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

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:
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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. Recognizing that the private sector has a significant role to play in climate change mitigation, private sector participation is integral to the overall Clean Technology Fund (CTF) strategy. The CTF was accordingly designed to address two key issues facing greater private participation in climate-related activities: the gap between perceived and real risks in the assessment of lenders and investors; and the high costs associated with being one of the first movers in a new market or technology.

2. 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. The Multilateral Development Banks (MDBs) and the Climate Investment Funds Administrative Unit have considered new mechanisms and modalities for accelerating the deployment of funds for private sector investment, and this concept note provides some ideas for further consideration by the Trust Fund Committee.

II. CONTEXT

3. As of this writing, the CTF has approved USD730 million specifically for private sector programs in 10 countries. This sum represents around a third of all CTF approvals, showing the importance that the Trust Fund Committee has accorded the private sector. These amounts are expected to leverage an additional USD1,4 billion in MDB financing and USD2,2 billion from the private sector.[1]

4. The lessons learned from early experience in private sector interventions through MDB intermediaries have been described in some detail in a lessons learned paper presented to the Trust Fund Committee in November 2011[2]. Those lessons bear repeating here, so that they can be kept in mind when designing any new mechanism. That paper found that the CTF has leveraged significant multiples of private sector financing through the deployment of funds by MDBs; the use of the least concessionality principle ensures that any market distorting impact associated with concessional financing is kept to a minimum, if not avoided altogether. 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. 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

[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.

[2]https://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/Joint%20Inf%204%20Lessons%20Learned%20Private%20Sector.pdf

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. The Trust Fund Committee can usefully, therefore, indicate explicit support for private sector initiatives, so that recipient governments include such programs accordingly.

III. PRIVATE SECTOR MARKET OPPORTUNITY

5. MDB private sector interventions are targeted at seizing upon market opportunity, within the broad parameters of country and program priorities, and in conformity with MDB eligibility requirements (including environmental and social standards). This allows the MDB to respond to private sector demand for financing and mitigation of risks as it arises. Unlike public investment plans, which tend to be programmed well in advance, private investment decisions are generally made on much shorter timeframes. Under current CTF procedures, MDBs' private sector proposals need to fit previously agreed country and sector allocations, and are limited to those countries that have agreed investment programs with the Trust Fund Committee. 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.

6. Innovative, transformative private sector opportunities to mitigate GHGs exist in several middle income (and lower income) countries beyond the existing CTF pilot countries. Many of these countries could technically be eligible to be CTF countries. Opening up access by these countries to the CTF, would allow the MDBs to pursue such opportunities. A positive list of countries that meet overall CTF eligibility criteria could be defined; alternatively, any country that meets prescribed criteria would be eligible. The criteria could be designed to stress particular aspects of the country's climate or low-carbon economy (such as energy intensity; CO_2 emissions; presence of supportive policy regime for renewables and/or energy efficiency). Individual country exposure limits would ensure a broad geographical reach.

7. Greater flexibility in sectorial allocation (without the primary constraint of country allocations) 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 (such as degree of market penetration of the technology, cost differential with conventional energy) would be eligible in any eligible country.

8. Given the market driven nature of most private sector investment, it is difficult to state with precision what the additional market opportunity could be in the face of such flexibility. There is also a chicken-and-egg problem, in that private sector developers or indeed the MDBs will not devote resources to creating a project pipeline in the absence of clear indicators of the availability of the necessary financing, while the Trust Fund Committee may be hesitant to commit resources in the absence of clear indications as to their likely uptake by eligible activities. Nonetheless, it is instructive to look at the MDBs' total mitigation financing to gain an appreciation of market potential:

Table 1: MDB Mitigation Finance, 2011 (USD millions)[3]

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	859	-	185	-
ADB	2,196	-	224	-
EBRD	3,400	-	132	-
EIB	2,487	-	-	-
IDB	1,284	457	134	3
IFC	1,664	-	17	-
WB	4,592	1,588	412	-
TOTAL	**16,482**	**2,045**	**1,104**	**3**

9. The table above shows that the MDBs pursue a range of opportunities in the climate mitigation space through both public and private sectors, and through concessional and non-concessional resources. Of the MDBs listed above, IFC works uniquely with the private sector; 42% of ADB's activities, 55% of EBRD's activities, and over 50% of the IDB's activities are with the private sector. Furthermore, the numbers shown above represent only the MDB investment; total project costs – and therefore private sector financing contributions - are considerably greater, since the private sector arms of the MDBs are typically limited to financing only 25% of a project's cost, and often leverage concessional sources multiple times over.

