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PROPOSED BUSINESS MODEL FOR COUNTRY PUBLIC SECTOR INVESTMENTS UNDER THE CLEAN TECHNOLOGY FUND[1]

[1] Working title

Introduction

1. The Clean Technology Fund (the Fund) will support the rapid deployment of low-carbon technologies on a significant scale, with the objective of cost-effective reductions in the growth of greenhouse gas emissions. The Fund will do so by supporting policies, measures and programs that reduce the costs and risks imposed on developing countries by the adoption of low GHG-emitting technologies. The Fund will act within a country-led model and ensure country ownership of the investment programs.

2. The Fund would fill a specific financing gap in the international aid architecture by primarily providing finance to Middle Income Countries (and "Blend" countries) at more concessional rates than standard Multilateral Development Bank (MDB) terms at the scale necessary to help provide them incentives to integrate low-carbon strategies into their development plans and investment decisions.

3. The goal of the Fund is to have transformational impacts. This will require a country focus and programmatic approach. The Fund's resources must be used where it will have the greatest impact on the challenges of reducing growth in GHG emissions. A transparent, two-stage process would be established to first identify priority countries and then select funding proposals.

Joint MDB Review of Country Strategic Framework for Climate Change

4. The first step in the activity cycle would be to select target countries. One possible approach to identifying priority countries would be to use objective indices based on the potential for significant reduction in GHG emissions growth from a transition to a low-carbon economy. Criteria could also be developed to prioritize countries on the basis of strong potential demonstration impact. Countries prioritized for financing would be expected to have policies and institutions conducive to the objectives of the Fund.

5. Recognizing that most major emitting countries that will be prioritized by the Fund already have strategies to address climate change, a joint review will be conducted by the World Bank and relevant Regional Development Bank (RDB) of each prioritized country's readiness and commitment to address climate change, including policies to promote clean technologies and improve energy efficiency. This could include a review of the country's own existing sector polices or strategies related to energy security or low carbon options for the power, transport, agriculture, industrial and/or urban sectors. The MDB joint review should be conducted in the context of the MDBs' country dialogue.

6. In most cases, it is envisaged that a desk review would suffice. The reviews would not necessarily be one-off, but could be a series of assessments at the sub-sector or sub-national levels, as appropriate in the country context. The joint MDB review will be relevant both for public and private sector operations financed by the Fund. The review will be presented to the Trust Fund Committee.

7. The joint MDB review of a country's strategic framework should highlight how a low-carbon strategy would provide developmental benefits as well as reduction in GHG growth. As country needs differ it will not be possible to prescribe which policies, measures or technologies will achieve significant advances for all countries. Rather, the Fund will use criteria which will allow a generic assessment of transformative potential. A transformational investment strategy is defined as one that catalyses a shift to low-carbon technologies, policies and measure at the following scale:

(i) a sector or sub-sector in a given country or for larger countries in a high impact province/state;
(ii) global (beyond a country where it is being demonstrated with the help of the Fund) application of a low-carbon technology; and/or
(iii) private sector investments to significantly move the market towards lower carbon intensity.

8. Elements for the joint MDB review of the country strategic framework could also include, for example:

(i) Potential for low carbon investments.
(ii) Minimum level of macroeconomic stability and stable budget management.
(iii) Commitment to an enabling policy and regulatory environment.
(iv) Planning commitment and expenditure framework in the sector or sub-sector.
(v) Incentives for leveraging private sector financing.
(vi) Institutional arrangements for implementation of policies.
(vii) Country-led donor coordination process.

Joint Programming by MDBs

9. Upon endorsement of the joint review by the Trust Fund Committee, a programming mission will then be undertaken by the World Bank Group and relevant RDB to engage the government and private sector and begin the dialogue on how the Fund may catalyze transformation toward a low-carbon path. This joint programming is critical as each MDB is likely to already have ongoing operations in key sectors or sub-sectors in the country and this exercise will allow for coordination and collaboration of current and new activities. This is also important to ensure that possible future investments to be supported by the Fund will be additional to existing investment programs.

10. Give the technical expertise in most emerging market economies, it is envisaged that the government would play a central role in programming of the Fund's public sector related projects and donor coordination. This would be consistent with the MDBs' approach to partnership with MICs, where the Banks have been responding with more joint (in partnership with country) knowledge generation and cooperation on the country's own activities.

