



## **Meeting of the CTF Trust Fund Committee**

**Washington D.C. (Hybrid)**

**Thursday, June 23, 2022**

**CLEAN TECHNOLOGY FUND DEDICATED PRIVATE SECTOR PROGRAM  
PHASE III: A RETROSPECTIVE**

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## 1 Summary

1. This document assesses DPSP III, focusing on DPSP III's value added from the perspective of CIF AU and the MDBs, and on deriving lessons for the Futures Window. CIF AU conducted the review at the request of the Clean Technology Fund's (CTF) Trust Fund Committee (TFC).
2. DPSP III, like its predecessors DPSP I and II, was envisaged as a mechanism to help CTF increase its investments in private sector activities, whether through direct investment or through public sector intermediaries; be responsive to fast changing market conditions and innovations in technology; and invest cancelled resources in new projects even as countries have completed their original investment plans. DPSP III's objective remained identical with CTF's overall program objective, that is, to provide scaled-up financing for the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term GHG emissions savings.
3. DPSP III followed a thematic approach focused on energy efficiency; renewable energy, energy storage, and distributed generation; sustainable transport; and a small business development facility, with access for all CIF countries. The recently approved Futures Window extends the DPSP III's objectives and principles, country access model, and thematic investment areas, making this review and its lessons timely.

### 1.1 Results

4. The TFC approved 54 projects under DPSP III, comprising 38 investment projects and 16 business development facility projects, at a total cost of \$1,166 million. Major focus areas included energy efficiency, energy access in Africa, sustainable transport and electric vehicles, distributed solar generation, urban projects, and geothermal. Projects deployed a broad range of financing instruments, including blended finance, structured to address risk and barriers and attract new private investment.
5. DPSP III facilitated CTF's engagement with the private sector, both directly through investments in private companies, and indirectly through investments in public agencies geared to unlock private sector involvement. CTF's flexible approach to blended finance helped the MDBs' private sector arms expand their engagement.
6. DPSP III's inclusive coverage of all CIF countries led to the scaling up of well-performing CTF and SREP projects and the financing of many regional programs and multi country financing facilities. The MDBs also appreciated avoiding the time of revising investment plans before submitting projects to the CTF for financing, enabling them to respond to the private sector's needs and demands in a timely fashion.
7. By financing a wide range of clean technologies, DPSP III expanded the sphere of technologies and financing mechanisms that CTF supports and helped lay the ground work for new CIF programs.

## 1.2 Conclusions and Lessons

8. The review affirms the merit and value of the Futures Window. The Futures Window extends the core aspects of the DPSP III associated with its success, including its objective and principles, access by all CIF countries, thematic focus areas, and flexible process for allocating canceled CTF resources to new projects. The DPSPs/Futures Window complement the investment plans by helping to engage the private sector and providing blended finance in novel and risky areas.
9. The review draws the following lessons for the Futures Window:
  - The Futures Window requires collaboration, coordination, and knowledge sharing to achieve its full programmatic potential. Ensuring collaboration during the Futures Windows' implementation phase will require concerted efforts from CIF AU and the MDBs.
  - CIF AU can play a role as knowledge broker in cutting edge technical areas. Energy storage is now a major focus area for CTF and an area where CIF AU can continue to complement its investments with knowledge sharing, as has been done through the GESP Learning Platform. Other areas include e-mobility, green hydrogen, incentivizing energy efficiency, certification of energy efficient buildings, and others.
  - Working with the MDBs, CIF AU can also play a role in assessing the use and effectiveness of different blended finance approaches for different markets and technologies. CTF's portfolio provides a learning laboratory for assessing how to optimize blended finance instruments' leverage and outcomes.

## 2 Introduction

10. At its January 2022 meeting, the Clean Technology Fund's (CTF) Trust Fund Committee (TFC) approved the CTF Futures Window, which allows for the programming of cancelled resources using the processes and standards established under Phase III of the Dedicated Private Sector Program (DPSP). The TFC also requested that CIF's Administrative Unit (AU) work with the Multilateral Development Banks (MDBs) "to assess the DPSP III model and make recommendations" before or at the subsequent TFC meeting.
11. Since its approval in 2013, the DPSP has been a prominent part of the CTF program. The DPSP has been the primary source for new projects since all CTF countries completed their original investment plans. In line with the recommendations of CIF AU and the MDBs, the Futures Window extends the objectives and principles, country access model, and thematic investment areas that were established under DPSP III through January 2025. It also allocates 50 percent of cancelled resources to the Global Energy Storage Program, which itself is technically phase four of the DPSP.
12. This document provides a review of DPSP III, focusing on its value added, objectives, and principles. It aims to assess the value of the DPSP model and why it was recommended to be extended to the Futures Window. This retrospective is based on discussions with MDBs, written contributions from some MDBs, review of evaluations and program documents, and

portfolio analysis. The review did not assess project outcomes because DPSP-III funded projects are still ongoing.