10. The numbers above do not in themselves convey what additional opportunities might exist that are not pursued due to their perceived riskiness or higher costs or lack of co-financing, but they do provide broad indications of market potential. Essentially, there must necessarily be some combination of conducive policies and incentives framework in those countries to underpin such investments. It is, therefore, very likely that there is additional potential to deepen market transformation and penetration of climate-related activity in those countries.

11. 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.

[3] Joint MDB Report on Mitigation Finance 2011. The figures reported in the table are according to the Joint Approach, which is based on a common list of mitigation activities.

IV. GLOBAL PRIVATE SECTOR PROGRAM PROPOSAL

12. In reviewing this proposal, 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. In other words, funding for private sector investments could flow through the umbrella of a country investment plan or through a global private sector program.

13. 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 at the same time, maintaining a strong link to country priorities and CTF program objectives. The GPSP would deliver impact on a transformational scale by enabling the CTF to address emerging global sectors either through the use of a specific climate finance tool (risk-sharing support to a financial institution) or by supporting the deployment of RE and EE technologies and mitigation of specific risks on a regional or global scale. . Pursuing projects of a similar nature in multiple countries ("same sector, many countries") would strengthen global supply chains, decrease perceived risk by demonstrating the same technology in a wider range of policy support frameworks, and achieve economies of scale in terms of institutional knowledge.

14. 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.

15. These resources would be deployed outside the current country-driven investment program modality, but consistency with country priorities would be ensured through:

a) Compliance with underlying government policy, strategy and existing regulatory regime.

b) Consistency with the MDB's country assistance strategy or a country's national climate change plan or appropriate sector strategy. Country programming by the MDB involves the recipient country, and the country is represented on the Board of the MDB. In addition, MDB procedures require that a recipient country is informed of projects being disbursed in country.

c) Country focal points will be kept informed of sub-programs and investments implemented in their countries, through reporting to the TFC.

16. Any new Global Private Sector Program (GPSP) must comply with the overall principles and objectives of the CTF, including the results framework. Thus, sub-programs would need to demonstrate:

a) the potential for long-term greenhouse gas emissions savings;

b) the demonstration potential of the activities being proposed;

c) the development impact expected, including co-benefits; and

d) the implementation potential, including targeted private sector leverage expected.

17. Through 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. Each sub-program will also establish precisely defined indicators and targets in line with the revised CTF results framework. Given the more "open-ended" nature of the sub-programs, there is likely to be a higher potential variation of actual results compared to the forecasted targets, reflecting the wider geographic and developmental variations between the countries in which the GPSP is implemented.

18. 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 will 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. Such positions include subordinated loans or mezzanine tranches of debt; first loss cover in risk sharing or insurance type products; and equity or seed money for early stage development. Some sub-programs may be based on a specific instrument, while others may be less prescriptive. In such cases, MDB submissions for the use of funds would specify the instruments to be used and the rationale for so doing.

