

**Approved by Mail: Use of Local Currency for Private Sector Projects under the CTF Trust Fund: Proposed Tools and Instruments to Support Local Currency Operations**

As agreed at its meeting on October 28, 2013 and taking into account subsequent consultations, the CTF Trust Fund Committee confirms that, 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, it agrees, subject to the understandings listed below, 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).

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) that, with the exception of the project proposal for a private sector investment for concentrated solar power in South Africa under development by the AfDB, tools 1 and 2 will not be proposed in a program or project proposal submitted for approval of CTF funding until the Senior Risk Management Officer is in place and the ERM dashboard is operational. This is on the understanding that both the Senior Risk Management Officer and the ERM dashboard will be in place by the end of the first quarter of 2014.

However, if there are unforeseen delays in hiring the Senior Risk Management Officer and/or launching the ERM dashboard, an MDB may request the CIF Administrative Unit, the Trustee and CTF Committee Co-Chairs to forward a proposal for using tools 1 and 2 to the Committee for review and approval in the interim period;

c) 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;

d) 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 that any cost associated with a potential prepayment, redeployment or unwinding/breakage will not be borne by the CTF Trust Fund;<sup>1</sup>

e) to consider Tools 5 and 6 at its next meeting, given that the ERM framework and Senior Risk Management Specialist will be in place.

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

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.

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<sup>1</sup> *except costs of unwinding/breakage of hedging instruments triggered by an event of default by the borrower under Tool 2. Such costs will be covered by the CTF Trust Fund subject to availability of resources, if requested by the MDB and approved by the Trust Fund Committee, taking into account the principles regarding contributions to the CTF specified in paragraph 7 of the CTF Financing Products, Terms and Review Procedures for Private Sector Operations.*