11. The outcome of the joint exercise will be a clearly articulated approach for the use of the Fund's resources in the country and a work program that each MDB will be undertaking, including a potential project pipeline and notional resource envelopes. The country work

program would be endorsed by the Ministry of Finance, with a designation of MDBs for individual investment operations. For example, the joint MDB country programs could cover one or more of the following proposed transformational outcomes:

(i) Power Sector

- Rehabilitation/upgrading of existing coal-fired power plants with substantial remaining useful life, construction of new, efficient plants to enable a decrease in the duty-cycle of existing plants and retirement of old, inefficient plants
- Increase the share of renewable energy in the total electricity supply
- Promote regional grid interconnection schemes that promote lower carbon energy productin and/or significant transmission efficiency improvements
- Switch from coal plants to gas
- Large reductions in transmission and distribution losses

(ii) Transportation

- Modal shift to public transportation in major metropolitan areas
- Improve fuel economy standards and fuel switching

(iii) Buildings and industry energy efficiency

- Large-scale adoption of energy efficient technologies in:
  - Building design, insulation, lighting and appliances
  - Energy-intensive industries and equipment (motors and boilers)

12. A proposed template for joint MDB country programs is contained in Box 1. The country programs would be expected to promote a "co-benefits" approach, with an emphasis on both local and global environmental impacts. Results measurement will be an integral part of the work programs (see Annex 3)

13. The private sector operations of the MDBs should be represented in the mission as there may likely be a discussion on the enabling environment that may be highly relevant. It is recognized that private sector operations are often more opportunistic and may require much faster turn-around than such programming would allow. It is also recognized that private sector interventions may not be specifically identified or articulated by a country's strategies, but all such interventions would be required to be consistent with the goals of the Fund.

14. Evaluations of aid effectiveness have demonstrated that sound analytical work is essential for strengthening confidence among key national stakeholders in the public policy debate, enhancing the capacity of national institutions for robust policy reform and priority setting, improving the quality of investment operations, and assessment of the poverty and social impacts of programs. Therefore, it is proposed that, subject to Trust Fund Committee approval, each prioritized country be allocated an up-front grant of a maximum of $1 million for technical assistance activities related to[2]:

[2] It is recognized that some donors may be constrained in contributing to such technical assistance funding.

(i) Economic and sector work linking low carbon development to economic growth and poverty-alleviation strategies;
(ii) Developing and preparing country investment programs
(iii) Non-lending measures, such as policies, regulations, standards, and institutional capacity building.

15. The country would determine the appropriate MDB for administration of the technical assistance resources. It is proposed that there be flexibility in the sequence of technical assistance activities and joint work programming, so that the Fund is responsive to country needs and provides streamlined support.

Box 1: Template for Joint MDB Country Programs

1. Program Objectives and Results Indicators

Program Objective should demonstrate that the investment would result in:

- Achievement of national development objectives and reduction in growth of GHG emissions;
- Transformations in technical systems, leading to step changes in GHG emissions across an entire sector or sub-sector;
- "Demonstration effect" of an intervention beyond the sector or country in which it takes place; and/or,
- Individual, institutional and societal transformations in norms, behaviors, attitudes, capacities and values related to climate change, encompassing civil society, public institutions and the private sector.

Results indicators could include:

- Total GHG emissions reduction/$
- Average carbon intensity in country/sector reduced from x to y%.
- Share of low carbon technologies in electricity production increased from x to y%.
- Increase in average efficiency of coal/gas-fired power plants from x to y%.
- Improvement in transmission and distribution efficiency from x to y%.
- Percentage of trips using lower carbon modes of transport increased from x to y%.

Eligibility criteria, priorities and notional resource allocation for projects under the investment program (including description of project pipeline and how it is additional to existing government and MDB investments).

2. Country and sector context:

Initial assessments indicate that it is possible to decrease carbon emissions by roughly 30% from the business as usual case by applying changes in roughly six "Socolow wedges" (selecting from renewable energy, energy efficiency, thermal power plant upgrading, CCS, nuclear power, avoided deforestation) for an average of roughly 5% each. If an investment program will help enable the Government to achieve one of these wedges, this would be considered "transformational".

- Description of the sources of GHG emissions, distribution in emissions-intensity, and trends.

Target sector or sub-sector's share.

