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FINANCIAL PROCEDURES AGREEMENT

between

INTER-AMERICAN DEVELOPMENT BANK

and

**THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT,**

as Trustee of

THE TRUST FUND FOR THE CLEAN TECHNOLOGY FUND

June 8, 2010

FINANCIAL PROCEDURES AGREEMENT

FINANCIAL PROCEDURES AGREEMENT (hereinafter the "Agreement"), dated as of

June 8, 2010 made between the International Bank for Reconstruction and Development (the "World Bank") as trustee (the "Trustee") of the Trust Fund for the Clean Technology Fund (the "CTF") (the "CTF Trust Fund"), and the Inter-American Development Bank as implementing entity of the CTF (the "Implementing Entity" or "IE");

PREAMBLE

WHEREAS (A) the World Bank, in consultation with the other MDBs, developed and developing countries and other development partners, proposed to establish the CTF as one of the two strategic funds under the Climate Investment Funds (CIF) along with the Strategic Climate Fund (SCF);

WHEREAS (B) following the approval by the Executive Directors of the World Bank of the establishment of the CTF Trust Fund on July 1, 2008, the Governance Framework for the CTF (the "CTF Governance Framework Document") was adopted at the joint meeting of the Trust Fund Committees for CTF and SCF on November 18, 2008, held in Washington, D.C., the United States of America;

WHEREAS (C) pursuant to the terms of the CTF Governance Framework Document, the World Bank serves as Trustee for the CTF Trust Fund and, in its capacity as the Trustee, has established the CTF Trust Fund to receive contributions from contributors to the CTF Trust Fund;

WHEREAS (D) the Implementing Entity wishes to access CTF Trust Fund resources in accordance with the terms of this Agreement, including the CTF Governance Framework Document; and

WHEREAS (E) the Trustee and the Implementing Entity now desire to enter into this Agreement relating to the arrangements for the commitment and transfer of CTF Trust Fund resources to the Implementing Entity and the administration and use of such resources by the Implementing Entity.

NOW, THEREFORE, the Trustee and the Implementing Entity hereby agree as follows:

1. INTERPRETATION

Section 1.1. Unless the context otherwise requires, the several terms defined in the Preamble to this Agreement shall have the respective meanings set forth therein and the following additional terms shall have the following meanings:

“Administrative Budget” means the amount allocated, from time to time, to the Implementing Entity by the CTF Trust Fund Committee (or in the case of the Country Programming Administrative Budget and the Special Administrative Budget where the expenditures for the special activities or initiatives are to be incurred by more than one MDB, by the MDB Committee based on the authority granted by the CTF Trust Fund Committee) as administrative budget to cover administrative and other costs incurred by the Implementing Entity in connection with the performance of its administrative services and other activities in support of the CTF (other than the costs covered by Project Administration Fees or any fees received by the Implementing Entity from any Project Recipient), and may comprise: (i) Core Administrative Budget; (ii) Country Programming Administrative Budget; and (iii) Special Administrative Budget (each as the “Sub-category of the Administrative Budget”);

“Administrative Budget Fiscal Year” means July 1 through June 30 of each calendar year;

“Authorized Officer” means a person who is authorized to sign in the name and on behalf of the Implementing Entity for the purposes of this Agreement;

“Business Day” means a day on which the headquarters of the World Bank and the Implementing Entity are open for regular business;

“Cancelled Funds” means any cancelled amount of the CTF funding from any CTF Projects, Project Administration Fees or Administrative Budget, which the Trustee has committed pursuant to Section 3.1 below;

“Cash Transfer Request for Administrative Budgets” means a request submitted by the Implementing Entity to the Trustee for the transfer of CTF Trust Fund funds to the IE CTF Trust Fund for any Sub-category of the Administrative Budget, which shall be substantially in the form attached to this Agreement as Annex F;

“Cash Transfer Request for CTF Projects” means a request submitted by the Implementing Entity to the Trustee for the transfer of CTF Trust Fund funds to the IE CTF Trust Fund for CTF Projects, which shall be substantially in the form attached to this Agreement as Annex C-1 or Annex C-2, as may be appropriate (in the case of CTF Non-guarantee Projects) or Annex D (in the case of CTF Guarantee Projects);

“Cash Transfer Request for Project Administration Fees” means a request submitted by the Implementing Entity to the Trustee for the transfer of CTF Trust Fund funds to the Implementing Entity for Project Administration Fees, which shall be substantially in the form attached to this Agreement as Annex E;

“Core Administrative Budget” means the portion of the Administrative Budget allocated by the CTF Trust Fund Committee to the Implementing Entity during the Administrative Budget Fiscal Year (or such other period as may be approved by the CTF Trust Fund Committee) to cover the Implementing Entity’s administrative and other costs in connection with the performance of its administrative services and other activities during such period in support of the CTF, other than the costs covered by the Country Programming Administrative Budget and the Special Administrative Budget;

“Country Programming Administrative Budget” means the portion of the Administrative Budget allocated out of the Country Programming Budget Pool by the MDB Committee to the Implementing Entity;

“Country Programming Budget Pool” means the amount allocated by the CTF Trust Fund Committee as a budget pool to be made available to cover the administrative and other costs incurred by the MDBs in connection with their support to country programming of CTF resources, including preparation and development of, and reporting concerning, the Investment Plan, and from which pool the MDB Committee is authorized to make a further allocation to an individual MDB;

“CTF Guarantee Project” means any CTF Project, in respect of which the CTF funding is committed in the form of a guarantee;

“CTF Loan” means a loan made available by the Implementing Entity to a Project Recipient financed from the resources of the CTF Trust Fund;

“CTF Non-guarantee Project” means any CTF Project, in respect of which the CTF funding is committed by the Implementing Entity in a form other than a guarantee, including, for the avoidance of doubt, any CTF Loan;

“CTF Project” means that part of a project, program or activity, which is to be financed with funds from the CTF Trust Fund as approved by the CTF Trust Fund Committee, based upon the Proposal submitted by the Implementing Entity. For the avoidance of doubt, CTF Project also includes technical assistance activities, including those which are directly provided by the Implementing Entity and for which the Project Recipient does not receive funding from the Implementing Entity provided that the funding from the CTF Trust Fund for such technical assistance activities has been approved by the CTF Trust Fund Committee;

“CTF Trust Fund Committee” means the trust fund committee of the CTF established in accordance with the terms of the CTF Governance Framework Document;

“Dollars” or “US\$” means dollars in the currency of the United States of America;

“Financial Reporting Year” means January 1 through December 31 of each calendar year;

“IE CTF Trust Fund” means the trust fund or trust funds (and where applicable, its or their accounts) established and administered by the Implementing Entity to receive, hold in trust and administer CTF Trust Fund funds transferred to the Implementing Entity by the Trustee;

“Income” means any interest, fee, dividend or any other reflow of funds scheduled to be received by the Implementing Entity in respect of CTF Project in excess of the principal amount of the CTF funding provided by the Implementing Entity (including default interest charged by the Implementing Entity, if any), which is due to be returned to the CTF Trust Fund under the terms of the CTF funding approved by the CTF Trust Fund Committee. For the avoidance of doubt, Income does not include any Principal Repayment, or any Investment Income;

“Investment Income” means the investment income earned, if any, on the CTF Trust Fund funds transferred to the IE CTF Trust Fund. For the avoidance of doubt, Investment Income does not include: (i) any Income, including any interest or any other amount charged on CTF funding by the Implementing Entity to Project Recipients; or (ii) any income earned, if any, on the investment of CTF Trust Fund funds transferred as Project Administration Fees, but includes any income earned, if any, on the investment of CTF Trust Fund funds transferred as Administrative Budget unless exclusion of such income is approved by the CTF Trust Fund Committee;

“Investment Plan” means any investment plan prepared by the recipient country, in cooperation with the MDBs, pursuant to paragraph 14 of the CTF Governance Framework Document, to be submitted to the CTF Trust Fund Committee for endorsement of further development of activities for CTF funding;

“Letter of Commitment” means a letter from the Trustee to the Implementing Entity confirming the commitment of CTF Trust Fund funds to the Implementing Entity, which shall be substantially in the form attached to this Agreement as Annex A and shall include in its annex the relevant decisions of the CTF Trust Fund Committee approving the allocations of CTF Trust Fund funds and the currency of such approved allocations for which the Letter of Commitment is issued;

“Letter of Commitment Cancellation” means a letter from the Trustee to the Implementing Entity confirming the cancellation of the commitment of CTF Trust Fund funds to the Implementing Entity, which shall be substantially in the form attached to this Agreement as Annex B;

“MDBs” means the Implementing Entity and certain other multilateral development banks named in the CTF Governance Framework Document;

“MDB Committee” means the MDB committee established to facilitate collaboration, coordination and information exchange among the MDBs, comprising of representatives of the MDBs, in accordance with the terms of the CTF Governance Framework Document;

“Principal Repayment” means any repayment of principal of any CTF Loan or any other financial product provided by the Implementing Entity in respect of a CTF Project with the CTF Trust Fund resources, which is due to be returned to the CTF Trust Fund under the terms of the pertinent CTF funding approved by the CTF Trust Fund Committee. For the avoidance of doubt, Principal Repayment does not include any Unused Funds;

“Project Administration Fee” means the amount allocated to the Implementing Entity in accordance with the policies and decisions approved by the CTF Trust Fund Committee, if applicable, as a fee to cover the Implementing Entity’s costs in respect of services performed by the Implementing Entity in connection with managing the project cycle of any specific CTF Project. For the avoidance of doubt, Project Administration Fee does not include any fee received or due to be received by the Implementing Entity from the Project Recipient, and is not provided to cover any cost which is covered by such fees received by the Implementing Entity from any Project Recipient;

“Project Recipient” means any entity, which receives CTF funding from the Implementing Entity for any CTF Project under an agreement entered into with the Implementing Entity;

“Proposal” means any proposal submitted by the Implementing Entity (or by the Implementing Entity on behalf of the Sub-implementing Entity) to the CTF Trust Fund Committee seeking an allocation of resources from the CTF Trust Fund;

“Special Administrative Budget” means the portion of the Administrative Budget allocated to the Implementing Entity (where relevant, out of the Special Administrative Budget Pool) to cover the administrative and other costs incurred by the Implementing Entity in connection with the performance of any special activities or initiatives, which are in support of the CTF and approved by the CTF Trust Fund Committee to be funded by the CTF Trust Fund;

“Special Administrative Budget Pool” means the amount allocated by the CTF Trust Fund Committee as a budget pool to be made available to cover the administrative and other costs incurred in connection with the performance of any of the special activities or initiatives that are carried out by more than one MDB, where the allocation was made by the CTF Trust Fund Committee for the aggregate costs of all MDBs concerned for a further allocation by the MDB Committee to an individual MDB to carry out such activities or initiatives;

"Sub-implementing Entity" means the Inter-American Investment Corporation, an international organization (created by the "Agreement Establishing the Inter-American Investment Corporation", done in Washington, D.C., on November 19, 1984) with the mandate to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises, preferably those that are small and medium-scale, in such a way as to supplement the activities of the Inter-American Development Bank; and

"Unused Funds" means any undisbursed or unused funds from any CTF Project or Administrative Budget which: (a) the Trustee has committed pursuant to Section 3.1; and (b) are no longer due to be disbursed following completion of activities for which CTF funding was provided. For the avoidance of doubt, in the case of Core Administrative Budget, Unused Funds means any undisbursed or unused funds committed by the Trustee, which are no longer due to be disbursed for the activities carried out during the period for which the budget was provided.

Section 1.2. The CTF Governance Framework Document (as defined in the Preamble (b) of this Agreement) constitutes an integral part of this Agreement; provided that the Trustee shall not agree to any amendment to the terms of the CTF Governance Framework Document without the prior consent of the Implementing Entity (such consent not to be unreasonably withheld or delayed).

2. ADMINISTRATION OF THE IE CTF TRUST FUND BY THE IMPLEMENTING ENTITY

Section 2.1. The Implementing Entity shall establish and maintain the IE CTF Trust Fund, to receive, hold in trust and administer CTF Trust Fund funds (other than Project Administration Fees) transferred to it by the Trustee in accordance with the terms of this Agreement. In administering the IE CTF Trust Fund, the Implementing Entity shall maintain separate records and ledger accounts in respect of the CTF Trust Fund funds in the IE CTF Trust Fund and disbursements made therefrom. Without limiting the provisions of Section 2.3 below, the Implementing Entity shall administer the CTF Trust Fund funds (including provision of CTF funding to Project Recipients), not personally or in its individual capacity, but solely in its capacity as administrator of the CTF Trust Fund funds transferred to it as implementing entity of the CTF.

Section 2.2. The Implementing Entity shall perform its functions as contemplated in the Agreement, and in the discharge of such functions, shall exercise the same degree of care as it exercises with respect to: (a) the administration of its own resources or any other funds administered by the Implementing Entity, for which the Implementing Entity acts as trustee; and (b) implementation of projects and activities using such resources. In administering the IE CTF Trust Fund and performing its functions in accordance with the terms of this Agreement, the Implementing Entity shall not be liable for any loss, costs, damages or other

liability that may result from any act or omission on the part of the Implementing Entity other than any such loss, costs, damages or other liability caused by its gross negligence or willful misconduct.