### 3 Overview of DPSP

13. Private sector engagement was always envisioned to be a major component of the work of the CTF. Private sector programs featured prominently in CTF investment plans, representing roughly one-third of approvals in early 2013. It was clear to the CTF Trust Fund Committee by that time that more needed to be done to spur CTF investments in private sector activities, whether through direct investment or through public sector intermediaries. Additionally, as they worked with countries to execute their investment plans, the MDBs recognized a need for a mechanism that could be responsive to fast changing market conditions and innovations in technology.
14. DPSP was the response. Following a review of early private sector experiences in CTF, the TFC instructed the CIF AU and the MDBs to develop a proposal for a global private sector program. The overall program was approved in April 2013 and the thematic areas for the first phase were approved in November 2013. The two investment areas approved by the TFC would evolve into the thematic approach that DPSP would use moving forward. DPSP Phase I concentrated utility-scale renewable energy with a focus on geothermal, renewable mini-grids, and distributed generation, leading to six approved projects totaling \$102 million.
15. Phase II, approved in June 2014, looked to build on the successes of Phase I by providing more resources for the two existing investment areas, expanding utility-scale renewable energy to include solar photovoltaic and early-stage private sector renewables, and support programs in energy efficiency and mezzanine finance. The result of these expanded thematic focal areas was eleven additional approved projects totaling \$210 million in funding. DPSP II also established a country access model where any CIF country that had developed an investment plan would be eligible to apply for its resources.
16. The third phase of the DPSP was endorsed by the TFC in December 2017 to program resources made available from the implementation of the pipeline management policy. DPSP III operations were initially required to be submitted for approval by the end of 2018, but that deadline was extended to end of June 2020 because of a significant influx of canceled resources. The program therefore became larger than originally anticipated. With a much larger pool of resources, CIF AU and the MDBs recommended an expanded approach with flexible thematic areas that could complement investment plan programming. DPSP III's objective remained identical with CTF's overall program objective, namely to provide scaled-up financing for the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term GHG emissions savings. DPSP III applied CTF investment criteria to all projects and used the following five principles to determine the projects it could support:
  - Readiness – submit to TFC within 12 months
  - Thematic fit - consistency with thematic areas

- Innovation – feature new technologies, financial instruments, or delivery mechanisms
  - Leverage – mobilize significant volume of other finance, especially from the private sector
  - Impact – consider transformative aspects beyond CTF results framework.
17. DPSP III continued to follow a thematic approach and use the inclusive CIF country access model. It established three new thematic areas: energy efficiency, renewable energy plus (expanded to include storage and distributed generation), and sustainable transport. It also created a small business development facility (BDF) to develop project pipelines in sectors that face challenges to access climate finance and to support preparation of projects and programs that will take an extended time to develop.