- Description of government's sector strategy, including plans for expansion and low-carbon growth.
- Summary of options for mitigating emissions in the sector or sub-sector, including ranking by costs, savings, emission-reduction potential, and technical and institutional feasibility.
- How would the proposed investments substantially change the sector/sub-sector to a low carbon growth path? Projected GHG emissions reductions and cost per unit of reduction.
- Development impact: How does the proposed investment program fit with the country's economic growth and development strategies?
- What is the "tipping point" and/or scale that would be needed to make this transformation? What element of blending of concessional finance with MDB finance (and GEF grants and carbon finance) would make the investments viable?
- Country commitment: Enabling policy and regulatory environment, as well as medium-term expenditure framework in the sector(s) concerned.
- Potential for mobilization of public/private financing. How would the investments accelerate commercial capital flows and by how much?
- Readiness for implementation, including institutional arrangements.

3. Replication and scalability potential for technology adoption at the sector, country and global levels.

Explain how, why and what rate the new technology could be adopted.

4. Risk Assessment

5. Financing Plan and Instruments

Program-based Approach

16. The joint work program would provide the basis for a program-based approach to investment lending, which emphasizes comprehensive and coordinated planning in a given sectoral or thematic area of intervention. Such programmatic financing is intended to support country-owned programs of development, so the word "program" in the expression refers to the program of a developing country government, which one or more donors have agreed to support.

17. Program-based approaches are characterized by:

(i) Sustained, country-led partnership among development partners and key stakeholders in support of country-owned sector policies and strategies.
(ii) A common framework for planning, implementation, expenditure, and M&E;
(iii) A single program and budget framework.
(iv) Donor coordination and harmonization of procedures.

18. In middle-income countries, adopting a program-based approach can facilitate streamlined processes and alignment with country processes, reducing the financial and non-financial transaction costs of MDB lending. The expected development benefits of programmatic lending include:

(i) Stronger country ownership and leadership.
(ii) Coordinated policy dialogue for entire sector.
(iii) More rational and predictable resource allocation based on priority.
(iv) Scaling-up of benefits to entire sector.
(v) Sector-wide accountability with common fiduciary and environmental/social safeguard standards.
(vi) Strengthening of country's capacity, systems and institutions at a feasible pace.
(vii) Reduced duplicative reporting and transactions.
(viii) Greater focus on program or sector-wide results.

Lending Instruments and Procedures

19. The program-based approach may be supported by a variety of financing instruments utilized by the MDBs for investment lending. For example, in the World Bank, these would include Adaptable Program Loans, Financial Intermediary Loans, Specific Investment Loans, as well as risk mitigation instruments, such as partial risk and credit guarantees.[3]

20. The Trust Fund Committee's approval of a joint MDB country program -- including eligibility criteria and priorities for individual investment operations, identification of support needed for a program of investment operations, and a general description of a potential pipeline of projects -- would constitute (a) an identification of a resource envelope for individual projects and (b) an authorization to the designated MDB to proceed with development and preparation of individual investment operations. Prior to appraisal, the MDB would seek approval from the Trust Fund Committee for allocation of Fund financing for each investment operation. Annex 2 outlines the cycle of activities for programs/projects financed by the Fund.

21. Individual loans/grants under the work program would be processed through the MDBs selected by the country. Each operation would follow the investment lending policies and procedures of the MDB, including its fiduciary standards and environmental and social safeguards. As an example, Annex 1 provides a summary of the processes that the World Bank and the Inter-American Development Bank will use to approve projects within its own institution.

[3] Private sector investments could also use equity and fund investments. For further information, see background paper on an approach to engage the private sector (CIF/DM.1/Inf.10).

Annex 1

World Bank procedures for approving operations financed by the Clean Technology Fund

All operations financed by the Clean Technology Fund will follow the Bank's operational policies and procedures for investment lending. They would be approved by the Board, regardless of whether there is IBRD/IDA lending associated with CTF co-financing[4].

- Programming will be integrated in the Bank's country sector dialogue. Bank regional vice-presidencies will be responsible for identification, development, appraisal and supervision of operations, as part of their annual work programs.

- Regional management will oversee Project Concept Note Reviews, Quality Enhancement Reviews, Appraisal Decisions, and Negotiation Clearances, and submit projects for Board Approval.

- The Bank will apply its investment lending policies and procedures for loan signing and effectiveness, as well as supervision, audits and financial reporting, procurement, disbursement, amendments, suspensions, extensions and closing.

