b>CTF</b>	<b>FIP</b>	<b>PPCR</b>	<b>SREP</b>
<i>Project grant financing</i>	Used  (Mexico: Renewable Energy program Part III, IDB)	Planned  (DRC: “REDD + in the basins of Mbuji-Mayi / Kananga and Kisangani – AfDB)	Used  (Mozambique: Climate Change Technical Assistance Project - IBRD)	Used  (Kenya: Menengai Geothermal Project – AfDB)
<i>Results based financing</i>	Planned  (India: Super Energy-Efficient Equipment Program – IBRD)	Not used	Not used	Planned  (Mali: Rural Electrification Hybrid Systems - IBRD)
<i>Trust Funds</i>	Planned  (Colombia: Sustainable Energy Finance -	Not used	Planned  (Samoa: Establishing a climate change adaptation trust	Not used

<sup>2</sup> Annex 1 list the agreed financial instrument for each MDB approved project or program.

	IDB)		fund for Samoa IBRD) <sup>3</sup>	
<i>Project finance loans</i>	Used  (Morocco: Qarzazate I CSP Project – AfDB)	Used  (Mexico: Forests and Climate Change – IBRD)	Used  (Nepal: Building Resilience to Climate-Related Hazards - IBRD)	Planned  (Ethiopia: Assela Wind Farm- AfDB)
<i>Development policy loans</i>	Planned  (India: Himachal Pradesh Environmentally Sustainable DPL - IBRD)	Not used	Not used	Not used
<i>Adaptable program loan</i>	Not used	Planned  (Dedicated Grant Mechanism for Indigenous Peoples and Local Communities – IBRD)	Used  (Grenada and SVG: Regional Disaster Vulnerability Reduction Projects – IBRD)	Not used
<i>Sector/ specific investment loans</i>	Used  (Colombia: Intermediate Cities Transport Program - IDB)	Used  (Mexico: Forests and Climate Change – IBRD)	Planned  (Mozambique: Coastal Cities and Climate Change (IBRD)	Planned  (Honduras: ADERC transmission project - IDB)
<i>Credit lines, incl. microfinance</i>	Used  (Turkey: Sustainable Energy Finance)	Used  (Mexico: Financing Low Carbon Strategies in	Planned  (Jamaica: Financing Mechanisms for Sustained	Planned  (Nepal: Central Renewable Energy Fund -

<sup>3</sup> Expected to finance the establishment of the Trust Fund only

	Facility - EBRD)	Forest Landscapes – IDB)	Adaptation Initiatives by the public and private sectors; and community- based organizations - IDB)	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>	Used  (Mexico: Renewable Energy Finance Facility - IDB)	Not used	Not used	Planned  (Maldives: Accelerating Sustainable Private Investments in Renewable Energy - IBRD)

7. The annex lists the agreed financial instrument for each MDB project or program in implementation for more than six months. At that time, the financial instrument has been negotiated between the MDB and the country government and initial experiences may have emerged.

8. Consistent with the request for an annual stock-taking exercise, an update on the matrix and annex will be presented at the joint meeting of the CTF and SCF Trust Fund Committees in spring 2014.

### **III. CONTEXT AND LESSONS LEARNED**

9. So far, 31 projects and programs have been approved by the MDBs and are in implementation for more than six months. For some of these projects and programs, context information for the use of the financial instruments and early lessons are identified in the table below.