#### 4 DPSP III's Portfolio

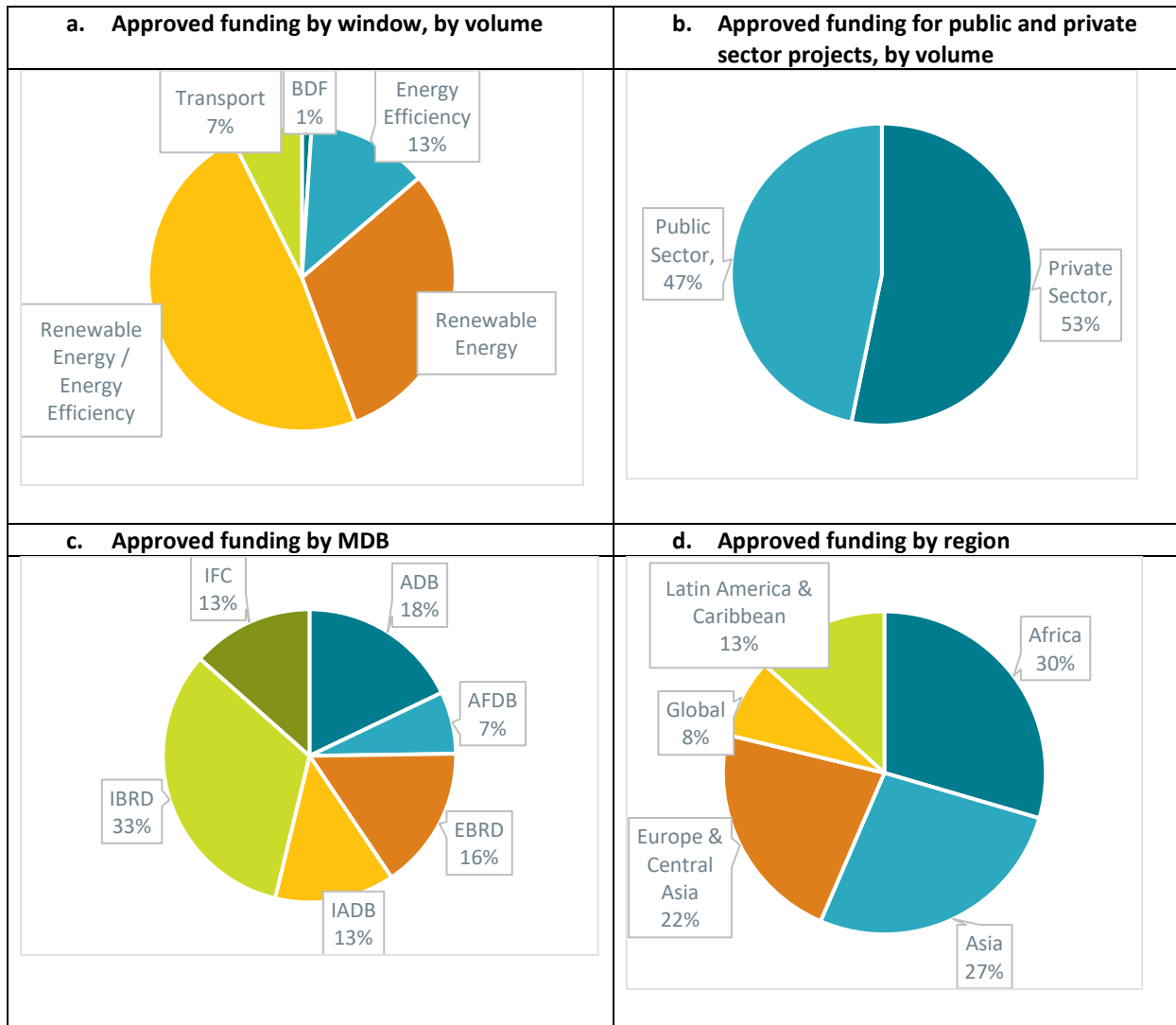
18. The TFC approved a total of \$1,166 million for 54 projects under DPSP III (table 1). This includes 38 investment projects and 16 smaller business development facility (BDF) projects.
19. Most DPSP III funding was allocated for projects supporting renewable energy or projects that supported both renewable energy and energy efficiency, at 31 and 48 percent, respectively. Self-standing energy efficiency projects received 13 percent of DPSP III funding and sustainable transport projects received 7 percent (figure 1a). DPSP III supported 16 smaller BDF projects for 1 percent of the total funding amount.
20. Private sector projects comprised 61 percent of the 38 investment projects financed under DPSP III and absorbed more than half of funding, 53 percent (figure 1b). Public sector projects focused on creating enabling conditions for private sector engagement. Public sector projects comprised 39 percent of approved investment projects and absorbed 47 percent of funding.
21. Excluding the BDF, projects have been roughly evenly distributed across MDBs by number. EBRD had nine projects financed, World Bank has seven, IFC and ADB had six each, and AfDB and EBRD each had five. The World Bank absorbed the largest funding volume at one third, followed by ADB at 18 percent and EBRD at 16 percent. Regionally, Africa received 30 percent of DPSP III funding, followed by Asia at 27 percent and Europe and Central Asia at 23 percent (figure 1d).

**Table 1: DPSP III allocations, by sector and funding window**

	Number of projects			Total approved funding, \$		
	Private Sector	Public Sector	Total	Private Sector	Public Sector	Total
Renewable Energy	9	6	15	169,056,527	187,550,000	356,606,527
Energy Efficiency	2	2	4	89,353,800	59,050,000	148,403,800
Both Renewable Energy and Energy Efficiency	10	5	15	308,652,489	253,300,000	561,952,489
Transport	2	2	4	52,500,000	34,100,000	86,600,000
Business development facility	1	15	16	997,500	10,966,000	11,963,500
<b>Total</b>	<b>24</b>	<b>30</b>	<b>54</b>	<b>620,560,317</b>	<b>544,966,000</b>	<b>1,165,526,317</b>

Source: CIF internal data. Note: Funding amounts pertain to total final TFC approvals

**Figure 1: Distribution of approved DPSP III funding**



Source: CIF internal data. Note: Funding amounts pertain to total final TFC approvals.

## 5 DPSP III's Value Proposition

22. DPSP III has been a valuable addition to the CIF. The MDBs consulted for this retrospective were positive about the model's value, consistently describing DPSP III as a timely and flexible model that has enabled them to be responsive to the private sector's needs and demands. In particular, the MDBs value the DPSP III's thematic approach and ability to finance a wide range of clean energy and energy efficiency technologies; use a broad range of financing instruments; and cover all CIF-eligible countries. As set out in the following, CIF AU's review confirms the DPSP's positive results while also pointing to lessons for the Futures Window.

### 5.1 Thematic Focus

23. There were certain benefits to a thematic focus. In all the DPSPs, thematic focus has ensured coherence in the financed projects. This is different from most other CIF funding where investment plans ensure coherence across projects in a given country portfolio. DPSP'S thematic focus fostered some MDB cooperation, for example in the design of the themes as the MDBs shared ideas of opportunities to grow their climate lending. The process helped open and consolidate new themes and business lines for the MDBs such as geothermal, energy storage, and others. Also, the establishment of DPSP III prompted the MDBs to engage in a detailed discussions on the use of cancelled resources which had a positive impact on the drafting of CIF's new cancellation policy.
24. This being said, more can be done to foster thematic learning. Interviews done for this retrospective suggested there was less active collaboration and knowledge sharing on the themes and technologies supported by DPSP III as there had been in previous phases. Likewise, the evaluation of CIF's programmatic approach suggested that the DPSP's thematic focus offers the opportunity to build learning around the supported themes but pointed out that no specific mechanisms are in place to support programmatic exchange within the thematic areas during the project implementation phase.<sup>1</sup>