- Documentation requirements will be the same as investment operations: Project Concept Notes, Project Appraisal Documents, Implementation Status Reports, and Implementation Completion Reports.

- Management review arrangements for the preparation of investment operations, including for risk assessment and risk control, will apply.

- Operations will require assessments of project financial management and procurement capacity of the borrower. PADs will require a description of the financial management and disbursement arrangements, including audits, funds flow, disbursement schedule, eligible expenditures, accounting and financial reporting. Similarly, a procurement plan will be required, in which the different procurement methods, estimated costs, prior review requirements and timeframe are agreed between the recipient and the Bank.

- Operations will be subject to the Bank's environmental and social safeguard policies and procedures, as well as information disclosure policies for investment lending.

- Bank management will monitor the same indicators of portfolio performance as for the IBRD/IDA portfolio, such as projects-at-risk, realism, proactivity, and net disconnect.

[4] This would be consistent with the practice established for World Bank GEF operations, which have been mainstreamed in Bank procedures.

- Operations will be subject to QAG's quality at entry and quality of supervision assessments.

- Upon completion, ICRs will be reviewed by IEG, which will also conduct Project Performance Assessments, according to its procedures.

Inter-American Development Bank (IDB) procedures for approving non-sovereign guaranteed[5] (NSG) operations

All NSG operations financed by the Clean Technology Fund will follow the IDB's Non-Sovereign Guarantee Operations Processing for investing lending and would be approved by the Board of Directors.

- Origination and identification of potential transactions will be done in a joint effort by the Structured and Corporate Finance Department (SCF) and the IDB respective Field Office. Then, SCF will be responsible for eligibility, analysis and due diligence, credit review, final approval, administration and/or restructuring, if appropriate, as part of the annual work program.

- SCF will oversee Project Concept Documents (PCD), Preliminary and Final Loan or Guaranty Proposals (LGP), Pre-closing memorandums, Annual Supervision Reports and Evaluations, as well as, Environmental and Legal documents.

- The IDB will apply its policies and procedures for loan signing and effectiveness, as well as, supervision, audits, financial reporting, procurement, disbursement, amendments, restructurings, extensions and closing.

- Operations will be subject to the IDB's environmental and social safeguard policies and procedures, as well as, information disclosure policies for investment loans.

- The composition of the committees that (1) grant eligibility to a Project Concept Document (PCD) and (2) review the Preliminary Loan/Guarantee Proposal (LGP) in the Credit Review Meeting are as follows:

  1. Eligibility will be granted by the Vice Presidency for Private Sector and Non-Sovereign Guaranteed Operations (VPP) on a non-objection basis by Vice Presidency for Countries (VPC), Vice Presidency for Sectors and Knowledge (VPS), Legal Department / Non-Sovereign Guaranteed Operations Division (LEG/NSG) and Private Sector Credit Risk Assessment Office (RMG).
  2. The Credit Review Meeting will be chaired by the SCF Manager and members will include: Private Sector Credit Risk Assessment Office (RMG), Vice Presidency for Countries (VPC), Vice Presidency for Sectors and Knowledge (VPS), Legal Department / Non-Sovereign Guaranteed Operations Division (LEG/NSG) and Finance Department (FIN).

- Final approval is granted by the Board of Executive Directors of the Bank.

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5 Such operations include private sector operations and sub-sovereign operations that do not benefit from government guarantees.

Annex 2
CYCLE OF ACTIVITIES FOR CLEAN TECHNOLOGY FUND[6]

Steps/Actions Required	Who is Responsible?	Performance Standards
1. Identification of target countries.	Trust Fund Committee (TFC)	Eligibility criteria approved by TFC.
2. Prepare Joint MDB Review of Country/Sector Strategic Framework and submit to Trust Fund Committee (TFC)	MDBs	According to appraisal criteria approved and procedures established by TFC (generally, desk review)
3. TFC reviews and approves Joint Review	TFC	Decisions taken at regular meetings of the TFC. Formal decision of the Committee will be communicated to the government and MDBs.
4. MDBs conduct joint programming mission to prepare work program. Endorsement of Joint MDB Country Program by Ministry of Finance.	MDBs & Government	According to templates established by TFC.
5. TFC reviews and approves Joint MDB Country Program, including investment strategy, MDB designation for operations, eligibility criteria and priorities for individual projects, and indicates notional resource envelope for individual projects.	TFC	Decisions taken at regular meetings of the TFC. Formal decision of the Committee will be communicated to the government, Trustee, and MDB
6. Where it is designated that project administration will be undertaken by an MDB other than IBRD, an agreement will be executed between IBRD, as Trustee, and the designated MDB (to cover all projects financed by the Fund).	IBRD, as Trustee, and designated MDB	Executed within one month of the TFC meeting.
7. Designated MDB supports preparation of individual projects by borrower.	MDB	According to MDB's operational policies and procedures, consistent with endorsed country program.