Section 2.3. Without prejudice to the Implementing Entity's responsibilities arising from this Agreement, the Implementing Entity may enter into an agreement with the Sub-implementing Entity to assign part of its tasks, duties, rights and obligations under this Agreement, as related to the mandate of the Sub-implementing Entity. To this effect:

(a) Any CTF Projects, activities or costs (including costs covered by the Administrative Budget or the Project Administration Fee) of the Sub-implementing Entity shall be governed by the same provisions of this Agreement as a CTF Project, activity or cost of the Implementing Entity.

(b) In relation to the Trustee, all financial resources and reporting corresponding to CTF Projects, activities and costs of the Sub-implementing Entity shall be channeled through the Implementing Entity. The Implementing Entity shall transfer those resources to the Sub-implementing Entity for its use and administration as necessary.

(c) The Sub-implementing Entity shall apply its own policies and procedures in the same manner and to the same extent to which the Implementing Entity shall apply its own pursuant to this Agreement.

(d) The Implementing Entity shall specify in the relevant Proposal submitted to the CTF Trust Fund Committee for its approval if the Sub-implementing Entity shall need to have access to CTF resources, as contemplated in this Section 2.3, in connection with such Proposal.

3. COMMITMENT OF FUNDS BY THE TRUSTEE

Section 3.1. Unless otherwise agreed between the Trustee and the Implementing Entity, the following procedures shall apply to the commitment of CTF Trust Fund funds by the Trustee to the Implementing Entity.

(a) To the extent that the funds have been approved in accordance with the CTF Governance Framework Document, the Trustee shall commit to the Implementing Entity the CTF Trust Fund funds as follows:

(i) For CTF Projects and Project Administration Fees, the Trustee shall, subject to the availability of resources in the CTF Trust Fund, commit CTF Trust Fund funds to the Implementing Entity in the amounts approved by the CTF Trust Fund Committee promptly following the notification of approval by the CTF Trust Fund Committee.

(ii) For the Core Administrative Budget and the Special Administrative Budget, the Trustee shall, subject to the availability of resources in the CTF Trust Fund, commit CTF Trust Fund funds to the Implementing Entity in the amount approved by the CTF Trust Fund Committee (and allocated by the MDB Committee where relevant) promptly following the approval by the CTF Trust Fund Committee (and the allocation by the MDB Committee following the approval by the CTF Trust Fund Committee, where relevant).

(iii) For the Country Programming Administrative Budget, the Trustee shall, subject to the availability of resources in the CTF Trust Fund, commit CTF Trust Fund funds to the Implementing Entity in the amount allocated by the MDB Committee promptly following this allocation.

(b) Commitment of CTF Trust Fund funds from the Trustee to the Implementing Entity under Section 3.1(a) shall be confirmed, on a monthly basis (or such other agreed period) by means of a Letter of Commitment.

(c) If there are any Cancelled Funds or Unused Funds, the corresponding amount of the CTF Trust Fund funds committed by the Trustee (whether held by the Trustee, the Implementing Entity or the Project Recipient) shall be cancelled so as to offset such Unused Funds or Cancelled Funds. Such cancellation shall be made based on the information provided by the Implementing Entity to the Trustee under Section 11.2(d) below in respect of the Cancelled Funds, and under Section 11.2 (e) or (f) below in respect of the Unused Funds. Any cancellation of any Project Administration Fees, arising from the cancellation of the related CTF Project, shall be calculated in accordance with the relevant decisions of the CTF Trust Fund Committee.

(d) Cancellation of commitment of the CTF Trust Fund funds from the Trustee to the Implementing Entity under Section 3.1(c) shall be made by means of a Letter of Commitment Cancellation.

(e) Notwithstanding the provision of Section 3.1(a)(i) above, the Letter of Commitment shall indicate the availability of funds for an up-front transfer of the CTF Trust Fund funds up to the full amount of the relevant CTF Non-guarantee Projects, if the conditions provided for in Section 4.1(c)(i)(2) below have been met.

4. TRANSFER OF FUNDS BY THE TRUSTEE TO THE IMPLEMENTING ENTITY

Section 4.1. CTF Projects

The following procedures shall apply to the transfer of CTF Trust Fund funds by the Trustee to the Implementing Entity for CTF Projects.

(a) The Implementing Entity may request the transfer of CTF Trust Fund funds for a CTF Project after (i) the funds have been committed by the Trustee for the CTF Project pursuant to Section 3.1 above, and (ii) the CTF Project has been approved by the Implementing Entity in accordance with its policies and procedures (if such approval is required under the Implementing Entity's policies and procedures). The request by the Implementing Entity for the transfer of CTF Trust Fund funds shall be submitted to the Trustee in accordance with Sections 4.1(b), (c) and (d) below.

(b) Every six (6) months (or at such other frequency as the Trustee and the Implementing Entity may agree) the Implementing Entity shall submit, by email, facsimile or as otherwise agreed with the Trustee, a Cash Transfer Request for CTF Projects to the Trustee.

(c) (i) In respect of CTF Non-guarantee Projects:

(1) The Implementing Entity may request a transfer of CTF Trust Fund funds, substantially in the form attached to this Agreement as Annex C-1, based on the projected cash requirements for the next six (6)-month period (or such other frequency as the Trustee and the Implementing Entity may agree), adjusted to reflect the net cash position of the IE CTF Trust Fund. The projected cash requirements shall be calculated by the Implementing Entity based on the disbursement needs of the relevant CTF Projects.

(2) Notwithstanding the provisions of Section 4.1(c)(i)(1), if the relevant Proposal(s) explicitly requested an up-front transfer of up to the full amount of the relevant CTF Non-guarantee Projects, and authorization of the same was provided at the time of approval of the Proposal(s) by the CTF Trust Fund Committee, the Implementing Entity may request an up-front transfer of the CTF Trust Fund funds up to the full amount of the relevant CTF Non-guarantee Project, substantially in the form attached to this Agreement as Annex C-2; provided that the CTF Trust Fund funds were available for an unconditional commitment at the time of the CTF Trust Fund Committee approval of the Proposal(s), based on the confirmation of availability made by the Trustee prior to the submission of the relevant Proposal(s).

(3) CTF Trust Fund funds requested to be transferred in accordance with Section 4.1(c)(i)(2) shall be excluded from the calculations performed by the Implementing Entity in accordance with Section 4.1(c)(i)(1) to reflect the net cash position of the IE CTF Trust Fund.

(ii) In respect of any CTF Guarantee Project, the Implementing Entity may request a transfer of CTF Trust Fund funds, substantially in the form attached to this Agreement as Annex D, on a project-by-project basis and may request an up-front transfer of the CTF Trust Fund funds up to the full amount of the relevant CTF Guarantee Project.

(d) Each Cash Transfer Request for CTF Projects shall be signed by the Authorized Officer.

(e) Upon receipt of a Cash Transfer Request for CTF Projects, the Trustee shall verify that:

(i) for any request of funds for CTF Non-guarantee Projects (except for CTF Non-guarantee Projects for which funds are requested to be transferred in accordance with Section 4.1(c)(i)(2) above, the amount requested by the Implementing Entity does not exceed the amount equal to (A) the net cumulative CTF Trust Fund funds committed by the Trustee and approved by the Implementing Entity for the CTF Non-guarantee Projects, or as the case may be, CTF Guarantee Projects, less (B) the net cumulative CTF Trust Fund funds transferred by the Trustee to the Implementing Entity for the CTF Non-guarantee Projects or, as the case may be, CTF Guarantee Projects; and.

(ii) for any request of funds for CTF Guarantee Projects and for CTF Non-guarantee Projects for which funds are requested to be transferred in accordance with Sections 4.1(c)(i)(2) and 4.1(c)(ii) above, the amount requested does not exceed the amount committed by the Trustee for that CTF Guarantee Project or, as the case may be, CTF Non-guarantee Project.

(f) (i) Upon the verification referred to in Section 4.1(e)(i) above and subject to the availability of resources in the CTF Trust Fund, the Trustee shall transfer to the Implementing Entity the amount of funds requested for CTF Projects in each Cash Transfer Request for CTF Projects. Notwithstanding the foregoing, in the case of CTF Non-guarantee Projects, and except for CTF Non-guarantee Projects for which funds are requested to be transferred in accordance with Section 4.1(c)(i)(2) above, if the Trustee has reasonably determined that, after transfer of requested funds from the CTF Trust Fund, there would be a balance in the IE CTF Trust Fund that exceeds the projected cash requirement of the Implementing Entity for the next six (6) months, the Trustee may transfer such lesser amount as the Trustee deems appropriate to satisfy the disbursement needs of the Implementing Entity for the next six (6) months; provided, however, that such determination by the Trustee shall be made based on: (i) the relevant documents from the CTF Trust Fund Committee; (ii) the Trustee's review of the amount of CTF Trust Fund funds received by the Implementing Entity from the Trustee for CTF Non-guarantee Projects but undisbursed by the Implementing Entity to Project Recipients; (iii) the Trustee's review of Cancelled Funds or

Unused Funds from CTF Non-guarantee Projects reported by the Implementing Entity under Sections 11.2 (d) and (e) below; and (iv) consultation with the Implementing Entity on the purposes for which any such undisbursed funds may be used.

(ii) Upon the verification referred to in Section 4.1(e)(ii) above, the Trustee shall transfer to the Implementing Entity the amount of funds requested for such CTF Projects in each Cash Transfer Request for CTF Projects.

(g) Any transfer of funds under Section 4.1(f) shall be made by the Trustee no later than ten (10) Business Days after the Trustee has confirmed the receipt of all information required from the Implementing Entity under Section 4.1.

Section 4.2. Project Administration Fees

The following procedures shall apply to the transfer of the CTF Trust Fund funds by the Trustee to the Implementing Entity for the Project Administration Fees.

(a) The Implementing Entity may request the transfer of CTF Trust Fund funds for any Project Administration Fee after the CTF Trust Fund funds have been committed by the Trustee for the Project Administration Fee pursuant to Section 3.1 above. The request by the Implementing Entity shall be submitted to the Trustee in accordance with Sections 4.2 (b) and (c) below.

(b) Every six (6) months (or at such other frequency as the Trustee and the Implementing Entity may agree) the Implementing Entity shall submit, by email, facsimile or as otherwise agreed with the Trustee, a Cash Transfer Request for Project Administration Fees to the Trustee.

(c) Each Cash Transfer Request for Project Administration Fees shall be signed by the Authorized Officer.

(d) The Trustee shall verify that the amount of funds requested to be transferred does not exceed an amount equal to (i) the cumulative CTF Trust Fund funds committed by the Trustee for the Project Administration Fees, less (ii) the cumulative CTF Trust Fund funds transferred by the Trustee to the Implementing Entity for the Project Administration Fees as of the date of the request. Upon such verification and subject to the availability of resources in the CTF Trust Fund, the Trustee shall transfer to the Implementing Entity the amount of funds requested for the Project Administration Fees.

(e) Any transfer of funds under Section 4.2(d) shall be made by the Trustee no later than ten (10) Business Days after the Trustee has confirmed the receipt of all information required from the Implementing Entity under Section 4.2.

Section 4.3. Administrative Budgets

The following procedures shall apply to the transfer of the CTF Trust Fund funds by the Trustee to the Implementing Entity for funding its Administrative Budget.

(a) The Implementing Entity may request the transfer of CTF Trust Fund funds for any Sub-category of the Administrative Budget after the funds have been committed by the Trustee for the Sub-category pursuant to Section 3.1 above. The request by the Implementing Entity shall be submitted to the Trustee in accordance with Section 4.3(b) below.

(b) (i) For the Core Administrative Budget, once a year (or at such other frequency as the Trustee and the Implementing Entity may agree) after the commitment by the Trustee, the Implementing Entity may submit, by email, facsimile or as otherwise agreed with the Trustee, a Cash Transfer Request for Administrative Budgets to the Trustee.

(ii) For the Country Programming Administrative Budget and the Special Administrative Budget, every six (6) months (or at such other frequency as the Trustee and the Implementing Entity may agree) after the commitment by the Trustee, the Implementing Entity may submit, by email, facsimile or as otherwise agreed with the Trustee, a Cash Transfer Request for Administrative Budgets to the Trustee.

(c) Each Cash Transfer Request for Administrative Budgets shall be signed by the Authorized Officer.

(d) Upon receipt of a Cash Transfer Request for Administrative Budgets, the Trustee shall verify that the amount requested by the Implementing Entity does not exceed an amount equal to (i) the net cumulative CTF Trust Fund funds committed by the Trustee for the respective Sub-categories of the Administrative Budget, less (ii) the net cumulative CTF Trust Fund funds transferred by the Trustee for the respective Sub-categories of the Administrative Budget. Upon such verification and the availability of resources in the CTF Trust Fund, the Trustee shall transfer to the IE CTF Trust Fund the amount of funds requested for the respective Sub-categories of the Administrative Budget.

(e) Any transfer of funds under Section 4.3(d) shall be made by the Trustee no later than ten (10) Business Days after the Trustee has confirmed the receipt of all information required from the Implementing Entity under Section 4.3.

Section 4.4. Transfer of Funds

Transfer of the CTF Trust Fund funds from the Trustee to the Implementing Entity shall be made to such account as the Implementing Entity has designated in the relevant transfer request in the same currency indicated in the Letter of

Commitment. The Trustee shall notify the Implementing Entity of each such transfer.