### 5.2 Timeliness

25. DPSP's timeliness helped the MDBs be responsive to market demand. DPSP's processes are agile in that they do not entail the need to develop or revise investment plans before projects can be approved or scaled up. The MDBs appreciated avoiding the effort, time, and costs of revising investment plans before submitting a new or revised project to the CTF for financing. Interviews with MDBs, an external evaluation of CIF's programmatic approach, and an internal assessment by the IDB indicate that DPSP III's timeliness allowed them to respond quickly to high priority opportunities that slower processes would not permit.<sup>2</sup> Political will, market dynamics, and opportunities to mobilize finance from other investors

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<sup>1</sup> ICF. 2018. Evaluation of the Climate Investment Funds' Programmatic Approach: Final Report and Management Response.

<sup>2</sup> ICF. 2018. Evaluation of the Climate Investment Funds' Programmatic Approach: Final Report and Management Response; IDB, Analysis of External Climate Finance Access and Implementation, 2021.



can shift suddenly. Alignment with countries' political and economic cycles also matter. For example, approval of a project at the end of a government cycle may limit the next government's ownership of the project. The ability for the MDBs to access and use funds in a timely and flexible manner is therefore essential to seize moments of opportunity.

26. The AfDB explains that:

“The DPSP III has greatly and positively impacted our ability to respond timely to market demand. The fact that DPSP III allowed for support in all CIF countries, did not required a target SREP/CTF country to update an existing Investment Plan, and did not require a country to draft an Investment Plan fully linked to the DPSP III greatly contributed for AfDB to seize eligible opportunities as they were appearing before us and at various stages of the project cycle, especially during origination and appraisal, for projects that would likely not be bankable without concessional contributions such as the ones being extended by CTF. This helped AfDB becoming increasingly exposed to clean technologies in various sectors ....

... The overall flexibility of DPSP III across all these levels really makes the project origination process much quicker and allows us to seize investment opportunities at a higher pace... Not only that, if we compare the time it takes on average to approve and implement DPSP III projects, we see that these tend to move faster than CTF projects embedded in CTF Investment Plans and SCF projects.”

### 5.3 Technology Choice

27. DPSP III has financed a wide range of clean energy and energy efficiency technologies. Energy efficiency has been a major focus, with projects in Egypt, India, Turkey, Zanzibar, and regional programs in Asia, Europe, and Latin-American and the Caribbean. DPSP III has financed sustainable transport and electric vehicle projects in Ecuador, Nigeria, and Peru. It has financed urban projects in Egypt and Ukraine, among other. It supported geothermal energy development in Ethiopia and Indonesia; hydropower in Honduras; bioenergy in Ukraine; and solar generation in Maldives and Mexico, among other. Several projects supported distributed solar generation. DPSP has also supported energy access in Africa, mostly using solar PV technology, with investments in a credit line for energy access in Ethiopia; energy access scale-up projects in Burkina Faso and Uganda; and a regional African off-grid access project.

### 5.4 Inclusive Country Access

28. DPSP's geographic flexibility allows it to be responsive to the markets where its resources are in highest demand. DPSP is open to all CIF-eligible countries, and it has therefore been able to support the clean energy agenda in several non-CTF countries. In total, around 30 percent of DPSP III financing went to programs exclusively in non-CTF countries; 33 percent went to projects and programs in CTF countries; and 37 percent went to global and regional programs covering a mix of CTF and non-CTF countries.

29. The combination of geographic and technological flexibility means that DPSP III has been able to invest in globally novel frontier technologies in advanced middle-income countries. Innovative DPSP III investments include electric mobility in South-East Asia and in bi-facial solar PV, zero carbon certification in real estate, and use of data analytics for energy efficient transport logistics in Latin America. It also includes distributed generation. For example, IFC's Solar Distributed Generation Sub-Program supported first-mover private sector investments in solar distributed generation in several CIF-eligible countries. The sub-program aimed to demonstrate the financial viability of solar distributed generation and its associated business models by supporting a pipeline of solar PV distributed generation projects in countries where investment conditions were becoming "nearly right" for these types of investments and where the governments were committed to advance policies and regulations for solar distributed generation. In less developed renewable energy markets, DPSP III invested in globally mature technologies such as solar PV which would not otherwise have been adopted at anywhere near the same rate in those markets. In essence, DPSP has helped CIF to invest at the frontier of renewables, where the frontier depends on the market.
30. DPSP's geographic flexibility has allowed it to support the scaling up of several SREP projects. The draft SREP evaluation highlighted the value of this: "In the absence of a follow-on private sector program for SREP, MDBs and countries have capitalized on the flexibility of CTF's Dedicated Private Sector Program (DPSP) to scale up efforts after most SREP resources were programmed....Having the CTF DPSP window open to SREP countries supported scaling up of some countries' ambitions and helped other countries design more private-sector engagement into their transformational vision<sup>3</sup>." SREP countries supported under DPSP III include Honduras, Kenya, Haiti, Maldives, Nicaragua, Tanzania, and Uganda. In Uganda, the DPSP offered a channel for the World Bank to bring forward a large electricity access scale-up project without going through the process of revising the SREP Uganda investment plan. In Maldives, the World Bank and the ADB are working to scale up their earlier successful SREP projects with investment in renewable energy, battery storage, and grid integration with DPSP co-funding.
31. DPSP III has also supported other non-CTF countries, including Burkina Faso, Ethiopia, Peru, and several global and regional programs. For example, DPSP III helped provide entrepreneurship financial support to solar companies in CIF-eligible countries in Western Africa as part of a larger World Bank-supported Western Africa Regional Off-Grid Electrification Project. The project's objectives were to attract reputable solar companies to the West African market, attract existing and established businesses operating in the non-solar space to engage in providing electricity service through stand-alone solar systems, and support local entrepreneurs to set up energy service companies. The World Bank explains that:
- "Accessibility to all countries has been a crucial benefit of DPSP III for the World Bank. Five of the seven World Bank DPSP III projects were located in non-CTF countries, including Western African nations, the Maldives, Burkina Faso, Zanzibar, and Uganda.