Instrument for use of CIF funding		
	Context of Use	Lessons Learned
<i>Project grant financing</i>	PPCR - ADB: Technical assistance projects focused on capacity building of relevant institutions and communities.	ADB: Bangladesh, Cambodia and Nepal technical assistance has contributed to information generation, data analysis, and development and dissemination of knowledge products which have influenced peoples' perceptions of climate change and policy level decision makers' attitude towards the need for mainstreaming climate change in development.
	SREP - AfDB: Kenya Menengai Geothermal Project. The concessionality provided through the SREP grant financing is expected to support the Government in ensuring the removal of exploratory and drilling risks as well as commission relevant technical assistance for project management and capacity building.	
	CTF - EBRD: Turkey. TurSEFF, technical assistance was provided to local banks and end borrowers for project preparation and marketing.	CTF - EBRD: Turkey. The technical assistance was very successful in marketing the facility and was a key element in getting the local banks interested and establishing a separate brand for EE loans.
	CTF - EBRD: Kazakhstan. KWMF – technical assistance is used to finance feasibility studies for clients to ensure that their projects meet the requirements of the EBRD for financing.	CTF - EBRD: Kazakhstan. The technical assistance is key to building a strong and sustainable pipeline.
	CTF - IDB: Mexico. A number of technical assistance activities are providing support to lending programs through technical and regulatory studies, and knowledge management, capacity building, and monitoring and evaluation activities.	CTF - IDB: Mexico. The technical assistance activities are a key complement to lending programs.



	<p>FIP - IDB: Mexico. Financing Low Carbon Strategies in Forest Landscapes. Set up of a Technical Assistance Facility (TAF) that will complement <i>Financiera Rural</i> dedicated credit line for low carbon projects in forest landscapes.</p>	<p>FIP - IDB: Mexico. The TAF will play an important role in the as capacity development is a key factor to increasing access to credit. The TAF will be supporting business planning and market strategizing; facilitating training in business, administrative and financial management; fostering value-added and diversified production; upgrading production efficiencies; and facilitating market linkages. All these activities will develop awareness in <i>ejidos</i> and communities towards the implementation of low carbon activities and the demand for credit</p>
<p><i>Project finance loans</i></p>	<p>PPCR - ADB: Most projects are aimed at enhancing the resilience of infrastructure, water resources and agriculture blended with programmed investments.</p> <p>CTF - AfDB: Morocco Qarzazate I. Under current market conditions, the project costs are extremely high, and this inevitably has an impact on energy production costs. The concessionality provided by CTF is critical to reduce the heavy initial investment (CAPEX) and ultimately bring the kWh tariff down too.</p> <p>CTF - EBRD: Ukraine. USELF, Novozaovsk, concessionality provided by CTF is important in ensuring financial viability, and the share of CTF in the project is key to structuring the project financially in a situation where commercial lending for sectors/countries with perceived higher risks is scarce.</p> <p>PPCR - IBRD: The Niger Community Action Project for Climate Resilience (CAPCR) is a</p>	<p>PPCR - ADB: Bangladesh and Cambodia. Blending of PPCR and ADB and Government resources has demonstrated the willingness of the government to pilot test climate resilient social infrastructure and ensure its stability and sustainability</p> <p>CTF - AfDB: Morocco Qarzazate I. In the absence of the CTF funds, the resulting cost increase would place pressure on fiscal subsidies, burden electricity consumers in case additional costs were passed on to consumers or make the project unviable.</p> <p>CTF - EBRD: Ukraine. USELF, Novozaovsk, concessionality can take several forms, one of which is availability and taking part in the project. Ability to adjust concessional rate can reduce risk to all lenders.</p> <p>PPCR - IBRD: TAL is an appropriate financing instrument for a PPCR stand-alone project with specific activities such as the</p>

