

# CLIMATE INVESTMENT FUNDS

November 5, 2013

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Summary of the Co-Chairs  
Meeting of the Clean Technology Fund Trust Fund Committee  
October 28-29, 2013

Co-Chairs

Artur Cardoso de Lacerda, Brazil  
Kate Hughes, United Kingdom

**AGENDA ITEM 1. OPENING**

1. The meeting was opened by the Trust Fund Committee Co-Chair, Mr. Artur Cardoso de Lacerda, the Trust Fund Committee member from Brazil.

**AGENDA ITEM 2. ELECTION OF CO-CHAIR**

2. As Mr. Frank Fass-Metz, Co-Chair from the contributor countries, was no longer able to serve as a Co-Chair of the Trust Fund Committee, the meeting elected Ms. Kate Hughes, the Trust Fund Committee member from the United Kingdom, to serve as the Co-Chair from the contributor countries for the remainder of the term until the CTF meeting in October/November 2014, the first meeting after the Partnership Forum in July 2014.

**AGENDA ITEM 3. ADOPTION OF AGENDA**

3. The Trust Fund Committee adopted the *Provisional Agenda* set forth in document CTF/TFC.12/1/Rev.3.

**AGENDA ITEM 4. CTF SEMI-ANNUAL OPERATIONAL REPORT**

4. The CTF Trust Fund Committee reviewed document CTF/TFC.12/3, *CTF Semi-Annual Operational Report*, and takes note of the progress that has been made in advancing the work of the CTF. The Committee welcomes the report's strategic overview of the CTF and the analysis of the trends of the approved projects. The Committee notes with appreciation the recent acceleration of project development activities, the positive trend in increasing CTF disbursements and the reporting against core indicators. The Committee requests the CIF Administrative Unit to facilitate quarterly updates on the projects in the pipeline. The Committee further requests that in presenting the "traffic lights," the reports clearly flag those projects with revised timetables due to updates or revisions of the investment plans.

**AGENDA ITEM 5. DEDICATED PRIVATE SECTOR PROGRAMS**

5. The Trust Fund Committee reviewed document CTF/TFC.12/4, *Dedicated Private Sector Programs*, and notes with appreciation the work of the CIF Administrative Unit and the MDB Committee to develop the four program proposals.

6. The Trust Fund Committee approves the following program proposals as a useful pilot and requests the MDBs to proceed to develop sub-programs and projects under the two programs in accordance with the procedures outlined in document CTF/TFC.12/4:

- a) ***Utility-Scale Renewable Energy***: the objective of this proposal is to catalyze a global funding effort to scale up renewable energy, starting with a focus on utility-scale geothermal energy. An indicative allocation of USD 115 million is approved for allocation within existing CTF countries.

- b) ***Renewable Energy Mini-Grids and Distributed Power Generation***: this proposal aims to leverage private investment to fill financing gaps and to promote transformation and the wide-spread development of renewable energy mini-grids to serve rural and under-served off-grid communities. An indicative allocation of USD 35 million is approved for allocation within existing CTF countries, while recognizing that the Trust Fund Committee is open to expansion to other CIF countries should additional resources become available.

7. The Trust Fund Committee notes:

- a) the program proposal entitled, ***Risk Capital to Address Regulatory Risks for Renewable Energy***, and the importance of explaining why the measure to mitigate regulatory risk is required and how the measures will address questions of moral hazard, and
- b) the program proposal entitled, ***Climate Finance Equity Investments***, and requests further information regarding how risks will be managed and what risks might pertain to grant, capital, and loan contributors.

8. If additional resources become available, the Committee agrees that such resources should be allocated swiftly to existing or new program proposals. The Committee requests the CIF Administrative Unit and the MDBs, once any new pledges are announced, to present to the Committee for approval proposals for expanded or new programs, including expansion of programs to additional CIF countries, and an indicative allocation of such new resources. The Trust Fund Committee, in particular, notes that it would welcome scaled-up proposals for the programs referred to under paragraph 6.

9. The Trust Fund Committee requests the CIF Administrative Unit and the MDBs to report to the Committee on the progress being made in implementing the approved programs at the next meeting of the Trust Fund Committee, and thereafter, on a semi-annual basis. The Trust Fund Committee also requests the CIF Administrative Unit and the MDBs to ensure that a robust knowledge management platform is put in place to ensure that lessons from the Dedicated Private Sector Programs are captured and widely disseminated.