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<sup>3</sup> ICF International, forthcoming, Evaluation of the Scaling up Renewable Energy Program in Low-income Countries Program, page 62.

Given the investment climate and the lack of a track record of renewable investments in these countries, CTF financing was essential for the viability of these projects. While these countries may also benefit from other climate finance programs, DPSP III was necessary for the following reasons: First, certain unique CTF financing instruments, such as contingent recovery grants, were made available to lower-income CTF countries, thereby improving the quality of the project. The Western Africa Regional Off-grid Electrification Project, for instance, utilizes a CTF contingent recovery grant, which plays a crucial role in mobilizing commercial bank financing for solar companies in the region. Second, the expedited DPSP III procedure, which did not require the preparation of country investment plans, saved time. Preparing investment plans for multiple countries would have taken a considerable amount of time, impeding timely and agile action for energy access.”

## 5.5 Multi-country Private Sector Financing Facilities

32. A majority of DPSP’s private sector investments went to global and regional financing facilities. The MDB’s private sector arms operate global, regional, and subregional financing facilities focused on specific cutting-edge technologies such as energy efficient buildings and electric mobility, and on supporting private sector operators and business models. It can be hard to finance such facilities under investment plans. DPSP III has made 15 investments in 14 different private sector-facing multi-country financing facilities in all regions where it operates. These projects typically involve delegated authority to approve sub-projects. Once the TFC approved projects to support these financing facilities, the authority to approve sub-projects was delegated to the MDB subject to CIF’s eligibility criteria and the MDB’s internal policies and procedures. The MDBs channel DPSP III’s resources to companies in CIF-eligible countries participating in those facilities. There are reputational and other risks to the MDBs from generating a pipeline of projects without certainty of resource availability. The MDBs therefore found it useful that DPSP III had delegated approval authority.
33. ADB, for example, invested DPSP III funding in four private sector regional programs in south and south-east Asian countries that focused on renewable energy and energy efficiency investments in micro, small and medium enterprises, among other. AfDB invested DPSP III resources in the Africa Renewable Energy Fund II. The Africa Renewable Energy Fund II is a renewable energy private equity fund that mainly invests in independent power producers with a focus on low-cost renewable energy solutions including solar photovoltaic, wind, geothermal, run-of river hydro, and energy storage.

## 5.6 Investing at Scale

34. DPSP III usefully provides sizeable financing. According to the MDBs, they often face investment thresholds whereby they cannot cost-effectively support small projects of a few million \$. On average, DPSP III investment projects deployed \$30.4 million in CTF financing per investment project. Excluding the small BDF projects, the smallest ticket size was \$3.2 million in CTF financing, deployed in one project. Seven investment projects deployed around \$10 million each and the remainder had larger CTF financing, upwards of \$20 million. The largest ticket size in DPSP III was \$93 million for energy access in Burkina Faso (box 1).

### **Box 1: Solar Power and Energy Storage in Burkina Faso**

Burkina Faso's Renewable Energy and Access Project aims to support deployment of least-cost solar power in Burkina Faso through regional solar parks and solar projects with anchor customers; smooth integration of solar projects into the grid; and improved electricity access and reliability in rural areas. Among other things, the project aims to leverage private investments in electrification, finance grid upgrades and battery storage to enable the integration of variable renewable energy, and finance transaction advisory support for the competitive selection of independent power producers.