	Technical Assistance Loan, which includes PPCR grant and loan financing.	CAPCR (small grants to communities, mainstreaming climate resilience at national level, adaptive social protection measures, etc).
<i>Adaptable program loan (APL)</i>	PPCR - IBRD: The APL is the instrument used in the context of the Regional Disaster Vulnerability Reduction Project (RDVRP) in Grenada and Saint Vincent and the Grenadines (SVG). In both countries, the RDVRP includes grant and loan financing from PPCR, as well as country and regional IDA funding.	PPCR - IBRD: APL has proved to be an appropriate mechanism in the context of the Caribbean Regional Program. All PPCR projects in the 4 OECS countries (Dominica, Grenada, Saint Lucia and SVG) will be financed as APL, and they are all blended with IDA funding.
<i>Sector/ specific investment loans (SIL)</i>	PPCR - IBRD: The Tajikistan Improvement of Weather, Climate and Hydrological Service Delivery Project is a PPCR grant-financed component, part of the broader Central Asia Hydrometeorology Modernization Project, which is an IDA-financed SIL.	PPCR - IBRD: SIL is a commonly used financing instrument in IBRD/IDA. In the case of Tajikistan, the SIL integrates grant financing from PPCR in the context of a single broader regional project.
<i>Credit lines, incl. microfinance</i>	<p>CTF - EBRD: Turkey. TurSEFF: the programme provides concessional finance to local banks to encourage them to engage in lending for energy efficiency and renewables to the SME sector.</p> <p>CTF - IDB: Mexico. The Ecocasa Program provides concessional lines of credit to finance the construction of low-carbon housing</p> <p>FIP - IDB: Mexico. Financing Low Carbon Strategies in Forest Landscapes. Dedicated financing line, accessible by communities and <i>ejidos</i> or their members (the</p>	<p>EBRD: Turkey, TurSEFF: the concessional finance has been key in encouraging local banks to enter the lending market for energy efficiency and renewables. Sustainability was achieved in this relatively developed market with a follow-on loan to one bank by EBRD and a substantial follow-on facility by EBRD and EIB both working without concessional finance at a higher volume than the original TurSEFF.</p> <p>CTF - IDB: Mexico. Thanks to the bridge loans provided by the Ecocasa program, low-carbon houses are currently in construction.</p> <p>FIP - IDB: Mexico. Forestry activity represents only 0.01% of total loans by the banking sector in Mexico. According to a survey in Early Action REDD+ Areas (EARA), only 16% of the <i>ejidos</i> and</p>

	<p>end borrowers), for identified low carbon projects in forest landscapes</p> <p>CTF - IBRD: The Turkey Private Sector RE/EE project provides credit line with funding from CTF and other sources to two financial intermediaries (FIs) for further on-lending for RE/EE investments.</p>	<p>communities have applied for a loan to a financial institution, the vast majority for agriculture and herding activities. It should be noted that AFoLU has not been categorized yet within the financial sector. Moreover, in general, only 1% of rural productive units have access to medium to long term finance, which is of the kind required for productive investments</p> <p>CTF - IBRD: the credit line through financial intermediaries has proven to be the right mechanism to attract private sector investments in relatively new technologies (solar, biomass) and relatively small-scale wind and hydro projects. In particular, this mechanism inspired financial institutions and the industry in general to pursue investments in energy efficiency projects, which was unusual under existing circumstances.</p>
<p><i>Guarantees, including risk sharing facilities</i></p>	<p>CTF - IFC: Colombia. The project involves supporting <i>Bancolombia</i> in providing financing for energy efficiency projects through a risk sharing facility. It allows the Bank to make financing available to businesses committed to higher environmental standards that need longer term funding for their sustainability-related activities. It is also expected that the project will lead to the adoption of higher environmental standards across the banking sector.</p>	<p>CTF - IFC: Colombia. Through the risk sharing facility, a market gap is being filled. By providing <i>Bancolombia</i> with the appropriate risk protection it requires to enter a new market and create a new business line in climate change finance.</p>

**Annex 1: Agreed financial Instrument for projects or programs in implementation for more than 6 months (as of March 15, 2013)**