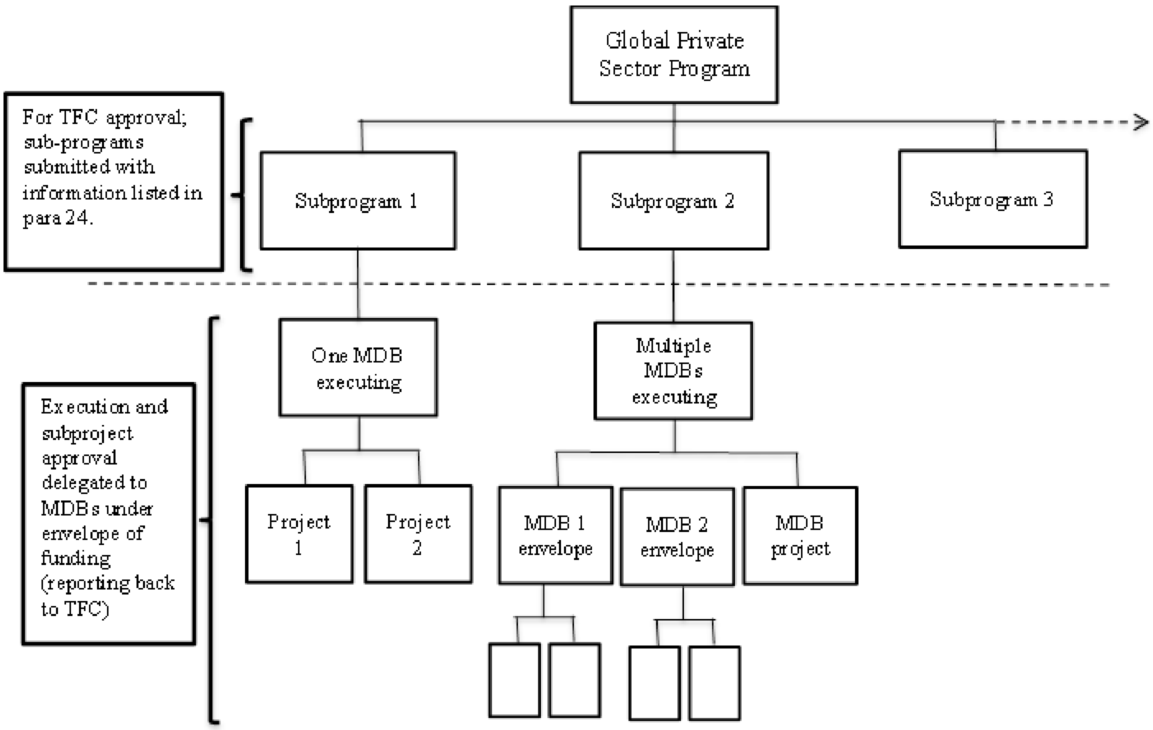
19. The principle of least concessionality will continue to hold. Each sub-program will propose the financial instruments and pricing parameters to be used.

V. GOVERNANCE AND DECISION MAKING

20. Recognizing that the GPSP is to be a program to facilitate a more strategic and focused effort to engage the private sector in achieving the objectives of the CTF, the following governance and decision making processes are proposed to increase the operational efficiency, build on established best practice, develop a new global approach, and to take advantage of the existing CIF network and comparative advantages of the CIF partners.

21. 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 and strengthening of strategic business lines while ensuring speedy deployment of the funds in line with the CTF objectives.

Figure 1: Decision making process:



Country Engagement and Limits

22. MDBs would engage with countries through the normal MDB processes to ensure alignment between country, MDB, and CTF strategies.

23. At no time should GPSP have more than [20/30/40%] of its funds committed in a single country to ensure a wide geographical reach. The Trust Fund Committee may also wish to consider whether there should be regional concentration limits. 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.

Sub-Program Selection

24. In submitting a sub-program, the proposal should specify:

a) Objectives of the sub-program and the strategic alignment with overall CTF objectives;

b) Investment criteria for projects (including how all CTF criteria are met);

c) Milestones for financing of projects and, if possible, disbursement of funds. Tracking of milestones and disbursements will occur under the CTF pipeline management process;

d) Expected results (the results framework for the sub-program will take into account the CTF results framework);

e) Geographic scope, if appropriate (conformity with GPSP coverage);

f) Proposed funding for the sub-program, proposed allocations for program envelopes to the MDBs seeking to participate in the sub-program where relevant, and expected drawdown schedule; and

g) The readiness of MDBs seeking to participate in the sub-program to engage in the markets addressed by the sub-program and an indication of their confidence that market opportunities exist.

25. An external expert panel could be involved in supporting the CTF Trust Fund Committee in making a decision on selection of sub-programs.

Sub-Program Management

26. Management and administration of sub-programs will be governed by efficiency and effectiveness, while ensuring value for money. In order to achieve this, the following is proposed.

Selection of Projects/Allocation of Funds under a Sub-Program

27. 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.

28. 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 (paragraph 24 (f) above), either for a programmatic envelope of funding or for a specific project. The MDBs engaged in the sub-program will consult as needed to ensure the sub-program's effective implementation. 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 of the sub-program and effective results. 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 (see section below on monitoring and reporting).

29. The Trust Fund Committee will be notified of each project approved under a sub-program in accordance with current procedures for private sector programs[4].

30. 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 MDB(s) would be responsible for reporting to the Trust Fund Committee annually and to the MDB Committee as part of its regular pipeline management activities.

