CIF CLIMATE INVESTMENT FUNDS

Investing in the future

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C. (Virtual)
Tuesday, November 17, 2020

CLIMATE INVESTMENT FUNDS FINANCIAL TERMS AND CONDITIONS (SUMMARY)

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PROPOSED DECISION

The Joint meeting of the CTF and SCF Trust Fund Committees, recalls its decision made in April 2020 on the CIF's proposed new action areas, for the CIF Administrative Unit, in collaboration with the MDBs, to take any and all steps, approvals and actions that are necessary to implement the new action areas under the SCF, including preparing or amending legal and operational documents. As part of preparation for the new action areas, the CIF Administrative Unit, in collaboration with the MDB, is presenting a policy on the *Climate Investment Funds Financial Terms and Conditions.*

The Joint meeting notes that the lending terms of the CIF have not been revised since the inception of the CTF and SCF and welcome the updated proposal CTF-SCF/TFC.23/5 *Climate Investment Funds Financial Terms and Conditions*, establishing one common pricing policy for all CIF programs.

The Joint meeting, having reviewed the document CTF-SCF/TFC.23/5 *Climate Investment Funds Financial Terms and Conditions,* approves the document and notes that the financing terms and conditions contained herein will apply to all new CTF and SCF operations that are approved by the relevant Trust Fund Committee from and including July 1, 2021. The Joint meeting further notes that the document supersedes Section 6.1 *Financing modalities – Financing terms* of the document Joint CTF-SCF/TFC.22/4 *Operational Modalities for the Climate Investment Funds' New Strategic Programs*, with regards to financing terms proposed for the CIF's new strategic programs under SCF.

The Joint meeting, recognizing this document does not include analysis of the types of additional financial products that may be deployed by MDBs in future programming to optimize the impact of CIF resources, requests the CIF Administrative Unit, in collaboration with the MDBs and the Trustee, to undertake an analysis of new and/or potentially innovative financial products that can be deployed under future CIF operations.

1. Introduction

Following the CTF and SCF Trust Fund Committees review of the CIF Operational Modalities document for the Climate Investment Funds' New Strategic Programs in April 2020, the CIFAU received feedback with regards to the pricing levels proposed, and the corresponding level of concessionality implied, and whether these are adequate to enable the transformational interventions envisioned for CIF.

The CIFAU agreed to review the CIF pricing and other significant financial terms and conditions to determine whether enhancements to the pricing model should be presented for consideration.

This resulting policy establishes the terms and conditions of the financing products for which the multilateral development banks (MDBs) may deploy Climate Investment Funds (CIF) resources. The policy will apply to all CTF and SCF operations, beginning July 1, 2021. This policy document also supersedes Section 6.1 *Financing modalities - Financing terms* of the *Operational Modalities* document, with regards to financing terms proposed for the CIF's new strategic programs under SCF.

2. Principles

For context, the policy provides the general principles for the use of CIF concessional resources for both public and private sector programs and projects, which were originally stated in the CIF Operational Modalities document.

3. Financing modalities

The policy addresses CIF resources used to finance *investment operations* and *blended finance investment operations*. This Policy does not address matters pertaining to *technical assistance and advisory services* and *costs related to MDB project implementation and supervision services* (which are addressed in the CIF Operational Modalities document).

4. Financial terms and conditions – Grants and Public Sector Concessional Loans

The allocation of CIF concessional resources for public sector projects is based on the application of country-based criteria, as follows:

i) First, to determine the mix of funds (grants vs loans) that CIF-eligible countries can access for public sector projects; and
ii) Second, to determine the terms, where concessional loans are provided.

Table 1. CIF product mix

CIF product mix			
Low Income Countries			**Middle Income Countries**
High Risk Countries	**Moderate Risk Countries**	**Low Risk Countries**	
100% grants	50% grants 50% loans	100% loans [a.]	100% loans [a.]

a. Grants considered on an exception basis.

The product mix for CIF-eligible low-income countries shall consider countries' relative risk of debt distress, as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology.

CIF offers concessional public sector loans on three sets of terms: Tier 1, Tier 2 and Tier 3:

i) *Tier 1 Terms*: A country classified as an IDA-only Country and/or a Small State Economy under IDA classifications, or the CIF MDB implementing entities' equivalent;
ii) *Tier 2 Terms*: A country classified as a Gap Country or a Blend Country, except Small State Economies, under IDA classifications, or the CIF MDB implementing entities' equivalent; and
iii) *Tier 3 Terms:* A country which holds Official Development Assistance (ODA)-eligibility status but does not fall under the CIF Tier 1 or Tier 2 classifications.

In instances where a CIF-eligible country is classified differently across the CIF implementing entity MDBs, the more favorable tier classification has been applied for that country.