#### **AGENDA ITEM 6. CTF INVESTMENT PLAN FOR MEXICO: PHASE II**

10. The CTF Trust Fund Committee reviewed document CTF/TFC.12/5, *CTF Investment Plan for Mexico: Phase II*, submitted by the Government Mexico in collaboration with the Inter-American Development Bank and the World Bank Group, and takes note of the request for USD 300 million in CTF funding to finance activities under a second phase. The CTF Committee recognizes the quality of the Mexican proposal and is comfortable with the technical substance. The Committee would be happy to consider the plan for endorsement in the future if additional funding becomes available.

## **AGENDA ITEM 7.      UPDATED CTF INVESTMENT PLAN FOR SOUTH AFRICA**

11. The Trust Fund Committee reviewed document CTF/TFC.12/6/Rev.1, *Update of CTF Investment Plan for South Africa* (October 2013), submitted by the Government of South Africa in collaboration with the African Development Bank and the World Bank Group, and takes note of the updates on the implementation of the projects and programs financed by the CTF and the revisions to the *CTF Investment Plan for South Africa* as the following:

- a) Cancelling USD 7.5 million in CTF funding (with AfDB) from the Energy Efficiency Sub-Component (already approved by the Trust Fund Committee under the Sustainable Energy Acceleration Program);
- b) Dropping the Solar Water Heater Sub-Component with USD 50 million in CTF funding (USD 25 million with AfDB and USD 25 million with IFC; not yet approved by the Trust Fund Committee); and
- c) Reallocating USD 57.5 million in CTF funding as a result of a) and b) to finance either a private sector sustainable energy program or a public sector vehicle efficiency program (with AfDB).

12. The Trust Fund Committee endorses the revisions as a basis for the further development of the proposed activities for CTF funding, subject to comments made at the meeting or submitted in writing by November 15, 2013 being suitably answered; and notes that the total indicative allocation after the revisions remains at USD 500 million in CTF funding. The Trust Fund Committee also recalls that the approval of CTF funding by the Committee is dependent upon the submission of high quality project or program proposals. The Committee requests AfDB to work closely with South Africa to expedite the development of a new program using the remaining indicative CTF allocation for submission to the Trust Fund Committee for funding approval by June 2014.

## **AGENDA ITEM 8.      COST-EFFECTIVENESS OF CTF PROJECTS**

13. The Trust Fund Committee, having reviewed document CTF/TFC/12/7, *Cost-Effectiveness of CTF Projects*, takes note of the overview of the application of the concept of cost-effectiveness in CTF-financed plans and activities provided by the CIF Administrative Unit and the MDBs, and agrees that going forward the following information will be requested:

- a) The calculation of CTF investment per ton of CO<sub>2</sub>-equivalent reduction is a requirement for all CTF projects/programs when a proposal is submitted to the Trust Fund Committee for funding approval. It is not considered a threshold and does not constitute an eligibility criterion for approving CTF funding for projects/programs.
- b) A threshold for CTF eligibility may be established at the marginal abatement cost of USD 200 per ton of CO<sub>2</sub>-equivalent reduced. Since the technologies supported by the CTF are typically far below that threshold, it is suggested that instead of

requiring every project/program to undertake marginal abatement cost analysis, the country is requested to provide information on the estimated marginal abatement cost only for projects/programs for which the marginal abatement cost is likely to exceed USD 100 per ton of CO<sub>2</sub>-equivalent.

- c) When estimating CTF investment per ton of CO<sub>2</sub>-equivalent reduced (or marginal abatement cost), methodology and assumptions should be presented explicitly and clearly, including project boundaries, baselines, lifetime of technology or investment, type of GHGs included, and emissions conversion factors. Indirect GHG reduction, such as through replication, should be estimated separately and presented clearly. In addition to CTF investment per ton of CO<sub>2</sub>-equivalent reduced, an estimate of total project costs (CTF investment plus co-financing) per ton of CO<sub>2</sub>-equivalent reduced should also be provided.
- d) In addition to the above, CTF proposals will provide an analysis, where applicable and feasible, of the expected reduction in the cost of the technology due to technological progress and scale effect at a global level, and/or through organizational learning and scale effects at the country level.
- e) The CIF Administrative Unit, in collaboration with the MDBs, will compile, update, and report on the estimates of CTF investment per ton of CO<sub>2</sub>-equivalent reduction for all approved CTF projects as an annex in the semi-annual operational reports.
- f) The MDBs will report every two years, beginning in 2014, to the Trust Fund Committee on the current and planned work of each MDB in GHG analysis and the development and application of methodology for estimating GHG emissions reduction and their joint efforts to harmonize GHG estimation methodology among the MDBs.