5. USE OF FUNDS

- Section 5.1.** The funds transferred to the Implementing Entity under Section 4 of this Agreement may be used only for the purpose for which they have been provided under the terms of the CTF Governance Framework Document and applicable decisions of the CTF Trust Fund Committee, including relevant Proposals approved by the CTF Trust Fund Committee for individual allocations of CTF Trust Fund funds.
- Section 5.2.** The Implementing Entity shall be responsible for: (a) the use of funds transferred by the Trustee and activities carried out therewith in accordance with: (i) its own policies, guidelines, and procedures (including in respect of procurement of goods and services and reporting arrangements); and (ii) the applicable decisions of the CTF Trust Fund Committee including the purpose for which the allocations of the funds have been approved by the CTF Trust Fund Committee based on the Proposal submitted by the Implementing Entity; and (b) reporting to the CTF Trust Fund Committee on its activities in accordance with the terms of this Agreement and the CTF Governance Framework Document.
- Section 5.3.** Recognizing the obligations of Implementing Entity's member countries under various United Nations Security Council Resolutions to take measures to prevent financing of terrorists, the Implementing Entity shall use reasonable efforts, in accordance with the Implementing Entity's policies and procedures, to ensure that the funds provided to the Implementing Entity by the Trustee are used for their intended purposes and are not diverted to terrorists or their agents.
- Section 5.4.** Subject to the terms of this Agreement, the Implementing Entity shall invest all funds in the IE CTF Trust Fund pending their disbursement in accordance with the Implementing Entity's policies and procedures concerning the investment of funds including those applicable to funds for which the Implementing Entity acts as a trustee. The Implementing Entity shall not be held liable for any losses, which may arise from such investment save to the extent provided for in Section 2.2 above.
- Section 5.5.** The Implementing Entity shall have the right to convert all funds received by the IE CTF Trust Fund into other currencies to facilitate the administration of the IE CTF Trust Fund. In the event that the Implementing Entity has provided funding to Project Recipients in a currency other than the currency in which the commitment by the Trustee is made, unless otherwise agreed by the CTF Trust Fund Committee, any exchange risks arising as a result of such conversion of currencies shall be borne by the Implementing Entity.

Section 5.6. The Implementing Entity shall report on the receipt of Principal Repayments, receipt of Income, and Unused Funds, and return any such funds received or held by it in accordance with Sections 6 and 7 below. The Trustee shall have no responsibility for collection of funds due to the Implementing Entity from the Project Recipient or such other entity under any CTF Project.

Section 5.7. If the Implementing Entity uses the CTF Trust Fund funds transferred to it under this Agreement to provide CTF Loans, the Implementing Entity shall, as a lender of record, administer CTF Loans in accordance with its policies and procedures. In the case of CTF Projects approved by the CTF Trust Fund Committee as loans to the public sector, the Implementing Entity shall follow the terms set out in Annex Q attached hereto. In the case of CTF Projects approved by the CTF Trust Fund Committee for the private sector, the Implementing Entity shall follow the terms set out in the Annex R attached hereto.

For the avoidance of doubt, upon allocation of resources by the contributors to the CTF Trust Fund pursuant to paragraphs 5 and 6 of Annex Q and paragraphs 40 and 41 of Annex R, the Trustee shall commit and transfer CTF Trust Fund funds to the Implementing Entity, in accordance with the terms of this Agreement.

Section 5.8. In the event that the Trustee has notified the Implementing Entity of any non-compliance with the terms of this Agreement and the Implementing Entity fails to cure such non-compliance, within thirty (30) calendar days after the notification by the Trustee, the Trustee: (a) shall consult with the CTF Trust Fund Committee (or its designee); and (b) at the instruction of the CTF Trust Fund Committee (or its designee), may suspend any further commitment and/or cash transfer of CTF Trust Fund funds to the Implementing Entity until such time as the Implementing Entity has cured (or otherwise has taken necessary steps within its control to cure, in case action by any party other than the Implementing Entity is required) the non-compliance to the reasonable satisfaction of the Trustee in consultation with the CTF Trust Fund Committee (or its designee).

6. DISBURSEMENT OF FUNDS

Section 6.1. Disbursement of funds from the IE CTF Trust Fund to Project Recipients shall be made in accordance with the Implementing Entity's rules and policies and its applicable disbursement procedures.

Section 6.2. Cancelled Funds or Unused Funds shall be held by the Implementing Entity (following, if applicable, their return to the Implementing Entity by the Project Recipient or such other party) in the IE CTF Trust Fund; provided, however, that: (a) in the case of such Cancelled Funds or Unused Funds from CTF Non-guarantee Projects or Project Administration Fees for CTF Non-guarantee Projects (except for those approved for the up-front transfer of the CTF Trust Fund funds under Section 4.1(c)(i)(2)), any such funds held by the Implementing

Entity shall be reflected in the net cash position referred to in Annex C-1 to this Agreement, so that the amount of such funds shall be taken into account in determining the amount of CTF Trust Fund funds transferred to the Implementing Entity; (b) in the case of Cancelled Funds from CTF Guarantee Projects and from CTF Non-guarantee Projects which have been approved for the up-front transfer of the CTF Trust Fund funds under Section 4.1(c)(i)(2) or Project Administration Fees for CTF Guarantee Projects and for CTF Non-guarantee Projects which have been approved for the up-front transfer of the CTF Trust Fund funds under Section 4.1(c)(i)(2), the amount of any such funds shall be returned to the Trustee, except that the Trustee may choose to deduct such funds from the amount of the funds requested to be transferred to the Implementing Entity in the immediately following cash transfer request for the same category of funding referred to in Annexes D and E to this Agreement, respectively; (c) in the case of the Cancelled Funds or the Unused Funds from Administrative Budgets (other than Core Administrative Budget), the amount of any such funds will be returned to the Trustee, except that the Trustee may choose to deduct such funds from the amount of the funds requested to be transferred to the Implementing Entity in the immediately following cash transfer request for the same category of funding referred to in the Annex F; and (d) in the case of the Cancelled Funds or the Unused Funds from the Core Administrative Budget, the Implementing Entity shall return the funds to the Trustee, to such account as the Trustee may designate, promptly after the end of the period for which the Core Administrative Budget was provided.

Section 6.3. The Implementing Entity shall maintain a record of any Cancelled Funds or Unused Funds and report to the Trustee pursuant to Section 11.2 (d) or (e) below. Any such Cancelled Funds or Unused Funds reported by the Implementing Entity shall be reflected in cancellation of commitments by the Trustee pursuant to Section 3.1(d).

Section 6.4. Notwithstanding Section 6.2(a) above, if so requested by the Trustee, the Implementing Entity shall return to the Trustee, to such account as the Trustee may designate, any Cancelled Funds or Unused Funds from any CTF Non-guarantee Projects or Project Administration Fees for CTF Non-guarantee Projects held by the Implementing Entity.

7. INCOME; PRINCIPAL REPAYMENT

Section 7.1. If any CTF Trust Fund funds transferred to the Implementing Entity for CTF Projects are used to provide financing which generates any Income or Principal Repayment, the Implementing Entity shall receive such Income and Principal Repayment transferred by Project Recipients consistent with the applicable terms of financing in the relevant Proposal approved by the CTF Trust Fund Committee. Subject to Section 2.2 above, the Implementing Entity shall have no liability for any non-payment of any Income or Principal Repayment in respect of a CTF Project. The risk of any non-payment by Project Recipients in respect of or

arising under any agreements entered into between the Implementing Entity and Project Recipients in connection with CTF Trust Fund funds shall be borne by the CTF Trust Fund.

- Section 7.2.** The Implementing Entity shall credit and hold the Income and Principal Repayment received from Project Recipients in the IE CTF Trust Fund (following their receipt by the Implementing Entity) until such Income and Principal Repayment are returned to the Trustee pursuant to Section 7.5 below.
- Section 7.3.** The Implementing Entity shall maintain a record of receipt of any Income and Principal Repayment referred to in Sections 7.1, 7.2 and 7.5, and report them to the Trustee pursuant to Section 11.2(c) below.
- Section 7.4.** One (1) month prior to the end of each quarter of the Financial Reporting Year, the Trustee shall send the Implementing Entity a notice listing the names of CTF Projects and the amounts of Income and Principal Repayment, which are due to be received by the Implementing Entity, based on the information provided by the Implementing Entity under Section 11.2(c) below in the previous quarter.
- Section 7.5.** Unless otherwise agreed with the Trustee, the Implementing Entity shall, within fifteen (15) calendar days after the end of each quarter of the Financial Reporting Year, return to the Trustee, to such account as the Trustee may designate, any Income and Principal Repayment received and held by the Implementing Entity in the IE CTF Trust Fund during the said quarter.

8. INVESTMENT INCOME

- Section 8.1.** Investment Income shall be held in the IE CTF Trust Fund until the Trustee requests the Implementing Entity to return it to such account as the Trustee may designate; provided that the Trustee may only request the Implementing Entity to return any Investment Income after the Implementing Entity has provided to the Trustee the report referred to in Section 11.2(g) below and in any event no more frequently than once per year, unless otherwise agreed with the Trustee. The Implementing Entity shall maintain a record of any such Investment Income and report to the Trustee pursuant to Section 11.2(g) below. For the avoidance of doubt, any amount earned on the investment of CTF Trust Fund funds transferred to the Implementing Entity as Project Administration Fees may be retained by the Implementing Entity and is not required to be reported or returned to the Trustee. Any amount earned on the investment of CTF Trust Fund funds transferred to the Implementing Entity as Administrative Budget may be retained by the Implementing Entity and is not required to be reported or returned to the Trustee if so approved by the CTF Trust Fund Committee.

9. OWNERSHIP OF EQUIPMENT, SUPPLIES AND OTHER PROPERTY

Section 9.1. Ownership of equipment, supplies and other property financed with funds from the IE CTF Trust Fund may vest in the Implementing Entity, the Project Recipient or such other entity as may be permitted to retain ownership under the policies and procedures of the Implementing Entity.

10. VERIFICATION

Section 10.1. For the purposes of reserving, committing and transferring CTF Trust Fund funds under this Agreement, the Trustee shall rely upon the information provided in the decisions of the CTF Trust Fund Committee and shall use such information to verify the information provided by the Implementing Entity, as necessary.

11. RECORDS AND REPORTING

Section 11.1. Unless the parties hereto agree otherwise, all financial accounts and reports related to the CTF Trust Fund funds shall be expressed in the respective currency in which the commitment was made by the Trustee, except that all financial statements referred to in Sections 11.2 (h) and (i) shall be expressed in Dollars.

Section 11.2. The Implementing Entity shall provide the following information to the Trustee, prepared in accordance with the Implementing Entity's accounting and reporting procedures and provided in a form and means agreed with the Trustee:

(a) within thirty (30) days after the end of each quarter of each Financial Reporting Year (or such other frequency agreed with the Trustee), the dates of approval and amounts approved by the Implementing Entity of CTF Projects, if applicable, for the period reported, broken down by each CTF Project, substantially in the form attached to this Agreement as Annex G;

(b) within thirty (30) days after the end of each quarter of each Financial Reporting Year (or such other frequency agreed with the Trustee) and substantially in the form attached to this Agreement as Annex H, the principal financing terms for CTF Projects (except for those financed through grants), which are approved by the Implementing Entity during the period reported, broken down by each CTF Project;

(c) within thirty (30) days after the end of each quarter of each Financial Reporting Year (or such other frequency agreed with the Trustee): (i) the dates and amounts of Income and Principal Repayment received by the Implementing Entity, if any; (ii) the due dates and amounts of Income and Principal Repayment which are overdue to the Implementing Entity; and (iii) the amounts of Income and Principal Repayment returned to the Trustee, for the period reported, broken

down by each CTF Project, substantially in the form attached to this Agreement as Annex I;

(d) within thirty (30) days after the end of each quarter of each Financial Reporting Year (or such other frequency agreed with the Trustee), the dates and amounts of the Cancelled Funds from CTF Projects and Project Administration Fees, for the period reported, broken down by each CTF Project, substantially in the form attached to this Agreement as Annex J;

(e) within thirty (30) days after the end of each quarter of each Financial Reporting Year (or such other frequency agreed with the Trustee), (i) the date on which all financial obligations owed by or to, as applicable, the Implementing Entity in connection with any CTF Project have been met or waived; and (ii) the final amount disbursed and the amount of any Unused Funds from such project, for the period reported, broken down by each CTF Project, substantially in the form attached to this Agreement as Annex K;

(f) within thirty (30) days after the end of each Administrative Budget Fiscal Year (or such other frequency agreed with the Trustee), (i) the cumulative amount of funds received by the Implementing Entity for the Administrative Budget during the year reported; and (ii) the final amount disbursed or used and the amount of any Unused Funds from the Administrative Budget for the Administrative Budget Fiscal Year reported, broken down by each Sub-category of the Administrative Budget, substantially in the form attached to this Agreement as Annex L;

(g) within sixty (60) days after the end of each semester of each Financial Reporting Year (or such other frequency agreed with the Trustee), statements of: (i) Investment Income earned on the CTF Trust Fund funds transferred to the IE CTF Trust Fund for CTF Projects; (ii) Investment Income earned on the CTF Trust Fund funds transferred to the IE CTF Trust Fund for Administrative Budget unless otherwise approved by the CTF Trust Fund Committee; and (iii) Investment Income returned to the Trustee, substantially in the form attached to this Agreement as Annex M;

(h) within six (6) months after the end of each Financial Reporting Year, an annual audited financial statement of the IE CTF Trust Fund;

(i) within six (6) months after termination of this Agreement, a final financial audited statement for the IE CTF Trust Fund;

(j) within thirty (30) days after the end of each Financial Reporting Year (or such other frequency agreed with the Trustee) and substantially in the form attached to this Agreement as Annex N, the report on the disbursement of CTF Projects; and

(k) such other reports related to the CTF Trust Fund funds transferred to the Implementing Entity, as may reasonably be requested by the Trustee from time to time.