31. Based on its oversight role, 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.

Monitoring and Reporting

32. 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.

33. For each sub-program, the MDB(s) will report annually to the CTF Trust Fund Committee on the progress made in implementing the sub-program, broken down by country where possible, including:

a) projects approved;

b) funding committed;

c) funding disbursed; and

d) results achieved (taking into account expected results of the program).

34. Based on this reporting the sub-program would be assessed against the CTF results framework. The reporting would contribute to the reporting on the CTF through the CIF Administrative Unit.

35. The CTF Trust Fund Committee will review the GPSP annually, and may decide:

[4] 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.*

a) on mid-course corrections to sub-programs objectives, criteria, and priorities[5];

b) to allocate more funds, if appropriate; and/or

c) to cancel unused funds from the original commitment if the program is not meeting its milestones.

VI. LEGAL IMPLICATIONS

36. 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), since the Governance Framework currently only provides for access to CTF financing through country-based investment plans. Specifically, paragraphs 14 and 15 under the section entitled, Country *Access to the CTF*, could be expanded to allow for use of different programs or business models if the Trust Fund Committee deems them helpful to achieve the objectives of the CTF. This means that, in addition to accessing CTF financing through investment plans (paragraph 14), the Trust Fund Committee could agree to allocate funds in accordance with the agreed governance and decision making of new programs, such as a global private sector program as proposed in this document.

37. If the Trust Fund Committee agrees to proceed with the further development and approval of a global private sector program, it will be necessary for the timely launch of the program that the Trust Fund Committee also recommends the initiation of the amendment process for Paragraphs 14 and 15 of the *Governance Framework Document for CTF* by mail immediately following this Trust Fund Committee Meeting.

VII. IDEAS FOR POTENTIAL SUB-PROGRAMS

Wholesale Risk Mitigation and Funding

38. Risk-sharing facilities (RSF) and funding facilities through dedicated credit lines have been widely used by MDBs to work through international and local financial intermediaries (FI) to scale up their project finance lending for renewable energy, energy efficiency, and other climate related projects. Such on-lending structures allow the MDBs to broaden their market reach and extend financing to smaller transactions than they are able to do directly. At the same time they encourage local banks to enter the sustainable energy/ climate market by providing longer term funding and risk mitigation which is often absent in these financial markets. Technical assistance may also be provided to the banks and sub-borrowers to improve understanding and capacity to work in these sectors. The key to success is for the local banks to understand that ultimately climate related finance will be a viable business line over time.

[5] Funds already committed to projects would need to be grandfathered.

39. A typical RSF structure involves parsing the risk of a particular portfolio into tranches, with the tranches being covered by some combination of the FI, donor and MDB. Generally, the first loss tranche will be covered wholly or partially by donor funds, inducing the FI to pursue what is often perceived to be a high-risk activity. Often, TA and capacity building is provided to familiarize the FI with a new product and enable it to assess a new class of credit risk.

40. Credit lines would provide funding for dedicated energy efficiency, renewable energy, and other climate related financing to local banks, which would in turn use it to provide term funding to project developers. Finance provided could include senior loans, subordinated loans, or other structured debt products, depending on the situation in a particular country market.

41. Most MDBs have experience with these types of instruments, and several such transactions are already being done under the CTF. Often, the MDBs will use the product on a case-by-case basis (retail approach). 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 or regional banks, which would then undertake or expand their climate-related investment activities in eligible countries or multiple FIs in a given country. There are currently 79 banks, collectively responsible for over 70% of international project finance debt, that already adhere to the Equator Principles, which require them to employ certain environmental and social performance standards in their project finance lending activities.

42. Deployment across multiple FIs in a given country, would be a means to pool risk and expand access by a broader range of FIs. Such a "wholesale" approach would achieve market transformation in two ways: one, by scaling up the amount of climate-related investment overall, and two, by beginning the very important process of standardization of eligibility criteria, contracts, guarantee terms and reporting requirements, which would lead to lower transaction costs and greater efficiency in resource use. A collateral benefit would be the ability, in due course, to create specialized structured finance products around climate-related portfolios as a means to attracting even greater finance to the sector.