[6] For the proposed activity cycle for private sector investments, please see background paper on an approach to engage the private sector.

8. MDB submits pre-appraisal document to TFC for no-objection approval of financing, which authorizes appraisal of individual projects.	MDB & TFC	Monthly virtual review.
9. Designated MDB Agency organizes and conducts appraisal, negotiates legal agreement with borrower, and submits projects for approval by its Board.	MDB	Within 3 months of TFC no-objection approval. According to MDB's operational policies and procedures, consistent with endorsed country work program. Target: Country Work Program approval to Board submission in 12 months.
10. Signing and Effectiveness of Legal Agreement	MDB and borrower	Applicable MDB standards
11. MDB submits cash transfer request to IBRD as Trustee, adjusted for any drops, cancellations or amendments to projects, investment income and undisbursed or unused funds. IBRD as Trustee makes cash transfer to MDB.	MDB IBRD as Trustee	Within [ ] working days of effectiveness. Within [ ] working days of receipt of cash transfer request.
12. Project implementation, including monitoring of physical and financial progress in achieving results. Disbursement of funds following processing of withdrawal applications. MDB submits cash transfer requests to IBRD as Trustee.	Borrower or executing agency MDB MDB and IBRD as Trustee	As provided for in the legal agreement and project operational manual. Applicable MDB policies and procedures. Agreed financial procedures
13. Supervision and amendments of project activities under implementation, including reallocation of loan proceeds.	MDB	Applicable MDB policies and procedures.
14. Evaluation	Borrower or executing agency	As provided for in legal agreement and project operational manual.
15. Implementation Completion Report (ICR)	MDB	Applicable MDB policies and procedures.

Upon submission of ICR to MDB Board, MDB submits final ICR to CIF Administration Unit		Within [ ] working days of Board submission.
16. Independent review of ICR	MDB evaluation department	Applicable MDB policies and procedures.
17. Annual Portfolio Review submitted to Administration Unit. Administration Unit convenes annual portfolio review meeting, prepares overview report on Fund operations, and forwards MDBs' annual portfolio reviews to TFC. Review and adoption of Annual Report on Fund operations.	MDB Administration Unit TFC	Reporting from Results Measurement System Decision at regular meetings of Fund Committee.

Annex 3

RESULTS MEASUREMENT

The Clean Technology Fund will assess operational quality and outcomes by tracking results. The purpose of the results measurement framework is to (a) monitor aid flows, project activities and achievement of results and enable funding or activities to be adjusted as necessary, (b) to promote accountability for resource use and achievement of results; and (c) to document, provide feedback on, and disseminate results and lessons learned. Independent evaluation of activities and outcomes will be an essential element of the results framework.

The results measurement system will measure results at two levels:

Tier 1: Country Outcome Indicators

- Average carbon intensity in country/sector
- Share of low carbon technologies in electricity production
- Average efficiency of coal/gas-fired power plants
- Transmission and distribution efficiency
- Low carbon energy capacity installed
- Additional financing mobilized from public and private sector
- Emissions reductions from deforestation and land degradation.
- Percentage of trips using lower carbon modes of transport

Tier 2: Portfolio Performance Indicators

- Development outcomes of exiting projects
- Risk to development outcomes
- Aggregate GHG emissions reduction (total and per unit of funding)
- Projects at risk
- Proactivity Index
- Quality-at-Entry
- Quality of Supervision
- Elapsed time

A key component of the results measurement framework should be the wide dissemination of performance reports. Where possible, these will be made available in real time through the use of information technology, including a Fund web-site.

Proposals for funding by the Fund should have adequately defined arrangements for monitoring achievement of results. These will include (a) precisely defined indicators and targets; (b) Implementation Status Reports with satisfactory baseline data for outcome monitoring; and, (c) Implementation Completion Reports with satisfactory data on project outcomes.