For the purposes of the financial reports and statements required under Sections 11.2 (g), (h) and (i) above, Investment Income earned by the IE CTF Trust Fund shall be reported as aggregate Investment Income and shall not be allocated between individual CTF activities.

Section 11.3. As soon as practicable after the end of each Financial Reporting Year, the Trustee shall furnish the Implementing Entity with an annual report for reconciliation between the Trustee and the Implementing Entity in respect of CTF Trust Fund funds allocated by the CTF Trust Fund Committee, or the MDB Committee, as appropriate, to the Implementing Entity, substantially in the form attached to this Agreement as Annex O. The Implementing Entity shall confirm its agreement to the information contained in the report, no later than forty-five (45) calendar days after receipt by the Implementing Entity of the report, by signing, dating and returning to the Trustee a copy of the report. In the event that there is any discrepancy between the information provided by the Trustee in the report and the information used by the Implementing Entity, the Implementing Entity shall promptly inform the Trustee of such discrepancy and reconcile with the Trustee the information contained in the report.

Section 11.4. Unless otherwise agreed between the Trustee and the Implementing Entity, the Implementing Entity's external auditors shall audit the financial statements of the IE CTF Trust Fund referred to in Sections 11.2 (h) and (i) above; provided that the costs of such audits shall be borne by the CTF Trust Fund.

Section 11.5. The Implementing Entity shall, from time to time, provide the Trustee with a list containing the names and signatures of the Implementing Entity's Authorized Officers, substantially in the form attached to this Agreement as Annex P.

12. NOTICES

Section 12.1. All communications concerning this Agreement shall be made to the relevant person at the address, facsimile number, telephone number or electronic mail address, from time to time designated by that party to the other for that purpose. The address, facsimile number, telephone number and electronic mail address so designated are set out below:

(a) For the Trustee:

Name: International Bank for Reconstruction and Development, as
Trustee of the Trust Fund for the Clean Technology Fund

Address: 1818 H. Street, N.W.
Washington, D.C. 20433
U.S.A.

Attention: Ms. Susan Bender McAdams
Director
Multilateral Trusteeship and Innovative Financing
Department

Telephone: (202) 458 0019
Facsimile: (202) 614 0795
Electronic mail: Smcadams@worldbank.org

(b) For the Implementing Entity:

All communications pertaining to institutional relation with the Trustee or the CTF Trust Fund Committee and resource mobilization will be directed to:

Advisor
Office of Outreach and Partnerships
Inter-American Development Bank
1300 New York Ave., NW
Washington, D.C. 20577
Telephone: (202) 623-2107
Facsimile: (202) 623-4072
Electronic mail: partnerships@iadb.org

Day-to-day communications regarding the implementation of this Agreement and management of CTF Trust Fund funds shall be directed to:

Attention: Chief, Grants and Co-financing Management Unit
Vice Presidency for Countries
1300 New York Ave. NW
Washington, D.C. 20577
Telephone: (202) 623 1774
Facsimile: (202) 623 3171
Electronic mail: vpc-gcm@iadb.org

13. DISPUTE RESOLUTION

Section 13.1. The Implementing Entity and the Trustee shall, to the extent possible, strive to resolve promptly and amicably questions of interpretation and application of the terms and conditions and settle any disputes, controversy, or claim arising out of or relating to the terms and conditions of this Agreement.

Section 13.2. If any dispute, controversy, or claim arising out of or relating to the terms and conditions of this Agreement has not been settled by agreement of the Implementing Entity and the Trustee, the Trustee and the Implementing Entity shall consult with the CTF Trust Fund Committee (or its designee) (and, in case of a dispute, controversy or claim relating to any payment default by any Project Recipient of Income and Principal Repayment, only those relevant contributors to the CTF Trust Fund, whose contributions are used to provide such funding to such Project Recipient) with a view to reconciling the difference.

14. AMENDMENT

Section 14.1. This Agreement may be amended at any time by the written agreement of the Trustee and the Implementing Entity.

15. DISCLOSURE

Section 15.1. The Trustee or the Implementing Entity may make this Agreement publicly available, pursuant to their applicable policies on disclosure of information. The Trustee may disclose any other information submitted to the Trustee by the Implementing Entity under this Agreement, only if the Implementing Entity has given its prior consent to such disclosure, which consent may only be withheld if the proposed disclosure is inconsistent with the Implementing Entity's policy on disclosure of information.

Section 15.2. The Trustee may provide to the CTF Trust Fund Committee and any contributors to the CTF Trust Fund any relevant information received under this Agreement; provided that the Trustee shall provide information relating to specific CTF private sector projects only with the prior approval of the Implementing Entity.

16. TERMINATION

Section 16.1. Unless extended by mutual agreement, this Agreement will terminate on the date which is four (4) months after the last date on which any Principal Repayment or Income is scheduled to be received by the Implementing Entity, as notified by the Implementing Entity consistent with the applicable terms of the CTF funding approved by the CTF Trust Fund Committee. This Agreement may be terminated before such date by either party hereto, and shall cease to be in force sixty (60) days after either party hereto gives to the other written notice of its desire to terminate the Agreement.

Section 16.2. Sections 5, 13 and 15 of this Agreement (except for Section 5.4) and the obligation of the Trustee to transfer amounts committed by the Trustee for a CTF Project prior to termination, shall survive termination of this Agreement until all outstanding commitments, obligations and liabilities incurred by or to the Implementing Entity under CTF financing for the CTF Projects, or activities for which any Administrative Budget is provided, have been satisfied. In particular, notwithstanding the termination of this Agreement, the Implementing Entity shall continue to receive and hold in trust any Income, Principal Repayment, Cancelled Funds, Unused Funds, Investment Income and any other amounts received or due to be received by the Implementing Entity until all outstanding commitments, obligations and liabilities incurred by or to the Implementing Entity under CTF financing for the CTF Projects, or activities for which any Administrative Budget is provided, have been satisfied. At the request of the Trustee, the Implementing Entity shall provide any information on such amounts received and held by it, and return to the Trustee any portion of the amount received by the Implementing Entity according to the terms of this Agreement and Investment Income earned thereon (other than the amount earned on Project Administration Fees or Administrative Budget, if applicable, described in Section 8.1), if any, which are remaining after the relevant commitments, obligations and liabilities have been satisfied.

17. ENTIRE AGREEMENT

Section 17.1. This Agreement constitutes the entire agreement and understanding of the parties hereto with respect to its subject matter and supersedes all oral communication and prior writings with respect thereto.

Section 17.2. This Agreement shall be effective as of the date aforementioned on the first page of this Agreement.

Section 17.3. Nothing in this Agreement shall operate as or be construed to constitute a waiver, renunciation or any other modification of any privilege, exemption or immunity accorded to either of the Implementing Entity (or the Sub-implementing Entity) or

the Trustee pursuant to its respective constituent document, international convention or any applicable law.

18. EXECUTION IN COUNTERPARTS

Section 18.1. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto, have signed this Agreement with effect from the date aforementioned on the first page of this Agreement

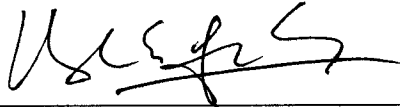
**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT, AS TRUSTEE OF THE
TRUST FUND FOR CLEAN TECHNOLOGY FUND**



Name: Axel van Trotsenburg

Title: Vice President, Concessional Finance and Global Partnerships

INTER-AMERICAN DEVELOPMENT BANK



Name: Bernardo E. Guillamon

Title: Advisor, Office of Outreach and Partnership

Annex A

Letter of Commitment

[date]

[MDB Full Name]

[MDB Address]

**THE TRUST FUND FOR CLEAN TECHNOLOGY FUND
Commitment of Funds to the [MDB Full Name]**

Dear Sir or Madam:

Reference is made to the Financial Procedures Agreement dated [], 2010, between the International Bank for Reconstruction and Development, as Trustee of the Trust Fund for the Clean Technology Fund (the “CTF Trust Fund”) (the “Trustee”) and the [MDB Full Name] (“[MDB Name]”) (the “Agreement”).

In accordance with Section 3 of the Agreement, the Trustee hereby commits the sum of US\$ [amount] to [MDB Name], such amount reflecting the amounts approved by the CTF Trust Fund Committee, during [period] for the Implementing Entity activities to be carried out in connection with the [CTF Projects], [Project Administration Fees], [Administrative Budget] [select as applicable] listed in Annex attached hereto; provided, however, that pursuant to Sections 3.1(c) and (d) of the Agreement, the amount of the commitment hereunder may be subject to adjustment, in accordance with the terms of the Agreement, to reflect any subsequent decrease of CTF funding allocated for any CTF Project or Project Administration Fee for which the commitment was made by the Trustee.

Funds will be transferred by the Trustee to the Implementing Entity to account, [account details], in accordance with the procedures set out in Section 4 of the Agreement.

International Bank for Reconstruction and Development, as
Trustee of the Trust Fund for the Clean Technology Fund

Name:

Title:

Attachments

Annex B

Letter of Commitment Cancellation

[date]

[MDB Full Name]

[MDB Address]

**THE TRUST FUND FOR THE CLEAN TECHNOLOGY FUND
Cancellation of Commitment of Funds to
[MDB Full Name]**

Dear Sir or Madam:

Reference is made to the Financial Procedures Agreement dated [], 2010, between the International Bank for Reconstruction and Development, as Trustee of the Trust Fund for the Clean Technology Fund (the “Trustee”) and the [MDB Full Name] (“[MDB Name]”) (the “Agreement”).

In accordance with Sections 3.1(c) and (d) of the Agreement, the Trustee hereby notifies you that the commitment made by the Trustee in the sum of US\$[amount] for the [CTF Projects, Project Administration Fees *[select as applicable]*] listed in Annex attached hereto is cancelled pursuant to said sections.

International Bank for Reconstruction and Development, as
Trustee of the Trust Fund for the Clean Technology Fund

Name:

Title:

Attachment

Annex C-1

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____

Cash Transfer Request Number _____

[MDB name]

Cash Transfer Request for CTF Non-Guarantee Projects a/

As of [date] _____
(in [US dollars])

Net Cumulative Cash received from the Trustee in the [MDB Name]/CTF Fund b/	Net Cumulative Disbursements from the [MDB Name]/CTF Fund c/	Net Cash Position	Projected Cash Requirements for Next [6] Months	Projected Net Cash Position	Amount of Cash Transfer Request
(1)	(2)	(3) = (1) - (2)	(4)	(5) = (3) - (4)	(6)
0.00	0.00	0.00	0.00	0.00	0.00

a/ This request includes cash transfers for CTF Non-Guarantee Projects, including project preparation activities, but excludes cash transfers for Guarantees, MDB and Administrative Budget.

b/ This column represents the cumulative amount transferred to the [MDB] less return of funds to the Trustee since the inception of the [MDB]/CTF Fund.

c/ This column represents the cumulative amount disbursed from the [MDB]/CTF Fund less subsequent return of funds by project recipients to the [MDB] since the inception of the [MDB]/CTF fund.

Bank Account Details

Bank account name:

Bank account number:

Bank name:

Bank address:

Bank SWIFT code:

Bank code:

Routing instructions:

Signed _____ Date _____

Name _____

Title _____

Annex C-2

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____
Cash Transfer Request Number _____

[MDB name]

Cash Transfer Request for CTF Non-Guarantee Projects a/

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Project Approval Date by [MDB]	Anticipated Closing (Signing) Date	Net Committed Amount b/	Amount Transferred to date c/	Amount of Cash Transfer Request
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)

Total Cash Transfer Amount _____

a/ This request is for an up-front transfer of CTF Non-Guarantee Projects in accordance with Section 4.1.(c)(1)(2).

b/ This column represents the committed amount less cancelled amount.

c/ This column represents the cumulative amount transferred to the [MDB Name] less return of funds to the Trustee since the inception of the [MDB Name]/CTF Fund.

Bank Account Details

Bank account name:

Bank account number:

Bank name:

Bank address:

Bank SWIFT code:

Bank code:

Routing instructions:

Signed _____ Date _____

Name _____

Title _____

Annex D

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____
Cash Transfer Request Number _____

[MDB name]

Cash Transfer Request for CTF Guarantee Projects a/

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Net Committed Amount b/	Amount Transferred to date c/	Amount of Cash Transfer Request
(1)	(2)	(3)	(4)	(5)	(6)

Total Cash Transfer Amount _____

a/ This request includes cash transfers for CTF Guarantees, including loan guarantees and contingent finance

b/ This column represents the committed amount less cancelled amount.

c/ This column represents the cumulative amount transferred to the [MDB Name] less return of funds to the Trustee since the inception of the [MDB Name]/CTF Fund.

Bank Account Details

Bank account name:

Bank account number:

Bank name:

Bank address:

Bank SWIFT code:

Bank code:

Routing instructions:

Signed _____ Date _____

Name _____

Title _____

Annex E

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____
Cash Transfer Request Number _____

[MDB Name]

Cash Transfer Request for Project Administration Fees a/

As of [date] _____
(in [US dollars])

Net Cumulative Cash received from the Trustee in the [MDB Name]/CTF Fund b/	Amount of Cash Transfer Request for Fees
(1)	(2)
0.00	0.00

a/ The Implementing Entity may request up to the amount equal to the net cumulative amount of the CTF Trust Fund funds committed by the Trustee for Project Administration Fees less the net cumulative amount of the CTF Trust Fund funds received for Project Administration Fees from the Trustee, both as of the date of the request.
b/ This column represents the cumulative amount transferred to the [MDB Name] less return of funds to the Trustee since the inception of the [MDB Name]/CTF Fund.