43. The leverage potential of this instrument is very high. MDBs that have deployed this product at retail level report leverage ratios of 20X or more. Given that this sub-program would work within existing structures and relationships, it could be implemented fairly quickly

44. MDBs requesting funds through this sub-program would be those with experience and track record in these types of financial instruments; relationships with global, regional, or local FIs such that a wholesale facility can be designed; and the ability to implement the necessary TA or capacity building.

Dedicated Energy Efficiency and Renewable Energy Fund

45. Investing in sustainable energy, in particular energy efficiency, is constrained by a lack of capacity and understanding by lenders, and a consequent lack of finance. One of the barriers to greater investment flows is the absence of specialist funds that aim to support sustainable energy investments through both debt and equity. Another is a mismatch between the nature of financing required at the project level (7-10 years), payback horizons, and the investment characteristics that attract banks. These problems are exacerbated in emerging markets.

46. This sub-program would provide funding to 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. Finance provided could include senior loans, subordinated loans, mezzanine debt, guarantees, equity/ quasi equity, depending on individual funds' investment strategy and pipeline. MDBs have experience in structuring such funds, and also have transparent selection criteria for fund managers. For direct finance to project developers the fund manager would assess and appraise credit risk on standard commercial terms, while for on-lending through local banks the latter would continue to assess and appraise credit risk on climate-related projects on standard commercial terms.

47. 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 in a more senior tranche/ share class, while the second would be used to provide technical assistance to support pipeline development.

48. The key benefit to this sub-program would be to increase the capacity for lending for sustainable energy in emerging markets through the creation of additional specialized lenders/investors. Given that the sub-program can work within existing structures and using existing relationships, it could be implemented fairly rapidly. The "patient capital" embodied in CTF funds would allow the raising of considerable additional finance from other investors.

49. MDBs requesting funds under this sub-program would be those that have experience in structuring such funds.

Guarantee to Mitigate Regulatory Risk

50. Renewable energy projects face a slew of non-commercial risks which are outside of private sector control. Recent experience in Spain, Bulgaria and others has heightened regulatory risk perception, particularly for renewable energy projects in countries which considered more risky and where feed-in tariffs and other financial incentives may be perceived to be unsustainable in the long-term. This risk is in addition to any perceived political risks that may be present in developing countries.

51. Risk guarantee instruments are currently available in the MDBs to mitigate regulatory risk in the context of privatizations and traditional project financing. However, the uptake of such instruments through public sector arms of the MDBs is hampered by the fact that a 100% sovereign counter-guarantee from beneficiary governments is required. These guarantees tie up scarce budgetary resources lessening the interest of countries in these mechanisms.

52. 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[6]. Co-guarantees with an MDB would allow the benefit of leveraging the sector relationship and influence that is necessary to ensure government commitments to the risk. Such guarantees might still require partial government counter-guarantees. A collateral benefit would be the development of standard product terms and contracts, such that it can be rolled out at scale to a variety of private sector players active in renewable energy.

53. This product offering would have a high leverage potential and support investments totaling more than 10X the amounts utilized in the guarantee. Fees received from the provision of the guarantee would be recycled back into the GPSP, and while there may likely be some pay out under the guarantee for non-performance, it is also probable that the guarantee may never be called in countries where the regulatory regime remains stable, thus freeing up committed resources at the end of the guarantee's life.

54. MDBs requesting funds through this sub-program would be those that have some experience and track record in structuring guarantees and/or co-guarantees.

Structured Debt Finance

55. Institutional investors control a significant volume of assets, but have generally shied away from investing significant sums in emerging markets, and much less in low-carbon activities. One of the barriers to greater investment flows is general lack of comfort with emerging markets. Another is a mismatch between the nature of financing required at the project level (7-15 years, sub-investment grade risk) and the investment characteristics that attract pension funds (investment grade or higher, liquidity). Institutional investors buy bonds whereas the majority of climate-related debt investment is in the form of project loans. This is because institutional investors need liquidity and a certain scale to the market, such that current market valuation and secondary trading is possible. Loan administration requires greater day-to-day involvement, and thus has higher transaction costs; loan portfolios also tend to be illiquid. These problems are exacerbated in emerging markets.

56. 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

[6] 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.