Table 2. Public sector lending terms and conditions

Public Sector Lending Terms				
CIF country classification	**Tier 1**	**Tier 2**	**Tier 3**	
			A	**B**
Lending rate (fixed rate)	*Percentage of IDA-only Regular service charge*			
	40%	*60%*	*75%*	*90%*
Currency	USD and EUR[1]			
Lending rate (July 1, 2020) **USD** **EUR**	 0.52% 0.30%	 0.79% 0.45%	 0.98% 0.56%	 1.18% 0.68%
Grant element **USD** **EUR**	 64% 67%	 52% 56%	 40% 44%	 45% 51%
Maturity (years)	Up to 40	Up to 30	Up to 20	Up to 30
Grace period (years)	10	10	8	8
Principal repayments	20% during first third of the repayment period and 80% during last 2/3rd of the repayment period	Equal semi-annual Installments after grace period		

5. Financial terms and conditions – Public Sector Guarantees

a) Guarantee pricing**:** a per annum guarantee fee of 25 bps will be charged.
b) Eligibility**:** CIF provides guarantees to CIF-eligible middle-income countries and CIF-eligible low-income countries at low or moderate risk of debt distress.
c) Currency**:** either USD or EUR.

[1] CIF concessional financing will be provided in USD or EUR, on a fixed rate basis (based on IDA-only Regular service charge rates for USD and EUR, respectively). Local currencies to be considered on a case-by-case basis by the TFC.

d) Fund management: In order to maintain the creditworthiness of the guarantor in the eyes of commercial financiers, the MDB will retain CIF funds in an amount to match guarantees committed on a one-to-one basis.

6. Financial terms and conditions – Private Sector Projects

Private sector project recipients refer to private companies, sub-sovereign and commercially-oriented state-owned enterprises, that can access non-sovereign guaranteed financing according to the policies of the MDBs. The degree of concessionality of CIF resources for private sector projects shall be determined by MDBs on a case-by-case basis. The types of financial instruments that MDBs might use to deploy CIF concessional resources for such private sector projects will be project specific and subject to CIF requirements and approvals by the relevant CIF governing body.

7. Eligibility for concessional funds: initial and ongoing

Initial eligibility:

i) a country will be deemed eligible for CIF resources, if the country holds ODA-eligibility status at the time of the relevant CIF governing body inviting a country into a CIF Program.
ii) CIF will confirm a recipient country's eligibility status and apply the resultant product mix and lending terms effective at the time of CIF funding approval by the relevant CIF governing body for a particular program or project.

Graduation within CIF lending categories: These instances may include:

i) Where a country moves from high risk to moderate risk or from moderate risk to low risk; or
ii) Where a country moves from Tier 1 to Tier 2, or from Tier 2 to Tier 3.

In these instances, there will be no change to terms and conditions associated with CIF projects or programs already approved by the relevant CIF governing body and/or outstanding. Projects or programs not yet approved by the relevant CIF governing body will be subject to the product mix and terms in effect at the time of approval by the relevant CIF governing body.

Graduation beyond Tier 3: Applies when a country exceeds the high-income threshold and no longer meets ODA-eligibility criteria. CIF projects or programs already approved by the relevant CIF governing body and/or outstanding at the time of the country's graduation beyond Tier 3 would not be affected. Pricing for CIF projects or programs under preparation that are not yet approved by the relevant CIF governing body would be considered on a case-by-case basis by the TFC.

Reversals: These instances may include:

i) Where a country ceases to be creditworthy for the implementing entity MDB's non-concessional financing and now meets the ODA eligibility criteria for CIF financing;
ii) Where a country moves from low risk to moderate risk or from moderate risk to high risk;
iii) Where a country moves from Tier 3 to Tier 2 or from Tier 2 to Tier 1.

Any downgrade in a country's status which results in eligibility for more favorable financial terms associated with approved CIF instruments or eligibility to a greater mix of grants (rather than loans) as a result of a downgrade, will be considered and approved, where applicable, by the TFC based on an assessment of overall CIF resource availability and impact on CIF's risk profile at that time.

8. Periodic review of terms and conditions

An annual update will be prepared and submitted to the TFC for information purposes, to reflect changes in: i) lending and guarantee rates, ii) CIF eligible countries, based on ODA-eligibility status; iii) CIF countries' relative risk of debt distress, and iv) CIF country classifications (tiers).

A biennial review of policy-related matters, including rates, maturity, grace period, country eligibility criteria, for CIF public sector financings; for presentation and recommendations for consideration by the TFC.

9. **Exceptions:** may be submitted to the TFC for their consideration and approval, subject to justification and documentation of rationale supporting the exception to the Policy and subject to the terms of the CTF and/or SCF Contribution Agreements/Arrangements and applicable Standard Provisions.