Bank Account Details

Bank account name:
Bank account number:
Bank name:
Bank address:
Bank SWIFT code:
Bank code:
Routing instructions:

Signed _____ Date _____
Name _____
Title _____

Annex F

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____
Cash Transfer Request Number _____

[MDB Name]

Cash Transfer Request for Administrative Budget

As of [date] _____
(in [US dollars])

	Net Cumulative Cash received from the Trustee in the [MDB Name]/CTF Fund a/		Amount of Cash Transfer Request b/
	(1)		(2)
Core			
	Country name		
Country Programming			
	Initiative name		
Special			

a/ This column represents the cumulative amount transferred to the [MDB Name] less return of funds to the Trustee since the inception of the [MDB Name] CTF Fund.

b/ The Implementing Entity may request up to the amount equal to the net cumulative amount of the CTF funds committed by the Trustee less the net cumulative amount of the CTF funds transferred from the Trustee for that Sub-Category of the Administrative Budget, both as of the date of the request.

Bank Account Details

Bank account name:
Bank account number:
Bank name:
Bank address:
Bank SWIFT code:
Bank code:
Routing instructions:

Signed _____ Date _____
Name _____
Title _____

Annex G

CLEAN TECHNOLOGY FUND

[MDB Name]

**Quarterly Report on [MDB] Approvals of CTF Projects
For the Quarter Ended _____,
(in [US dollars])**

Part I: Summary

1. Amount of CTF funds for CTF Projects approved by [MDB] since reported to the Trustee on _____, _____ (total from Part II below)
2. Cumulative amount of CTF funds for CTF Projects approved by [MDB] (as reported in item 3 of Part I of the last submitted Quarterly Report on [MDB] Approvals of CTF Projects)
3. Total amount of CTF funds for CTF Projects approved by [MDB] (1 + 2)

Part II: CTF Projects approved by [MDB] since reported to the Trustee on _____,

Trustee ID	[MDB] ID	Project Title	Beneficiary Country	Financing Instruments a/	Project Execution/ Implementation Status	Project Approval Date by [MDB]	Total CTF Funding Approved by [MDB]	MDB Financing b/	Country Financing b/	Non- MDB Cofinancing b/	Total Financing including CTF b/
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12) = (8) + (9) + (10) + (11)

a/ This column indicates the financing products of the CTF funding, such as grants, loans and guarantees in the case of CTF Projects.

b/ These columns are information purpose only to the CIF Administrative Unit and filled in only if applicable.

Signed _____ Date _____
Name _____
Title _____

Annex H

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____

[MDB name]

[Loan]/[Guarantee] Term Sheet

Trustee ID
Agency ID
Project Title
Effective Date of the [Loan]/[Guarantee]
[Loan]/[Guarantee] Currency and Amount
Financing Product
[Interest Rate]/[Guarantee Fees]
[Interest Payment]/[Guarantee Fees] Dates/Interval

Principal Repayment Schedule

Principal Repayment Date	Principal Repayment Amount	Remaining Outstanding Loan Balance after Principal Repayment Date
(1)	(2)	(3)

Signed _____ Date _____
Name _____
Title _____

Annex I

CLEAN TECHNOLOGY FUND

[MDB Name]

[MDB] Quarterly Report for Income and Principal Repayment to CTF Trust Fund

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Principal Repayments/ Guarantee Repayments Transferred to Trustee	Income Transferred to Trustee to date	Expected Principal Repayments/ Guarantee Repayments for Reporting Period [...]	Expected Income for Reporting Period [...]	Principal Repayments/ Guarantee Repayments Collected from Borrowers and to be Transferred to Trustee for Reporting Period	Income Collected from Borrowers and to be Transferred to Trustee for Reporting Period	Loan Loss/ Guarantee Called Amount	Remarks
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10) = (6 + 7) - (8 + 9)	(11)

Signed _____ Date _____
Name _____
Title _____

Annex J

CLEAN TECHNOLOGY FUND

[MDB Name]

[MDB] Quarterly Report on Cancellations of CTF Projects and MDB Fees Associated with the Projects

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Beneficiary Country	Financing Instruments a/	Original CTF Funding Approved by [MDB], if applicable c/	Project Amount Adjustment d/	Date of Adjustment	Net Project Amount	Project Status	Project Cancellation Date
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (6) - (7)	(10)	(11)

a/ This column indicates the financing products of the CTF funding, such as grants, loans, guarantees.

b/ The Trustee's commitment is contingent upon MDB's approval of CTF project.

c/ In the case that the MDB dropped the whole project after the Trustee commitment, but before MDB approval, insert zero (0) in this column.

d/ This column includes (i) any drop, cancellation (full or partial) or amendment recorded by the MDB, which reduces the amount endorsed or approved by the CTF Trust Fund Committee, as applicable, (ii) any amount which was committed by the Trustee, but not disbursed by the MDB to a project recipient of CTF funds, and (iii) any amount, which was disbursed to a project recipient of CTF funds but subsequently returned by such recipient to the MDB.

Signed _____ Date _____

Name _____

Title _____

Annex K

CLEAN TECHNOLOGY FUND

[MDB Name]

[MDB] Quarterly Report on Unused Funds from CTF Project Closure

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Beneficiary Country	Financing Instruments a/	Total CTF Funding Approved by [MDB]	Final Project Closure Date	Final Disbursed Amount	Final Unused Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (6) - (8)

a/ This column indicates the financing products of the CTF funding, such as grants, loans, guarantees.

Signed _____ Date _____

Name _____

Title _____

Annex L

CLEAN TECHNOLOGY FUND

[MDB Name] Ref. No. _____

[MDB Name]

Annual Actual Administrative Expense Report

As of [date] _____
(in [US dollars])

	Cash received from the Trustee in the [MDB Name]/CTF Fund a/		Used Amount	Balance
	(1)		(2)	(3) = (1) - (2)
Core				
	Country name	Cash received from the Trustee in the [MDB Name]/CTF Fund b/	Used Amount	Balance
		(1)	(2)	(3) = (1) - (2)
Country Programming				
	Initiative name	Cash received from the Trustee in the [MDB Name]/CTF Fund c/	Used Amount	Balance
		(1)	(2)	(3) = (1) - (2)
Special				

a/ This column represents the amount transferred to the [MDB Name] for the administrative budget fiscal year reported.

b/ This column represents the amount transferred to the [MDB Name] for each Country Programming Administrative Budget.

c/ This column represents the amount transferred to the [MDB Name] for each special initiative.

Signed _____ Date _____
Name _____
Title _____

Annex M

CLEAN TECHNOLOGY FUND

[MDB name]

Semi-annual Investment Income Report a/

As of [date] _____
(in [US dollars])

Investment Income Earned for the Reporting Period	Cumulative Investment Income Earned to date	Cumulative Investment Income Transferred to Trustee to date	Balance
(1)	(2)	(3)	(4) = (2) - (3)

a/ This report is different from return of investment income referred to Section 8.1.

Signed _____ Date _____

Name _____

Title _____

Annex N

CLEAN TECHNOLOGY FUND

[MDB Name]

[MDB] Annual Report on Disbursements of CTF Projects

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Beneficiary Country	Financing Instruments a/	CTF Funding Approved by [MDB]	Cumulative Disbursements since Inception	Cumulative Disbursements as of Calendar Year [...]	Commitments not yet disbursed	Status
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (6) - (7)	(10)

a/ This column indicates the financing products of the CTF funding, such as grants, loans, guarantees.

Signed _____ Date _____

Name _____

Title _____

Annex O

CLEAN TECHNOLOGY FUND

[MDB Name]

[MDB] Annual Report for Reconciliation in respect of CTF Trust Fund funding approved for the [MDB Name]

As of [date] _____
(in [US dollars])

Trustee ID	[MDB] ID	Project Title	Financing Instruments b/	CTF TF Committee Approval date c/	[MDB] Project Execution/ Implementation Status	[MDB] Project Approval Date	Cumulative Trustee Commitment	Cumulative Cancelled Amounts	Financial Closure Date d/	Final Unused Amount d/	Final Used Amount d/	Trustee Net Commitment	Return of funds to CTF, if applicable
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)

a/ This report includes CTF Projects (including project preparation activities) and excludes [MDB Name] Fee and Administrative Budget.

b/ This column indicates the financing products of the CTF funding, such as grants, loans, guarantees.

c/ This column indicates the date of CTF TF Committee approval.

d/ These columns are filled in only when project is financially closed.

Annex P

[DATE]

International Bank for Reconstruction and Development,
As Trustee of the Trust Fund for the Clean Technology Fund
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Attention: Director, Multilateral Trusteeship and Innovative Financing Department

Dear Director:

Re: Financial Procedures Agreement between the Trustee and the Implementing Entity

I refer to the Financial Procedures Agreement ("Agreement") between the International Bank for Reconstruction and Development, as Trustee of the Trust Fund for the Clean Technology Fund and [Full name of the MDB] ("[MDB Acronym]"), dated _____. For the purposes of the Agreement, any [one/two] of the persons whose authenticated specimen signatures appear below is authorized on behalf of the Implementing Entity to sign any request or report under the Agreement:

[Name], [position] Specimen Signature: _____

[Name], [position] Specimen Signature: _____

[Name], [position] Specimen Signature: _____

Yours truly,

/ signed /

[Position]

Annex Q

1. MDBs will need to follow the principles below in order to receive allocations of resources from the CTF for providing concessional loans to borrowers for public sector operations.^{1 2}

2. The MDB will administer CTF loans in accordance with its policies and procedures (including, for the avoidance of doubt, its policies and procedures for the CTF operations, if any), subject to the understanding that the MDB's measures regarding non-payments on CTF loans will be based on the following principles:

- (a) In determining i) whether any guarantee or security for the CTF loan will be obtained, and ii) whether to call such guarantee or security in case of a payment default on the CTF loan, the MDB will, unless otherwise agreed between the MDB and the Trust Fund Committee, follow the same approach as the one used in MDB's own lending operations.
- (b) In respect of negative pledge covenants, the MDB will, unless otherwise agreed between the MDB and the Trust Fund Committee, follow the same approach as the one used in MDB's own lending operations.
- (c) In respect of suspension, cancellation, and acceleration of CTF loans, the CTF loan agreements will, unless otherwise agreed between the MDB and the Trust Fund Committee and subject to the following paragraphs (d) through (h) below, include suspension, cancellation and acceleration events like those included in the MDB's own lending operations, so as to avoid further exposure to the project which no longer has financial/operational prospects. Those events will include optional cross-suspension and cross-acceleration clauses between the CTF loan and the MDB co-financing loan.
- (d) The determination to suspend or cancel the CTF loan will be made by the MDB on the same basis as applied by the MDB for its own loans.
- (e) If the MDB co-financing loan is suspended or cancelled prior to the full disbursement of the CTF loan, the MDB will, unless otherwise agreed with the relevant contributors, suspend or cancel the undisbursed amount of the CTF loan to avoid further exposure to the troubled project.
- (f) If the CTF loan has been fully disbursed, a payment default on the CTF loan would not generally trigger acceleration of the MDB co-financing loan or suspension or acceleration of other MDB loans, although the MDB will have an option to do so at its own discretion.
- (g) The determination to accelerate the CTF loan or commence enforcement proceedings with respect to the CTF loan will be made by the MDB in accordance with paragraph 5 below.
- (h) There will not be any sharing of payment proceeds received or mandatory cross-default clauses between the CTF loan and MDB co-financing loan or any other MDB loans.

3. The MDB will be responsible for returning to the Trustee any interest and principal payments on the CTF loan received by it from the borrower. Return of those interest and principal payments will be made in accordance with the Financial Procedures Agreement entered into between the Trustee and the MDB. In any event, the risk of any payment defaults by the borrower in respect of or arising under the CTF loan agreement will be borne by the CTF.

¹ The principles set out below may be amended by a decision of the Trust Fund Committee subject to the agreement of the Trustee after consultation with the MDBs.

² A CTF loan under public sector operations mean that any loan provided to, or guaranteed by, a sovereign government, a central bank or some comparable agency of the sovereign government.

4. If any borrower of a CTF loan defaults on any payment on the CTF loan for no less than 30 consecutive calendar days, the MDB will report such default to the Trustee, so that the Trustee may report to the Trust Fund Committee, as agreed between the Trustee and the Trust Fund Committee.

5. If the borrower or the guarantor of a CTF loan remains in default on any payment on the CTF loan following cancellation of the CTF loan by the MDB and a call of the guarantee or security, if any, by the MDB in accordance with paragraphs 2(a) and (d), the MDB will promptly (a) consult the Trust Fund Committee and all relevant contributors to the Trust Fund³ on the proposed course of action in respect of the CTF loan, and (b) seek agreement with the relevant contributors on the course of action to be taken. If as a result of any action agreed to be taken, the MDB is expected to incur any cost, the MDB will seek an approval by the contributors for allocation of the Trust Fund funds to cover such costs. The MDB will take appropriate action in accordance with its own procedures, but only to the extent that the related costs for such actions are borne by the Trust Fund and resources have been allocated to the MDB on a full-cost recovery basis.

