Response from the MDB--Approval by mail: CTF India: Partial Risk Sharing Facility for Energy Efficiency (PRSF)

Comment from Canada (June 12, 2014): As previously noted, the blending of CTF and MDB resources for all CTF projects is an important principle and risk mitigant. The current project does not appear to meet the MDB co-financing requirement, as it is not clear whether the World Bank Group will provide any financing; while GEF funding is an important source of co-financing, the GEF is an independent institution that is not part of the World Bank Group. As such, we request further information from the IBRD as to whether it intends to make any investment in the proposed partial risk sharing facility and, if not, to inform us if there are any considerations that the CTF Committee should take into consideration to justify an exception in this case.

Team Response: The proposed financing structure of PRSF is consistent with the CTF Investment Plan for India which did not envisage any WB co-financing at this stage. The project is designed as a pilot and, if successful, could be scaled up with IBRD or other MDB support. Blending is being done with GEF resources (similar to the precedent set by the CTF-approved Philippines ECPCG project) and with capital mobilization from the private sector. IBRD is close to reaching its Single Borrower Limit in India, which means that it has to carefully consider the availability of its lending envelope and timing of interventions. In the case of PRSF, this means that IBRD could consider scaling up the program after completion of the initial market-making activities, assuming that the program would need additional capital resources.

Based on the CTF Governance Framework Document (revised in 2011) and CTF Financing Products, Terms and Review Procedures for Public Sector Operations Paper (CTF Public Sector Financing Paper) (revised in November 2013), we do not believe that there is an explicit requirement for MDB co-financing for CTF operations. While MDB co-financing is expected for CTF operations, this is not specified as a requirement for every operation in CTF guidance documents. We believe that the development of stand-alone operations is justified in certain cases particularly when innovative instruments or business models are proposed. Such innovation is very much consistent with CTF design principles and in some cases the mobilization of MDB financing might be more appropriate for scaling-up and accelerate deployment of low carbon technologies.

Mitigation of risks to CTF has been one of the guiding principles behind PRSF project design. Each guarantee claim made to PRSF will undergo independent monitoring and verification to validate its eligibility. As a condition for payment on eligible claims, PFIs are required to have started legal proceedings or loan restructuring to seek recoveries and minimize the amounts of loan default. All eventual losses will be shared with the PFIs through partial guarantee coverage. The first losses for the Partial Risk Sharing Facility would be absorbed by the GEF funds. Any surplus income from interest and guarantee fee earnings could be used as an additional cash buffer. The CTF Guarantee would function strictly as a second-loss cash reserve to be called if guarantee payouts exceed 15% of the amount of all guarantees issued, which is a highly conservative assumption based on the World Bank’s global experience. However, if the amount of guarantee payouts from the PRSF exceeds the equivalent of US$7 million, i.e. actual losses approach the 15% level, the stop-loss provisions in the legal agreements between IBRD/CTF and SIDBI would require SIDBI to halt issuance of further guarantees. In the base case analysis, no amount of CTF Guarantee is expected to be called during the life of the program. Using the CTF Guarantee as a second-loss reserve to backstop
GEF funds is similar to the innovative capitalization structure proposed as part of the Philippines Electric Cooperative Partial Credit Guarantee Program (EC-PCG), which was approved by CTF in 2013 (the project is currently pending final approval from the Government of Philippines).