*Source: project documents.*

## **5.7 Flexible Financing Instruments**

35. DPSP III's portfolio contains a variety of financing instruments, including debt, equity, grants, subordinated structures, contingent instruments, and guarantee instruments. It also allows some local currency financing. Ninety-two percent of approved DPSP III funding was provided as non-grant financing instruments. These financing instruments improve terms and conditions for loans and transactions that need to take on more risk than what the MDBs can normally offer. Five percent of all DPSP III approved funding was provided as regular unconditional grants, generally to support technical assistance and project implementation support. At the same time, CIF AU's guidelines, investment criteria, pricing policy, and application review and the TFC's approval process all work to enforce the minimum concessionality principle. Minimum concessionality implies that the amount of concessional finance is high enough only to enable the intended investment.
36. The ability to apply a broad range of financial instruments has allowed the MDBs to use concessional resources to maximize the amount of private investment and the climate-related outcomes they generate. DPSP III has financed most of its projects with multiple financing instruments. Often, each instrument aims to tackle a different risk or barrier to climate action, see examples in box 2, allowing MDBs to choose the most catalytic instrument possible and to economize on the use of concessional resources. This way, DPSP III support has been used to derisk projects, address the incremental costs associated with new markets or technologies and structures, and close financing gaps. For example, DPSP III has used contingent instruments to enable private sector investments in geothermal exploration and other risky technologies. Exploration drilling is costly and there is a high risk that the developer does not find a viable resource. The contingent grants are repaid only if the resource is found in drilling. Further, the evaluation of CIF's programmatic approach highlighted the DPSP's achievement in driving private investment and linked this achievement to DPSP's flexibility in providing well-suited instruments for private investments and thematic focus on specific sectors and technologies. The MDBs consistently appreciated DPSP III's ability to deploy flexible financing instruments.

## Box 2: Tailoring Financing Instrument to Tackle Risks and Barriers to Climate Action

In *Indonesia*, the World Bank built on an earlier project to support geothermal expansion with DPSP III convertible grants, contingent recovery grants, a soft loan, and a small grant for technical assistance and capacity building. These instruments provided risk mitigation to incentivize developers to scale up their investments and to support new, local developers to create a deeper market for geothermal development. The financing is expected to enable cost-effective private sector driven geothermal development at scale and leverage private developers' equity.

DPSP III supported the *regional program*, Sustainable and Energy Efficient Transport Sub-Program in South-East Asia, with a contingency grant, equity, technical assistance grant, senior loan, and subordinated loan. The Sub-Program aims to unlock opportunities for, and overcome financing barriers to, the introduction of electric mobility products and services. It can support manufacturing, supply chain, and supporting services such as charging infrastructure for electric mobility products such as buses, ferries, cars, taxis, and two-wheelers. CTF resources are being used to derisk projects, address the incremental costs associated with new markets or technologies and structures, and close financing gaps.

In *Uganda*, DPSP III uses convertible grants and contingent recovery grants to co-finance a World Bank project that supports grid and off-grid electricity access and clean cooking solutions. The project seeks to cover refugees and their host communities, among others. CTF's contingent recovery grant tackles the main financial barriers to scaling-up energy access and clean cooking and supports access to finance for private sector service delivery. The contingent grant facility supports lending to eligible businesses that provide stand-alone solar systems and clean cooking solutions. These companies do not have a track record and financial institutions perceive them as risky. DPSP's support covers up to 50 percent of the loan principal in case of a default resulting from the non-performance or underperformance of the underlying technology.

DPSP III co-financed the World Bank-supported Western Africa Regional Off-Grid Electrification Project. The project's objectives were to attract reputable solar companies to the West African market, attract existing and established businesses operating in the non-solar space to engage in providing electricity service through stand-alone solar systems, and support local entrepreneurs to set up energy service companies. A regular grant from DPSP III helped provide matching grants to solar companies and a contingent recovery grant from DPSP III helped finance a contingent grant facility to financial institutions lending to local solar entrepreneurs in these countries. The matching grants provided financial incentives to contribute to the businesses' growth and facilitate the creation of their track record, this was expected to increase the solar companies' bankability and eventual sustainability. The contingent grant facility helped financial institutions lending to local entrepreneurs for their solar businesses to mitigate any financial losses because of the underperformance of the technology.

In *Ukraine*, DPSP III helped catalyze local government and private sector financing for transport as well as municipal solid waste and wastewater. Modernizing transport and municipal solid waste and wastewater involves complex issues related to renewable energy, energy efficiency, and resource efficiency. DPSP III funds were used to co-finance municipal projects in IFC's portfolio. Specifically, its concessional finance helped lower financing costs, improve affordability, and support implementation of sustainable municipal infrastructure projects.

DPSP III financed an EBRD multi-country project in *Egypt, Jordan, Kazakhstan, Morocco, Tunisia, Turkey and Ukraine* that supports energy-intensive industries, transport logistics chains, and infrastructure providers to integrate climate change considerations into their strategic, financial and technological decision making. The project aims to enable corporate sector uptake of low-carbon strategies and high climate impact technologies, implement innovative financing solutions to support this, and accelerate the adoption of low-carbon industrial and transport sector strategies. The project combines financial incentives, financed with a senior loan and subordinated debt, with technical assistance and policy dialogue, financed with and a grant, to facilitate a shift to energy efficiency and renewable energy and enable behavior change in the corporate sector. This project could provide a model for activities under the CIF Industry Decarbonization Program.