6. A prior approval by the contributors for allocation of resources will not be needed for any reasonable costs incurred by the MDB in good faith when immediate or urgent action was needed to protect, defend or secure the CTF loan. Subject to availability of resources in the Trust Fund and upon submission of a request by the MDB showing the amount incurred and the action taken, the contributors will allocate the resources to reimburse the MDB any such reasonable costs.

³ Submission of such proposal will be made through the Trustee.

Annex R

CTF FINANCING PRODUCTS, TERMS AND REVIEW PROCEDURES FOR PRIVATE SECTOR OPERATIONS

Introduction

1. The Trust Fund Committee is being requested to approve the attached document "CTF Financing Products, Terms and Review Procedures for Private Sector Operations". This document was drafted jointly by the MDBs to provide guidance in the use of CTF funds in private sector investments and complements the "CTF Financing Products, Terms and Review Procedures for Public Sector Operations" which were approved on May 28, 2009.
2. This paper establishes: i) the financing products for which the multilateral development banks (MDBs) may deploy CTF resources in private sector operations; ii) the expected terms and principles for such financing; iii) the procedures to ensure standard of care within the MDBs with respect to the deployment of such resources; iv) the procedures for handling investments including problem investments with respect to the deployment of such resources; and, v) the supervision and reporting procedures for such investments. It is proposed that this document be kept under review by the Trust Fund Committee on the basis of actual experience in its application.
3. CTF funds are expected to target three types of private sector players: i) project sponsors (e.g. developers of clean technologies or large companies implementing new technologies); ii) investors in climate mitigating projects (banks, pension and equity funds, insurance companies, etc.); and iii) financial intermediaries developing new lines of credit for climate change investments (banks, leasing companies, ESCOs, etc).

Barriers addressed through private sector interventions

4. In the private sector, decisions to undertake new investments are based on the risk-return expected from the investment⁴. If the risks are expected to be high, the return on that investment must also be commensurately high if the private sector is to engage in the project. As a result, CTF's direct private sector investments seek to address the risk-return imbalance which occurs in many early market projects and which prevents the scale-up and proliferation of such projects. In all cases the objective of CTF funds is to reduce the barriers for early market entrants such that additional investors, developers and financial intermediaries will subsequently enter the market without additional CTF support. This is typically achieved by i) mitigating risks for several early entrants until a track record can be established which would reduce the risk for later entrants, and/or ii) off-setting the incremental costs faced by early entrants (which reduce the return on such projects), but which will not be borne by later entrants. In all cases CTF funds are used to encourage investors to undertake projects they otherwise would not or to fast-track the scale-up of such projects.
5. *High cost of early entrants:* Early entrants often face higher costs than later entrants into the market. Such costs include those resulting from being the first companies to negotiate contracts and establish procedural "precedents" within the sector (e.g. knowing which government and other institutions have authority for which part of the development process – often the "rules of the game" and roles of each authority body are established or clarified as the first projects move through the process). High costs are also the result of more expensive technology inputs that are not yet manufactured at scale and higher debt service costs because investors perceive more risk in projects without a track record. It is envisioned that concessionally priced CTF funds would be used in such cases to off-set some of these costs and encourage developers to enter the market. With scale up of the market, later entrants are expected to face lower technology costs due to production at scale. Cost barriers are typically addressed through lower interest rate loans.
6. *Risk:* It is important to note that although CTF funds may be used in higher risk investment structures MDBs would not use CTF funds to support investments where there are upfront expected losses in a specific transaction, as doing the latter would lead to market distortions (by supporting unsustainable markets). In sectors where the teams managing CTF funds believe that the real market risks are lower than the market perceives them to

⁴ Note that every investor, developer or financial institutions will perceive different levels of risk for the same project based on their own knowledge and experience of a market or sector.

be, the teams managing CTF funds would seek to use CTF funds as a risk mitigant to encourage private companies and the MDB's own operations to undertake investments they otherwise would not. Typically risk is addressed through guarantees, first loss instruments, subordinated debt or equity.

Examples of private sector barriers:

- a. Many financial institutions (FI) hesitate to develop energy efficiency or renewable energy financing lines when there is a cost in terms of learning curve and new procedures with no track record on revenue potential and loss performance for such loans. Using CTF funds to absorb the losses that FIs fear would exceed their other typical business lines can give these institutions the comfort needed to undertake the new investment while a track record is being established.
- b. Perceived risk also inhibits investors to finance renewable energy projects in markets where the sector is not yet developed and there is no track record. Generally, if an investor is to assume high risks, the return on those investments must be adequate to compensate for such risks. Many times, however, the expected returns on early entrant renewable energy projects are not high enough to compensate for the lack of track record that exists (in part because of the higher costs that early entrants have to absorb that later entrants don't), even though those same returns may be enough to compensate later entrants for the lower risks that they will later assume (because of a by then established track record). To address the barriers to early entrants, CTF funds could be used to either cushion the risks (through subordination, guarantees or equity gap coverage), off-set the upfront costs (through lower pricing on investments), or both (concessionally priced subordinated instruments or guarantees), as the case requires.
- c. In yet another example, renewable energy developers may hesitate to invest in certain markets if they perceive the credit profile of contract off-takers or the structure of a contract to be weak. In such cases, CTF funds could be used to credit enhance, through guarantees, the off-taker or contract off-take agreement, and enable the investment to happen. Here again, the establishment of a track record would encourage new players into the market as the perceived risk decreases.

7. *Combined Risk and Cost barriers:* The structuring of CTF funds will in principle follow the same principles of risk-return as private funds, i.e., subordinated debt or equity will get commensurately higher returns compared with senior loans in the same transaction. At times, however, CTF funds will need to address a combination of risk and cost barriers in the same transaction. This becomes a challenge in terms of risk/reward because a subordinated loan which addresses risk for an investor may still need to off-set the high costs of being an early market entrant for the developer (in this example it is important to ensure the risk-return balance is sufficient to entice both parties – the investor and the developer - if the project is to take place). In such cases MDBs may need to price their subordinated instruments at concessional interest rates in order to address both barriers; otherwise, if the subordinated debt were priced at a market interest rate⁵ the investment would be decreasing the risk barrier for the investor while increasing the cost barrier for the developer by adding higher debt service costs to the project. MDBs will always seek to price the CTF funded instruments on the least concessional terms possible.

Principles for using CTF funds in private sector investments

8. CTF funds used in private sector investments will adhere to the principles outlined in paragraph 3 of the Clean Technology Fund Financing Products, Terms and Review Procedures for Public Sector Operations, dated April 28, 2009 and approved on May 28, 2009.

9. Because each country, sector and project faces a unique set of barriers, CTF financing will not be uniformly offered to all private sector companies. As a result, the following principles for use of CTF funds in private sector investments have been designed to guide the MDBs in structuring private sector investments.

⁵ It must be noted that in many cases there is no "real" market interest rate because financiers are not providing subordinated debt at any price. In such cases, the MDBs will approximate a market interest rate by adding a "risk premium" to the interest rate being charged on senior debt.

10. *Minimum concessionality:* The pricing and terms of the CTF funds offered to private sector clients will be tailored to address the barriers identified for each case. MDBs will seek to provide the minimum concessionality needed to catalyze projects and programs within a sector. In order to honor this principle, CTF funds will be structured on a case-by-case basis to address the specific barriers identified in each project/program. The amount and terms of CTF funding offered to an individual client will be determined between the MDB and the client on the basis of efficient and effective use of CTF and MDB resources. While an attempt will be made to quantify the additional costs faced by early entrants and compare that with the subsidy element implicit in the financing terms being offered, country, industry and individual company dynamics will impact the amount of concessionality a company will accept in order to undertake a project. Very often three different companies in the same industry will require three different levels of concessionality to implement a given technology. For example, if catalyzing market uptake of waste/heat recovery technologies in a sector were dependent on having the three market leaders implement the equipment, then the MDB would need to offer each company the minimum amount of concessionality required to have that company undertake the investment. If all companies were offered the same concessionality the MDB may over-subsidize some while not providing enough concessionality to engage key companies that are necessary to achieve the program or projects' objectives. Finding the right amount of concessionality⁶ is largely a matter of client needs, market conditions and negotiation, and is dependent on information not flowing between the companies or being available in the market. MDB's will always seek the minimum concessionality necessary to enable projects to happen and will justify the amount of concessionality requested in each CTF proposal.

11. *Avoiding distortion and crowding out:* CTF financing will target the CTF related benefits of the projects and will be proportional to the incremental costs of their achievement. CTF funds will not be priced or structured to displace commercial financing or set unsustainable expectations in a market. CTF funds will be used to "crowd in" the private sector by enabling projects and investments to happen that otherwise would not by catalyzing those investments with their concessionality.

12. *Leverage:* CTF funds will seek to catalyze and maximize the amount of MDB and other bilateral financing as well as commercial financing available for its projects and programs. A key feature of the CTF will be its ability to unlock both MDB and other private sector financing for clean technology investments and catalyze ongoing sustainable investments in these sectors beyond the initial CTF investments.

13. *Financial Sustainability:* CTF programs will be developed to maximize the probability of long-term financial sustainability once the CTF funds are no longer available/have been used. Projects and programs should not be approved if they are likely to be dependent on a continuous flow of CTF funds. After taking into account the CTF financing, particular emphasis should be on a project's or program's ability to perform profitably under prevailing and projected market conditions. The project or program should at a minimum have the potential to achieve a substantial reduction in the need for subsidies in similar future projects beyond the initial few projects supported by CTF.

14. *Absence of Foreseeable Losses:* In all cases, the use of CTF funds will be applied prudently in the project's financial structure, such that the CTF component of the financing is not be expected to experience a foreseeable loss.

Financing Products and Terms

15. *Financing Products:* Unlike public sector CTF loans, which are given to governments that in turn structure their investments into projects and programs, CTF investments which go directly into private sector programs or projects through MDBs must give the MDBs the flexibility to structure the project in such a way that the CTF funds can clearly address and overcome the barriers that prevent transformation. For purposes of clarity, CTF funds will not always be subordinated to other lenders or to MDBs. While the MDBs have tried to anticipate the barriers that exist globally, and the types of instruments needed to address them, markets change, barriers change, and the need for financing changes over time. It is therefore essential that MDBs have the flexibility to develop new financial

⁶ Concessionality (or the subsidy element) of a CTF investment is calculated as the difference between the hypothetical market interest payments and the actual CTF interest payments over the life of the loan and discounted using the relevant zero-coupon swap curve in the relevant currency; divided by the amount of CTF financing. For non debt products the interest payments in this calculation would be substituted by the relevant investment payments (eg. guarantee fees).

instruments not envisioned in this document if the need arises to achieve the objectives of the CTF. In all cases, the MDB would be responsible for explaining why it believes it can structure and implement the financial instruments proposed in the CTF proposal. See Annex A for some examples of CTF private sector instruments that may be utilized by the MDBs.

16. *CTF subordination to MDB investments:* As noted earlier, subordinated loans or guarantees are sometimes (but not always) needed to mitigate project risks so that an appropriate risk-return balance can be achieved to catalyze investors to finance climate mitigation projects. Over the years the MDBs have built a significant track record of investments in emerging markets. This experience and market knowledge reduces the risks that MDBs assume in their projects and improves the expected risk-reward balance for such projects. As a result, the MDBs will often undertake projects in emerging markets that other private investors, who lack such knowledge and experience, will not. However, some projects the CTF Trust Fund committee is considering for approval would require the MDBs to go beyond their “business as usual” to finance projects in sectors where there is less track record, and where the returns are less certain. As financial institutions themselves, the MDBs are unable to take risks that are not covered by an appropriate return without threatening their own credit rating and negatively impacting their ability to conduct their regular business operations. CTF funds may therefore be used to enable the MDBs to undertake projects they otherwise would not be able to consider without such funds. CTF funding that is subordinated to an MDB investment mitigates the risk for the MDB and enables it to broaden the scope and scale of the CTF relevant, transformational investments that it can undertake.

17. Climate finance is not necessarily different from any other new market being developed by the MDBs. Typically, the MDBs have expanded into other new markets when there has been a willing party to mitigate the higher risk portion of investments while the MDB is establishing its own track record in the new sector. This has been the case in the expansion into health and education investments where health and education associations (groups that know and understand the risks of their client base best) assume the first losses while the MDBs remain in more senior positions, until confidence can be established in the underlying portfolio’s performance. Guarantees from strong sponsors is another way of achieving the risk coverage needed to venture into new and untested markets. Unfortunately, in climate finance, the risks are much less tested than in other sectors, and to date only donor groups have been willing to provide the risk coverage needed to allow the MDBs to venture into this new product area.

18. Risk mitigation is the primary reason CTF financing may need to be subordinated to an MDB investment; however, not all CTF projects address risk barriers and therefore not all CTF investments would be subordinated to MDB transactions. The transactions most likely to require subordination are first loss and guarantee products for financial institutions (where a lack of track record would not allow the MDB to take on the first loss component themselves⁷), and some direct renewable energy and energy efficiency investments where perceived risk perception is a barrier⁸. CTF financing is not expected to be subordinated to MDB investments when the only barrier being addressed is cost. While the MDBs may not be able to provide the terms necessary to offset such costs from their own account, in such transactions, CTF funds would rank *pari passu* with the MDB financing. In transactions where the MDBs have become comfortable with the risks of a project while the market has not, and cost is a barrier, both the MDB and CTF could be structured in a subordinated position to other lenders; here, the pricing and repayment terms for the CTF component could be different than the MDB investment but the seniority and security would be *pari passu* with the MDB. When MDBs seek CTF funds for investments that are subordinated to the MDB’s own investment, MDBs will justify the need for such structures in the CTF proposal being submitted for Trust Fund Committee approval. Subordination of CTF funds to MDB funds must be clearly noted in the summary terms section of each CTF proposal.