**AGENDA ITEM 9. APPROACHES AND CRITERIA FOR CONSIDERING POTENTIAL NEW PILOT COUNTRIES**

14. The Committee takes note of document CTF/TFC.12/8, *Approaches and Criteria for Considering Potential New Pilot Countries*. However, the Committee agrees that it is not selecting new countries under the Clean Technology Fund at this stage and that it is not asking for any expression of interest or new investment plans.

15. The Committee agrees to reconsider the paper at its next meeting in June 2014, and in this regard, invites the CIF Administrative Unit and the MDBs to prepare additional information that could guide any assessment of country requests if new resources were to be made available.

**AGENDA ITEM 10. USE OF LOCAL CURRENCY FOR PRIVATE SECTOR PROJECTS UNDER THE CTF TRUST FUND: PROPOSED TOOLS AND INSTRUMENTS TO SUPPORT LOCAL CURRENCY OPERATIONS**

16. The CTF Trust Fund Committee, having reviewed document CTF/TFC/12/9, *Use of Local Currency for Private Sector Projects under the CTF Trust Fund: Proposed Tools and Instruments to Support Local Currency Operations*, agrees in principle that the CIF MDBs may employ Tools 1 to 4 proposed in the document as a way to facilitate local currency operations for private sector projects under the CTF. These include hedging tools (Tools 1 and 2) and guarantee tools for domestic clients (Tools 3 and 4). The Committee agrees that this decision should be confirmed through an approval by mail as early as possible.

17. In this regard, the Committee agrees:

- a) that the CTF Trust Fund will bear the costs associated with the use of Tools 1 and 2, as proposed in the document, provided that, when an MDB expects to employ any such tool in a particular program or project, the use of the tool and the costs should be specified in the program or project proposal submitted for approval of CTF funding. If the cost of the tool cannot be specified at the time that CTF funding for the proposal is approved, the proposal should include an estimate of the cost. For Tools 1 and 2, this cost will be within a 1% per annum cap. When an estimate of the cost is specified at the time of the Committee's approval of CTF funding, the MDB will inform the Committee as soon as the actual cost is known. If immediately prior to the execution of the hedge the expected hedge cost exceeds the estimate provided to the Committee, the MDBs should inform the CIF Administrative Unit and the Trustee of the revised hedging cost before executing the hedge. Approval from the CTF Trust Fund Committee will be provided on a no objection basis within 48 hours of receipt of the information from the MDB as long as the revised hedging cost is still within the 1% per annum cap;
- b) to reconsider the 1% per annum cap for Tools 1 and 2 at its next Committee meeting in June 2014 with a fuller assessment of how an increase of the cap to 2% may increase the scope for utilization of these tools in CTF countries and with consideration of the costs of doing so;
- c) that the MDB will confirm, at the time of the proposal, that there will not be any residual losses from foreign exchange rate fluctuation and in the event of any such losses, these will not be borne by the CTF Trust Fund; and
- d) to consider Tools 5 and 6 at its next meeting, given that the ERM framework and Senior Risk Management Specialist will be in place.

18. The Committee requests the MDBs to report annually, in the CTF semi-annual operational report, on the use of the tools and their costs.

19. The Committee further requests the CIF Administrative Unit and the MDB Committee to prepare an assessment of the use of the tools, their cost and effectiveness in facilitating the engagement of the private sector in CIF-funded activities for review by the Committee in October/November 2015.

**AGENDA ITEM 11. PROPOSED AMENDMENT TO THE CTF PUBLIC SECTOR FINANCING PAPER**

20. The CTF Trust Fund Committee, having reviewed document CTF/TFC.12/10, *Proposed Amendment to the CTF Public Sector Financing Paper* submitted by the World Bank Group, agrees to amend the document entitled, *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations*, dated December 15, 2011, as follows:

21. A new footnote shall be inserted at the end of Conditions in paragraph 28 on page 9 as follows:

“The MDBs will determine, in accordance with its policies and procedures, if and what action shall be taken to protect, defend or secure the interests of the CTF guarantee; provided that the procedures set out in Paragraph 5 and 6 of Annex A shall mutatis mutandis apply to such action. Accordingly, (i) the MDB will, where reasonably feasible, consult with the Trust Fund Committee and relevant contributors to the Trust Fund, as applicable, on its proposed course of action, and (ii) Trust Fund resources shall be allocated to reimburse the MDB the costs incurred by it in connection with the MDB’s action, in both cases, in accordance with Paragraphs 5 and 6 of Annex A.”

22. The Trust Fund Committee requests the CIF Administrative Unit to post on the CIF website, subsequent to the approval of the proposed amendment, a revised document.

**AGENDA ITEM 12. OTHER BUSINESS**

23. No other business was raised.

**AGENDA ITEM 13. CLOSING**

24. The meeting was closed on October 29, 2013.