*Source: project documents.*

37. DPSP III's flexible financing instruments, combined with its other features, allowed the MDBs to design and structure projects to best meet the private sector's need. Concessional funds from DPSP III allowed the MDBs to explore unconventional structures, methodologies, and business models. This often involved taking greater risk and providing more up-front investment than what the MDBs would normally be able to.
38. According to the AfDB, DPSP helped expand financial intermediation:

“DPSP III played an instrumental role in allowing AfDB to move more resources into financial intermediation transactions. This is important for an institution like AfDB which still sees infrastructure finance – mainly led by the public sector - as its core business. While this is not surprising given the development and economic status of many of our Regional Member Countries, the reality is that CTF is making important contributions to enhance the role and impact of the private sector in clean technology sectors and technologies of the African Continent.”
39. The ADB states:

“ADB very much values the nature of the flexibility under DPSP III...the program was able to mobilize financing in renewable energy and energy efficiency spaces in a wide range of sectors and sub-sectors, including micro, small and medium enterprises, financial intermediary transactions, transport sector electric vehicles, renewable energy combined with energy storage, and initiatives like ADB Ventures.”

## 5.8 Blended Finance

40. DPSP III private sector projects often used blended finance approaches. Blended finance can be defined as the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended finance attracts commercial capital towards projects that contribute to sustainable development, while providing financial returns to investors.<sup>4</sup>

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<sup>4</sup> <https://www.oecd.org/dac/financing-sustainable-development/blended-finance-principles/>

41. The MDBs appreciated that DPSP III allowed them to use flexible, demand-driven blended finance approaches. The MDBs structured projects to address risk and barriers and attract new private investment into climate projects (box 3). IDB Invest explains that:

“Expanded access to all CIF Countries, well defined priority investment areas, a diversified product offering (including local currency features) and a well-established pipeline cancellation policy have created a positive environment to deploy blended finance resources in private sector operations...

...Our experience suggests that there are four key success factors for blended finance programs: (i) diversification (ii) demand driven, (iii) minimum size and (iv) resource predictability. Our experience with the Innovative Instruments for Investment in Zero-Carbon Technologies (i3-0) Program Phase I and Phase II shows that diversification in terms of sector, instruments and geographies ended up allowing us to extend concessional resources under a demand-driven approach. Both diversification and demand-driven have a direct impact on the ability to apply the blended finance approaches...

...Under the DPSP III Programs, we have already approved \$55.7 million in 11 transactions out of the \$61.0 million available through these programs until February 2023. That provisional 91% deployment rate in DPSP III programs compares to an historic 56% in the portfolio of CIF programs managed by IDB Invest since its inception.”

### **Box 3: Benefits of Flexibility in Blended Finance**

Literature on blended finance supports the notion that flexible, demand-driven approaches are likely to be superior to more prescriptive approaches to blended finance. The prevailing argument for the catalytic effect of blended finance is that it can generate knowledge and production networks spillovers, which can have economy-wide effects in increasing productivity, contributing to growth, and generating positive social and environmental externalities. MDBs are ideal partners to establish testing grounds for private sector self-discovery and regional spillovers. Blended finance programs that are overly prescriptive or supply-driven, for example in terms of sector, instruments, or geographies, tend to be less successful in supporting self-discovery. This is because the institution that extends blended finance cannot always be aware of where the best opportunities are for self-discovery before it encounters specific project opportunities. Further, the MDBs' public ownership allows them to play a role of honest broker and reduces the risk of conflict of interests and misuse of funds. And their reach to multiple countries can generate regional spillovers.

*Source: IDB Invest*

42. DPSP III has supported blended finance in equity investments to offer incentives for climate action. Blended finance in direct equity investments can offer preferred returns to other commercial investors, signaling the opportunity and helping to address real or perceived risks. Once a shareholder in a company, concessional funds can also be structured to offer incentives for the company to steer their operations towards corporate climate action, prioritizing the actions with the highest impact as the business grows. For example, IDB Invest invested \$16.5 million blended finance resources from CTF DPSP III in four equity transactions, alongside \$23 million from IDB Invest's own capital and \$104 million of external private investment. Box 4 describes two of these investments. Thanks to DPSP III support, IDB Invest was also able to set up its Innovative Instruments for Investment in Zero-Carbon Technologies (i3-0) Program. This financing facility emphasizes inclusion goals in its investments, and two of its transactions have received awards. Further, DPSP III helped ADB set up its Ventures Financing Facility which also uses equity investments to support climate impact investment in ADB's regional member countries (box 5).



#### **Box 4: IDB Invest Using Blended Finance to Support Innovations**

IDB Invest made an equity investment in Cargo X, Latin America’s largest trucking freight digital platform. Cargo X leverages technology and data to connect large shippers with small carriers in Brazil. IDB Invest invested \$9.9 million on its own account and \$4.5 million in blended finance resources from the DPSP III. The CTF investment included an incentive mechanism to give shares back to the company’s stock option plan upon the achievement of certain milestones, supporting the company’s commitment to the development of a robust methodology to measure the greenhouse gas emissions reductions achieved through load consolidation and route efficiency at a time of rapid growth.