19. *Pricing and terms:* MDBs will indicate to the Trust Fund Committee in the CTF proposal the range of financing terms for CTF funds that would be offered to clients, including a range for price, tenor, subordination and security, along with a justification for why such terms are required. When CTF proposals are for programs that

⁷ Note that the MDBs that have developed a track record of projects which use GEF funds in a first loss position to promote energy efficiency lending through financial institutions, are now beginning to consider sharing some of the first loss risk in similar transactions. Such a “shift in MDB risk appetite” is a demonstration of how establishing a track record can change behavior and lead to sustainability.

⁸ These instruments would still be subject to paragraph 12 regarding no foreseeable losses.

include heterogeneous investments (e.g. for differing technologies or different types of recipients – e.g. solar developers and a solar manufacturer) establishing a range of terms may be more difficult. In such cases, the MDB will seek to outline to the Trust Fund Committee in the CTF proposal the possible uses of CTF funds and will in all cases establish a floor price for any CTF investment. (see also paragraph 28 below on amendments to CTF proposals). The MDB will inform the Trust Fund Committee on a confidential basis⁹ on the final terms once they have been determined and agreed.

20. *Grants for Advisory Services / Technical Assistance:* In addition to investments, CTF funds may be used for technical assistance / advisory services to address non-financial barriers that prevent market transformation. If such funds are anticipated within a program, the MDB will indicate so in the CTF proposal, including the amount required, the barriers being addressed and how the CTF funds will be used (e.g. for publications, workshops, institutional capacity building, etc.). Advisory services/technical assistance is often required to ensure adequate market capacity, market knowledge, information sharing and a comprehensive approach to transformation. The use of CTF funds for such work must be justified according to its key contribution to the achievement of the transformation objective in the private sector and to the lack of alternative sources of finance. Grant funds may also be used for project preparation purposes. When necessary, such grant requests would also be included in the CTF proposal.

Guidelines for structuring and implementing CTF investments:

21. Private sector CTF investments will be made in accordance with the investment criteria established in paragraphs 11 and 12 of the CTF Private Sector Operational Guidelines, which were approved on January 12, 2009.

22. Unless otherwise approved by the Trust Fund Committee in the CTF proposal, CTF funds will be allocated by the Trustee to the MDB, and be repayable to the Trustee, in United States Dollars or Euros. However, MDBs may denominate individual financing provided by them to the beneficiaries according to their own policies and procedures, subject to the MDB assuming any exchange rate risk¹⁰.

23. The MDB will, for purposes of each financing, conclude either a separate agreement with the beneficiary of CTF funds, or a single agreement with separate tranches for the CTF and MDB investments.

24. The design and implementation of activities financed with CTF resources will ensure that appropriate environmental and social safeguards arrangements are carried out in accordance with each MDB's policies and procedures.

25. Agreements between MDBs and beneficiaries will incorporate provisions for default interest (in addition to regular interest) in the case of a default scenario¹¹. The CTF investment will apply the same rate of default interest that the MDB applies for its own investment in the same project.

26. The MDBs will follow their own operational procedures regarding notification of the national government of a proposed financing before Board consideration.

27. Except as otherwise justified and approved in the CTF proposal, where CTF concessional rate loan products are *pari passu* to a senior MDB loan:

⁹ Bearing in mind the potential effects any disclosure of project-specific information may have on the recipient of CTF funds and the MDBs (including inconsistency with the MDBs' own disclosure policies), any information provided by an MDB regarding project-specific information will be kept confidential by the Trustee, the Trust Fund Committee and any relevant contributors. For the purposes of this document "confidential basis" means after the signing of a confidentiality agreement per paragraph 46.

¹⁰ It should be noted that not allowing CTF funds to be on-lent in local currencies reduces the flexibility of the funds and increases the costs and complexity of the project, as currency risk must be hedged. It should further be noted that most of the MDBs are prevented by their guidelines to incur such exchange rate risk.

¹¹ Most MDBs charge a standard rate of 2% for default interest.

- a. In determining whether any guarantee or security for the CTF loan will be obtained, the MDB will adopt the same approach as the one used for the MDB's own loan;
 - b. In respect of negative pledge covenants in MDB loan agreements, the CTF loan will have the benefit of any such negative pledge covenant;
 - c. In respect of suspension, cancellation and acceleration of CTF loans, the CTF loan agreements will provide for suspension and cancellation provisions and acceleration events like those included in relation to the MDB's own loan unless to do so would negatively impact the objectives to be achieved by the CTF funds, as outlined in the CTF proposal.
28. Where the CTF funds are to be made available for subordinated debt instruments, regardless of their concessionality and relative status compared to the MDB loan:
- a. Senior creditors would not expect a subordinated lender to be able to force acceleration of the project debt where the borrower remains current on the senior creditors' debt.
 - b. Senior creditors would expect subordinated lenders to take a subordinated security, if such loan is to be secured; and
 - c. Subordinated CTF loans would rank behind senior lenders in any share of recovery proceeds.
29. Similarly, where the MDB proposal relates to a joint MDB and CTF equity investment, with the exception of provisions for return on investment, the MDB will obtain the same terms for the CTF equity investment, and proposed exit provisions, as the MDB's own equity investment, unless to do so would negatively impact the objectives to be achieved by the CTF funds, as outlined in the CTF proposal.
30. Where the MDB proposal relates to a grant component, the grant would not generally be reimbursable except where misused. Potential misuse of the grant components will be assessed under the Results Measurement Framework as approved by the CTF Trust Fund Committee.

Role of the CTF Trust Fund Committee in approving private sector financing terms

31. The CTF Trust Fund Committee is responsible for approving the range of terms of outgoing CTF financing as outlined at the time of submission of the CTF proposal by the MDB. Such proposal will include a range of terms expected to be offered on the CTF funds as outlined above, recognizing that program proposals may only be able to identify the types of structures contemplated for the various interventions. The final terms will be notified to the Trust Fund Committee on a confidential basis once these have been agreed. If during the implementation of a project, it becomes clear that the terms of the CTF funds should fall outside of the approved terms; the MDB would be required to circulate on a confidential basis, on a two week no-objection basis, an amendment to the CTF proposal which outlines the new terms being requested and the justification for the change.

Safeguards for using CTF funds within the MDBs

32. The CTF Trust Fund Committee decided to channel CTF funds through the MDBs to achieve a number of benefits, including: i) the opportunity to leverage and scale-up MDB funding; ii) increasing efficiency and reducing costs by utilizing the MDB's established infrastructure, policies and procedures, and iii) tapping into the MDB's well established network and project development ability. However, MDB management of CTF funds, which are coupled with their own funds, results in a number of perceived and potential conflicts of interest. The MDBs take the responsibility of managing third party funds seriously and have each developed safeguards to manage such conflicts of interest.

Financing Procedures and Conditions

CTF Approval procedures:

33. Private sector projects and programs are expected to be approved following the procedures outlined in paragraphs 9 and 10 of the "CTF Private Sector Operational Guidelines" which was approved on January 12, 2009. Proposals will be submitted using the revised template provided in Annex B of this document and will follow the timeline outlined in Annex B (titled "Proposed Private Sector Cycle of Activities") of the CTF Private Sector Operational Guidelines.

Disbursement procedures for private sector CTF investments from the CTF:

34. MDBs that deal with the private sector undertake certain reputational and at times financial exposure during project financing. MDBs would, for example, lose credibility with their private sector clients (as well as co-lenders) if a CTF investment were not funded upon request due to insufficient cash in the CTF accounts. Therefore, the MDBs may incorporate into their CTF proposals, a specific request for the Trust Fund Committee to approve that the Trustee provide an unconditional letter of commitment which would ring fence available cash for the proposed projects included in the proposal (subject to prior clearance by the TFC/Trustee that such available cash existed). While an actual cash transfer from the Trustee on behalf of the CTF to the MDB for each such project would only take place after approval by the MDB's Board approval of the project (per Annex B of the CTF Private Sector Operational Guidelines), the unconditional letter of commitment would allow the MDB, the client and co-lenders to enter into negotiations with the comfort that funds would be available at the time of disbursement.

Procedures for suspension, cancellation and acceleration of outgoing CTF investments:

35. The MDB will determine, in accordance with its policies and procedures, whether to (i) suspend, cancel or accelerate any CTF investment, (ii) declare an event of default, terminate, or exit from, any CTF investment, (iii) grant any waiver, or agree to an amendment, to any CTF investment terms, including a waiver or amendment that may result in not taking action under (i) and (ii) above, and (iv) enforce any security or guarantee provided for any CTF investment, or (v) pursue other remedies available to the MDB. When CTF loans rank *pari passu* with MDB investments, and the MDB pursues any of the above remedies with respect to its own investment, it will pursue the same remedy with respect to the CTF investment (unless otherwise agreed with the Trust Fund Committee).

36. Similarly, and irrespective of the ranking of the loans, if both the CTF investment and MDB co-financing have not been fully disbursed, suspension or cancellation of disbursement of one would normally result in suspension or cancellation of disbursement of the other unless to do so would negatively impact the objectives to be achieved by the CTF funds, as outlined in the CTF proposal.

37. The MDB will be responsible for returning to the Trustee all interest/returns, including default interest, fees and principal payments on the CTF investments received by it from a borrower/investee. Processing the payment of those interest/returns, including default interest, fees and principal payments plus the MDB investment income will be made in accordance with the Financial Procedures Agreement entered into between the Trustee and the MDB. In any event, any payment defaults or negative returns which are not recovered in respect of or arising under a CTF investment will be borne by the CTF, without recourse to the MDB's own assets, unless such loss is incurred as a result of the MDB's gross negligence or willful misconduct, in accordance with the Financial Procedures Agreement entered into between the Trustee and the MDB.

38. There will not be any sharing of payment proceeds received by the MDB under the CTF investment and MDB co-financing or any other MDB investments.

Procedures for handling problem investments:

39. If there is a payment default by an MDB client, under a CTF investment that continues for 30 calendar days or more, the MDB will promptly report on a confidential basis such default to the Trustee, so that the Trustee may promptly report to the Trust Fund Committee. MDBs will consult with the Trust Fund Committee on any

anticipated sales which would result in a negative return to the CTF once such losses can reasonably be anticipated¹².

40. Once a course of action has been determined by the MDB, but in any event within 90 calendar days following a default, the MDB will (a) inform the Trust Fund Committee of its proposed course of action (confidentially)¹³, and (b) consult with the contributors on the proposal. The MDB may set a deadline for receiving comments from the contributors. After the consultation with the contributors, the MDB will determine if and what (further) action shall be taken. The MDBs and contributors may agree at any time to have the CTF investment assigned or novated to one or more contributor(s), or a third party agency¹⁴. If as a result of any action proposed to be taken, the MDB is expected to incur any cost, the MDB will seek approval from the Trust Fund Committee (or such other body as the Trust Fund Committee may designate)¹⁵ for allocation of the Trust Fund funds to cover such costs. The MDB will then take appropriate action in accordance with its own policies and procedures, but only to the extent that the costs related to the CTF component of the transaction for such actions are borne by the Trust Fund and resources have been allocated to the MDB to fully cover such costs.

41. However, prior consultation with the Trust Fund Committee will not have been needed (i) for any actions commenced by the MDB and (ii) for allocation of resources for any costs incurred in connection with those actions, where the MDB commenced its actions (reasonably and in good faith) either (a) prior to any consultation referred to in paragraph 39 above or (b) during or after any such consultation where the MDB considers that swift action is required, in each case, to protect, defend or secure the CTF investment. In such cases the MDBs will inform the Trust Fund Committee prior to taking such actions on a confidential basis as knowledge of such information by the counterparty could undermine the effectiveness of the MDB's actions. The Trust Fund Committee (or such other body as the Trust Fund Committee may designate) will allocate the resources to reimburse the MDB for any such costs, upon submission of a request by the MDB showing the cost items/expense list and the particular amounts incurred and the action taken to protect, defend or secure the CTF investment.

Procedures for handling recovery proceeds:

42. The MDBs are responsible for returning to the CTF via the Trustee all proceeds recovered from defaulted investments as will be reflected in the Financial Procedures Agreement.

Project Administration Fees

43. Implementation and supervision costs will be determined according to the guidelines outlined in paragraphs 19-22 of the CTF Private Sector Operational Guidelines, approved on January 12, 2009, and will be submitted as part of each CTF proposal.

44. Eligible implementation and supervision costs will be determined in accordance with the policies and procedures of the respective MDBs.

Supervision and Reporting

45. Supervision and reporting will be conducted in accordance with paragraph 23 of the CTF Private sector Operational Guidelines, which were approved on January 12, 2009. Measurement criteria for each project will conform to the requirements determined under the Results Measurement Framework as approved by the CTF Trust

¹² It must be noted that exit prices are negotiated and the final sales price in a transaction may only be known shortly in advance of the transaction closing. In any event, the MDBs will make all reasonable efforts to notify the Trust Fund Committee of anticipated losses through the Trustee as soon as losses are anticipated.