57. MDBs have experience in structuring debt financing, and also have relationships with commercial lenders through their mobilization efforts (e.g., B loans, unfunded risk participations). The banks would continue to assess and appraise credit risk on climate-related projects on standard commercial terms. However, as they would sell a call option to the fund, the commercial banks would have an exit mechanism that allows them to recycle their balance sheets. The fund would have access to a pre-screened and captive deal pipeline, enabling it to select and package a portfolio. The fund would have the ability to refuse bank loans that don't meet the fund's criteria. This portfolio would be then be securitized, and the resulting notes sold to institutional investors.

58. The GPSP funding would be used in two phases: the first would establish the fund vehicle and finance the purchase of call options, while the second would be used to provide an equity tranche (or first loss tranche) in the fund, and would only be deployed in the event that a suitable portfolio had been identified and funding from additional investors secured.

59. The key benefit to this sub-program would be creating a bridge between commercial project finance lenders and institutional investors, allowing each to play to its strengths and capacities, and thus accessing a large pool of hitherto-untapped capital for climate-related projects in developing countries. Given that the sub-program can work within existing structures and using existing relationships, it could be implemented fairly rapidly. The "patient capital" embodied in CTF funds would allow the creation of a significant portfolio of eligible loans that could be repackaged and recycled.

60. MDBs requesting funds under this sub-program would be those with experience with B-loan products and the ability to deploy additional resources.

Emerging Utility-Scale Renewable Energy Technologies

61. In some cases, renewable energy technologies run into problems because of the risks related with resource availability, or because they are not seen by commercial lenders as proven at a commercial, utility-scale. In such cases, private developers will be hesitant to engage their capital in developing such resources. However, these technologies often are the best alternatives to traditional fossil fuel based generation due to their characteristics such as non-intermittency and scale and often offer high potential for cost reduction and replicability.

62. One example of resource availability risk is geothermal energy. Geothermal energy has the potential to contribute a significant share of low-cost, non-intermittent supply of renewable energy in several low and middle income countries, and a rapid development of geothermal power could serve to bend the GHG emissions growth curve in recipient countries by avoiding decades of emissions from fossil fuel plants that would otherwise be implemented. However, the absence of adequate information on site-

specific geothermal resources hampers the development of such resources. A traditional exploration model, as is used in the oil and gas sectors, does not work for geothermal resources, because it is capital intensive and there is very limited upside to any resource discovery – there is no international market for geothermal power, and return to investment is limited by regulatory controls on power prices. These returns do not provide sufficient incentive for developers to engage in validating the availability of commercially viable geothermal resources through test drillings, which can add upwards of 10% of the capital expenditure of a geothermal plant.

63. Similarly, other newer renewable energy technologies, like utility-scale solar or the third generation biomass, face higher costs and technologies which are commercially proven but have not been utilized at a scale to provide sufficient comfort to private sector investors and lenders.

64. 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

65. The requirement to tie CTF support to private sector investments within an Investment Plan that is Government led has been a big hindrance for private sector projects not only because of the lag time between investment plan preparation to project execution but also because it locks in resources to specific sectors or sub-sectors. The combination of both elements just scales up the problem. In addition, given that the CTF on average offers much more concessionality to sovereign operations than private ones there is an embedded incentive to prioritize public sector investments, even in cases where the Government is interested in supporting private sector investments. An added limitation has been allowing engagement only in approved pilot countries while relevant opportunities for achieving the CTF objectives might be found in other eligible countries.

66. Under this sub-program, it is proposed that relevant and/or innovative projects, that can be presented on a case-by-case basis be allowed to benefit from CTF resources. These projects would not have to be part of a country CTF investment plan but as they are identified by MDB's and are supported by a government(s), they would be presented to the CTF TFC for approval under existing procedures for approval of CTF funding for projects (and therefore, decision making would not be as described for the other sub-programs in paragraphs 38 to 64 above).

67. Projects submitted through this sub-program would need to demonstrate how the CTF contribution will benefit the sector in concrete financial terms, by for example, either reducing the tariffs to the utility or utilizing the funds for an improved technology at the same tariff level to the utility, or in the case of smaller projects, just initial capital required to start up.

68. Under this sub-program, 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 which can respond to the strategic and overarching objectives of CTF. 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. Mezzanine debt is often needed to complement equity in cases where there is not enough equity or equity returns are not high enough. Mezzanine provides an intermediate risk return profile between senior debt and equity, which can attract a different class of investors and thus stimulate more investment. Since pushing the envelope on risk is required in certain contexts, equity/grants to early stage ideas in local markets could also be structured under this window.