**Clean Technology Fund**

	Country	Project Title	MDB	Public /Private	Effectiveness Period (in months)	Financial Instrument
1	Colombia	Sustainable Energy Finance Program	IFC	Private	19	risk sharing facility and grant for advisory services/TA
2	Egypt	Wind Power Development Project(Transmission)	IBRD	Public	18	specific investment loan
3	Indonesia	Indonesia Geothermal Clean Energy Investment Project	IBRD	Public	10	specific investment loan
4	Kazakhstan	District Heating Modernization Framework	EBRD	Private	25	project finance loan and project grants
5	Mexico	Renewable Energy Program	IDB	Private	34	project finance loan and project grants (for technical studies, capacity building)
6	Mexico	Private Sector Wind Development(La Ventosa)	IFC	Private	32	project finance loan and grant for advisory services/TA
7	Mexico	Urban Transport Transformation Project	IBRD	Public	28	specific investment loan
8	Mexico	Efficient Lighting and Appliance Project	IBRD	Public	17	credit line
9	Mexico	Public Sector Renewable Energy	IDB	Public	9	credit line (potentially including contingent lines of credit)
10	South Africa	EE Program	IFC	Private	22	project finance loan
11	South Africa	Sustainable Energy Acceleration Program	IFC	Private	12	project finance loan and grant for advisory services/TA
12	South Africa	ESKOM Renewable Support Project-Wind	AfDB	Public	9	project finance loan
13	South Africa	ESKOM Renewable Support Project-CSP	AfDB	Public	9	project finance loan
14	South Africa	ESKOM Renewable Support Project-Wind (P122329)	IBRD	Public	9	specific investment loan
15	South Africa	ESKOM Renewable Support Project-CSP (P122329)	IBRD	Public	9	specific investment loan
16	Thailand	Renewable Energy Accelerator Program(TSEFF)	IFC	Private	21	project finance loan
17	Thailand	Sustainable Energy Finance Program(T-SEF)	IFC	Private	17	guarantee and grant for advisory services/TA

18	Thailand	Private Sector Renewable Energy program	ADB	Private	10	project finance loan
19	Turkey	Private Sector RE and EE Project	IBRD	Public	44	credit line
20	Turkey	Turkish Private Sector Sustainable Energy Financing Facility(TurSEFF)	EBRD	Private	35	credit line and TA grant
21	Turkey	Commercializing Sustainable Energy Finance Program (CSEF)	IFC	Private	34	project finance loan
22	Turkey	Turkish Private Sector Sustainable Energy Financing Facility(TurSEFF)	EBRD	Private	18	extension of project no.20
23	Ukraine	Renewables Direct Lending Facility-Creating Markets for Renewable Power	EBRD	Private	12	project finance loan

### Pilot Program for Climate Resilience

	Country	Project Title	MDB	Public /Private	Effectiveness Period (in months)	Financial Instrument
1	Caribbean-St. Vincent and The Grenadines	Regional Disaster Vulnerability Reduction Project	IBRD	Public	17	adaptable program loan (includes both grant and loan financing)
2	Caribbean-Grenada	Regional Disaster Vulnerability Reduction Project	IBRD	Public	17	adaptable program loan (includes both grant and loan financing)
3	Bangladesh	Technical Assistance 1: Climate Change Capacity Building and Knowledge Management	ADB	Public	17	project grant financing
4	Tajikistan	Improvement of Weather, Climate and Hydrological Service Delivery	IBRD	Public	16	specific investment loan (PPCR funding is grant financing)
5	Nepal	Technical Assistance 1: Mainstreaming Climate Change Risk Management in Development	ADB	Public	13	project grant financing
6	Niger	Community Action Project for Climate Resilience (CAPCR)	IBRD	Public	11	technical assistance loan (also includes grant financing)
7	Cambodia	Component 3-Project 1- Climate Proofing of Roads in Prey Veng, Svay Rieng, Kampong Chang and Kampong Speu Provinces	ADB	Public	10	project grant financing; project finance loan

## Scaling-up Renewable Energy Program in Low-Income Countries

	Country	Project Title	MDB	Public/ Private	Effectiveness Period (in months)	Financial Instrument
1	Kenya	Menengai Geothermal Project- 200 MW Geothermal-Phase A- Resource and Infrastructure Development and Mobilization of Private Sector	AFDB	Public	7	project grant financing; project finance loan