IDB Invest also used DPSP III resources to make an equity investment in the Paladin Latin America Zero Carbon Affordable Housing Fund that piloted “Zero Carbon” certification in real estate investments in Brazil, Colombia and Mexico. Zero Carbon certification is supported by IFC and EDGE. A Zero Carbon building is at least 40 percent more energy efficient than business as usual and is fully powered from renewable energy. The equity investment will provide an incentive for the Fund managers aiming at certifying 100% of the real estate portfolio as Zero Carbon.

*Source: IDB Invest*

#### **Box 5: ADB Ventures Investment Fund 1**

ADB Ventures Investment Fund 1 invests in early-stage companies with technology enabled solutions that contribute to multiple Sustainable Development Goals with a focus on climate and gender impact. The fund applies climate (80 percent of investments) and gender (75 percent of investments) impact investment lenses, focusing on clean technology, agricultural technology, inclusive financial technology, and health technology in South and Southeast Asia. ADB Ventures makes equity and quasi-equity investments and aims to mobilize at least \$360 million private capital for early-stage companies through co-investments.

*Source: <https://ventures.adb.org/>*

## **6 Conclusions and Lessons Learned**

43. This retrospective concludes that the MDBs continue to find value in the DPSP III model because its key features enable them to be responsive to the private sector’s needs and demands. These features include the DPSP’s ability to finance a wide range of clean technologies, use a broad range of financing instruments, cover all CIF-eligible countries, and use a flexible demand-led process that complements existing CTF investment plans and overall programming. These features are all carried forward in the Futures Window.
44. This retrospective also concludes that, from the perspective of the CIF AU, the DPSP III model performed well and delivered results as expected. Specifically, DPSP III:
  - Facilitated CTF’s engagement with the private sector, both directly through investments in private companies, and indirectly through investments in public agencies that engaged the private sector via guarantees, credit lines, and in other ways;

- Diversified CTF’s investment portfolio beyond renewable energy and expanded the technologies that CTF supports. Major focus areas include energy efficiency, energy access in Africa, sustainable transport and electric vehicles, distributed solar generation, urban projects, and geothermal;
  - Enabled CIF to provide support beyond the core CTF countries, for example scaling up well-performing CTF and SREP projects;
  - Expanded CTF’s blended finance approaches. DPSP III projects use a wide variety of financing instruments that appear to align well with risks and barriers.
45. DPSP III expanded the sphere of technologies and financing mechanisms that CTF supports and helped lay the ground work for new CIF programs by tackling emerging challenges and technologies, including energy storage, urban energy efficiency, urban waste management, industrial projects, and climate innovation facilities. DPSP III revealed that the MDBs and their clients had large appetite for energy storage funding, leading to dialogue with donor countries that eventually sparked the creation of the Global Energy Storage Program (GESP). Likewise, DPSP III showed large interest in distributed generation, which gave impetus to the creation of the Renewable Energy Integration Program, and in equity investments in energy efficiency, which gave impetus to CIF’s Smart Cities program.
46. Going forward, CIF AU sees clear advantages of maintaining one or more funding mechanisms in the mold of the DPSP. While investment plans have strengths and will remain a core part of CIF’s business model, the DPSPs have advantages that complement the investment plans. They help attract the private sector and fill a niche that investment plans do not cover easily, including by financing many regional programs and multi country financing facilities and helping the MDBs provide blended finance in novel and risky areas.
47. CIF AU therefore remains persuaded of the merit and value of the Futures Window. The Futures Window extends core aspects of the DPSP III, including its objective and principles, access by all CIF countries, focus on the same thematic investment areas, namely energy efficiency, renewable energy plus, and sustainable transport. It also maintains a flexible process that accounts for the uncertain level and timing of when canceled CTF resources become available to allocate to new projects.
48. The review draws the following lessons for the Futures Window:
- The Futures Window requires collaboration, coordination, and knowledge sharing to achieve its full programmatic potential. Ensuring collaboration during the Futures Windows’ implementation phase will require concerted efforts from CIF AU and the MDBs.
  - CIF AU can play a role as knowledge broker in cutting edge technical areas. Energy storage is now a major focus area for CTF and an area where CIF AU can continue to complement its investments with knowledge sharing, as has been done through the GESP Learning Platform. Other areas include e-mobility, green hydrogen, incentivizing energy efficiency, certification of energy efficient buildings, and others.

- Working with the MDBs, CIF AU can also play a role in assessing the use and effectiveness of different blended finance approaches for different markets and technologies. CTF's portfolio provides a learning laboratory for assessing how to optimize blended finance instruments' leverage and outcomes.

49. In conclusion, this review has been helpful in drawing lessons from DPSP III that are relevant for the Futures Window. CIF AU will continue to collaborate with the MDBs on reflecting these lessons in the Futures Window's implementation and maximizing the Futures Window's potential for success.



## The Climate Investment Funds

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low carbon, climate resilient development in select middle and low income countries. To date, 14 contributor countries have pledged funds to CIF that have been channeled for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. The CIF is the largest active climate finance mechanism in the world.

### THE CLIMATE INVESTMENT FUNDS

c/o The World Bank Group  
1818 H Street NW, Washington, D.C. 20433 USA

Telephone: +1 (202) 458-1801  
Internet: [www.climateinvestmentfunds.org](http://www.climateinvestmentfunds.org)



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