¹³ Bearing in mind the potential effects any disclosure of the proposed actions may have on (i) the bargaining positions of the borrower and the lenders, and (ii) the liability of the MDB to other banks in a syndicate, any information provided by an MDB regarding possible actions will be kept confidential by the Trustee, the Trust Fund Committee and any relevant contributors.

¹⁴ To the extent the agreement cannot be freely assigned by the MDB, the MDB may include in the CTF investment agreement a clause giving the MDB the right to make such assignment.

¹⁵ Per the CTF Sunset clause, paragraphs 53-55 of the CTF Governance Framework document.

Fund Committee. In addition, any MDB using CTF funds in a subordinated position to their own funds must report to the Trust Fund Committee on an annual basis, i) how the additional risk assumed by the CTF investments is delivering additional impact, and ii) the MDB's preparedness to invest on similar terms to the CTF investments in similar future projects.

46. In accordance with the Financial Procedures Agreement executed between each MDB and the Trustee, each MDB will provide the Trustee with certain confidential financial information on the projects within its portfolio. The confidential information will include (i) financial information on each project that is required to facilitate the financial management of the CTF account and is provided on a quarterly basis and (ii) final terms of each project (financial instrument (loan, guarantee, etc), interest rate, amortization schedule, tenor, and security/ranking (secured/unsecured, senior/subordinated, etc)) to be provided within 30 days following the project's financial closing. In order to maintain the confidentiality of the information, project specific information relating to the CTF private sector projects as outlined in this document will be provided by the Trustee or the relevant MDB to a relevant country contributor only after signature of a confidentiality agreement between the Trustee or relevant MDB and the contributor country requiring such information, in order to avoid conflicts with the MDB's policies on disclosure of information.

Annex A

Examples of Private Sector Financing Instruments (not comprehensive)

Concessional interest rate loans and loans with performance incentives

1. Concessional interest rate loans are used to off-set the high costs of early market entrants as described earlier.
2. Credit lines and loans with incentive characteristics such as performance bonuses or interest rate reductions provide clients with the incentives to achieve certain milestones or targets established at the onset of the program. These loans are used to fast track the rate of implementation of a program or to direct funding to a sector that otherwise wouldn't get funded. These instruments are most effective with local banks that are comfortable with the risk of a new initiative but that need to incentive either for their clients or loan officers to "kick-start" a new line of business (such as clean energy lending). In this financial structure the donor's funds are coupled with, and leverage, MDB funds to provide the client with one aggregate loan. The bonus or interest rate reduction is deducted from the donor's portion of the loan.
3. *Relevance for climate change:* Concessional interest rate loans can be valuable as a means of encouraging large renewable energy developers to enter new sectors that have high early entrant costs.
4. Loans with incentive features can be used to encourage local banks to develop lending programs for small sized renewable energy and energy efficiency projects; working through local banks is particularly appealing for small sized investments given the scale required to have a climate change impact (in this structure scale is achieved through a local bank's network and client relationships).

Subordinated Debt and Mezzanine Finance (to senior debtors which may, or may not include an MDB)

5. Subordinated debt and mezzanine financing, refers to loans that in case of payment defaults or bankruptcy have a lower repayment priority compared to other company or project loans. Subordinated debt strengthens a company/project's equity profile and enables/encourages commercial lenders to provide senior debt financing. Donor funds that are used as subordinated loans effectively leverage senior financing. While this type of debt has some equity characteristics, it is normally repaid on a regular schedule.
6. *Relevance for climate change:* Subordinated debt has high potential for impact. In addition to subordinated loans for large scale renewable energy projects, subordinated debt is being tested with financial institutions who on-lend donor funds along with their own and MDB financing to small renewable projects. The donor funds in such cases are used to fill the 'equity gap' that exists for many small sponsors. In cases where high capital costs and risk perception barriers are being addressed through the use of subordinated debt, concessional rates could also be a structural feature of the product in cost barriers are also trying to be addressed.

Guarantees and Insurance

7. Guarantees and insurance products enhance the credit worthiness of a transaction because the guarantor agrees it will cover some, or all, of any defaulted payment or repayment per an original contract; guarantees are sought when payment or repayment flows are risky. Guarantees allow MDBs to use their strong credit rating to provide comfort to decision makers that cash flows will take place. This can influence banks and other financiers to provide funding for low carbon technologies (by extending tenors, a project's financial viability becomes more attractive to a sponsor and enables them to make the investment). In general guarantees can be used to cover any of the risks the market will not bear, including credit risk, technology risks, or changes to the project's regulatory environment. Donor funds would be used to provide guarantees for climate change initiatives when no party is willing to pay for such guarantee.

8. *Relevance to climate change:* Guarantees can be applied in different ways to support the development of the renewable energy sector, for example, by enhancing the expected revenue stream from a Power Purchase Agreement, by increasing access to bank finance, or by extending loan tenors and improving the financial viability of a project.

Risk Sharing

9. Risk Sharing is a way of “sharing” the risk of a portfolio of sub-projects with a local bank or financial institution. While the bank funds the sub-project loans from its own account, MDBs guarantee a portion of the repayments from borrowers if a sub-project defaults. A risk-sharing product gives a bank comfort that their risks are mitigated during the period when they are learning a new line of business and a performance track record is being established for the underlying loans. In this structure, donors play a critical role by covering the losses from the first few defaults (if any) which occur in a portfolio of projects (first loss). To date the experience with risk sharing structures has been positive both in terms of low to no losses and the amount of funding leveraged from financial institutions.

10. *Relevance for Climate Change:* Risk-sharing is an effective way to engage a financial intermediary to lend for sectors such as energy efficiency and small scale renewable energy.

Equity

11. Equity is a capital investment in a company or project that is not repaid on a fixed schedule. Equity provides unlimited revenue potential if the project is successful, but risks losing part or all of the investment if the project is not successful. Within the CTF context, equity could be needed to support projects that have viable business plans but where sponsors either do not have the financial wherewithal to implement the project alone (senior debtors require varying levels of equity investments depending on the level of risk perceived in a project or market), or because project developers themselves do not want to take the risks to enter a new market. While subordinated debt has some of the risk profile of equity, it is primarily a structure that mitigates risk for senior debtors; equity on the other hand, shares, or encourages developers to undertake risks they otherwise would not.

Relevance for climate change: Equity could be used to fast-track development of a renewable energy sector in a country where regulatory changes have just taken place or are anticipated to take place. There is a long development stage for most renewable energy projects and the CTF may wish to fast-track project implementation to achieve its ultimate goal of offsetting GHG emissions. If developers are uncertain about a government’s commitment to regulatory change, these developers may hesitate to begin the development stage of projects. If however, an MDB, through its relationship with a government and because of that government’s engagement in a CTF program, believes that the regulatory environment will become or remain supportive to the relevant technology, it may wish to use equity as a means to encourage project development sooner than would otherwise happen. The equity in this case would be used to share in the development costs of the project (thereby reducing risks for the developer) but would also share in the upside of the project. For purposes of clarity, it is noted that with many early entrant projects, high costs are also a barrier. As a result, to address the cost barrier, the equity returns may be different (or not) for the project sponsor and the CTF investment. In all cases, the MDB would seek to obtain the least concessional/most advantageous terms for any CTF investment.

Annex B (Revised¹⁶)
CTF PRIVATE SECTOR PROPOSAL TEMPLATE

<i>Name of Project or Program</i>	
<i>CTF amount requested / Total Project Cost (US\$):</i>	
<i>Country targeted</i>	
<i>Indicate if proposal is a Project or Program</i>	
DETAILED DESCRIPTION OF PROJECT OR PROGRAM	
<p><i>Description of the Project or Program including:</i></p> <ul style="list-style-type: none"> ➤ for each Proposal, a description of the country and sector targeted, as well as the technology supported, including an explanation for the technology choice. ➤ for each Project, a description of the project in generic terms; for purposes of confidentiality, company names and details that would make the project identifiable by third parties are not to be included in the description. ➤ for each Program, a profile of the sub-projects expected to be financed under the Program (sector, average size, geography, ranges of expected results, etc.) and the number of investments expected in portfolio ➤ the financial instruments expected to be used including how the concessional finance portion will be applied (which components of the project, percent of overall financing, etc) ➤ a description of the elements that go beyond the financing offered, such as advisory services and knowledge management initiatives and instruments. ➤ note the expected life of the Project or Program from date of approval (investment & supervision period) 	
<p><i>Describe the Proposal's strategy for achieving market transformation including:</i></p> <ul style="list-style-type: none"> ➤ explain how the Project or Program addresses the objective of transformation to a low carbon economy in terms of market transformation at a country and/or sector level. ➤ describe how the Proposal fits i) the identified role of the private sector as described in the Investment Plan; and ii) within a country's existing regulatory environment and government policies; where it doesn't explain how this will be addressed/ mitigated ➤ explain how the MDB will leverage its ongoing activities and existing strengths 	

¹⁶ The revised Annex B in this document supersedes Annex B of the Private Sector Operational Guidelines approved on January 12, 2009.

FIT WITH INVESTMENT CRITERIA	
<p>i) Potential GHG Emissions Savings:</p> <ul style="list-style-type: none"> ➤ Calculate the amount of CO²-equivalent emissions savings expected to result during the life of the technology and/or service from the proposed Project or a range for the Program. Emissions reductions will be calculated by assessing the fuel savings attributable to the Project or Program for the country or region and technology specified multiplied by the CO² intensity of the marginal technology. ➤ Note whether the technology is technically viable, commercially available and whether mitigation potential is high or low (per paragraph 11 i) of this document). 	
<p>ii) Cost-Effectiveness:</p> <ul style="list-style-type: none"> ➤ The expected GHG reduction during the life of the technology per CTF donor dollar invested. ➤ Note if a reduction in the cost of the technology is expected due to technological progress, learning curves or any other market occurrence. 	
<p>iii) Demonstration Potential at Scale:</p> <ul style="list-style-type: none"> ➤ Note: i) the expected GHG emissions from the sector under a business as usual case; ii) the expected reduction of emissions resulting directly from the CTF financed intervention; and iii) potential emissions savings that would result if the CTF intervention were to be replicated throughout the targeted area or sectors. 	
<p>iv) Development Impact:</p> <ul style="list-style-type: none"> ➤ Describe non-GHG related development impacts achieved through the Project or Program. A key objective of the CTF is to demonstrate the potential for low-carbon technologies to contribute to sustainable development and the achievement of the Millennium Development Goals. Proposals with co-benefits will be viewed favourably. Examples of development impacts include reduction in energy intensity of GDP or for the relevant sector; energy security in terms of avoided imports of fuels and diversification of energy supply; acceleration of access to affordable, modern energy or transport services for the poorest; and a reduction in air pollution 	
<p>v) Implementation Potential:</p> <ul style="list-style-type: none"> ➤ Note the extent to which the current regulatory environment supports, or does not impede, the development of the private sector; where barriers exist, explain how these will be addressed. Outline the range of resources mobilized by non-CTF funds, including the MDBs and the private sector – both domestic and international, including carbon finance if appropriate. 	

<p>vi) Additional Costs & Risk Premium:</p> <ul style="list-style-type: none"> ➤ Explain how CTF financing is being tailored to address the identifiable additional cost of an investment or to address risk perception and other non-financial barriers. Note whether CTF financing will complement other forms of donor or CDM finance. 	
<p>vii) Financial Sustainability</p> <ul style="list-style-type: none"> ➤ Describe how sustainability will be achieved (i.e. why similar future projects would need significantly less or no concessional finance). Projects should not be approved if they are dependent on a continuous flow of CTF funds. The Project or Program should at a minimum have the potential to achieve a substantial reduction in the need for subsidies in future projects. ➤ Identify specific institutional factors that will be necessary to enhance the commercial viability of the technology/project, if any. 	
<p>viii) Effective Utilization of Concessional Finance</p> <ul style="list-style-type: none"> ➤ Justify why the concessional finance is needed (why the projects would not go forward without concessional finance). ➤ Discuss why the structure suggested is most appropriate for achieving the Proposal's goals. ➤ Quantify the level of subsidy expected to be offered under the Program using the methodology outlined in footnote 3 of the body of this document. ➤ Note the use of any other concessional or carbon related finance in the project and how CTF will add value. ➤ For benchmarking purposes, determine if concessional finance is being used or planning to be used in other similar projects in the same market. If yes, provide the concessional terms when information is available and how those terms relate to the proposed CTF financing. If no concessional finance has been used in similar projects, explain why they've been able to go forward without concessional finance. 	
<p>ix) Mitigation of Market Distortions</p> <ul style="list-style-type: none"> ➤ Discuss how the Project or Program will seek to minimize or avoid distorting markets, displacing private sector investment, including carbon finance where it is supporting similar investments within a country and/or sector, or reducing competitiveness. 	
<p>x) Risks</p> <ul style="list-style-type: none"> ➤ Discuss the risks inherent in the Project or Proposal and how these are being mitigated/addressed. 	
<p>xii) Performance Indicators</p>	

➤ List relevant "Performance Indicators" for the project.	
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June 8, 2010

Junko Funahashi
World Bank
Legal Department
1818 H St. N.W.
Washington, DC 20433

Dear Ms. Funahashi:

Please find enclosed the original, signed copy of the Financial Procedures Agreement between the Inter-American Development Bank and the International Bank for Reconstruction and Development concerning the Clean Technology Fund.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alonso Chaverri-Suarez', is written over a horizontal line.

Alonso Chaverri-Suarez
Legal Department

Enclosures