Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C. (Virtual)
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CLIMATE INVESTMENT FUNDS FINANCIAL TERMS AND CONDITIONS

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Joint CTF-SCF/TFC.23/5
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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.

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1. Introduction

1. The purpose of this document is to establish the terms and conditions of the financing products for which the multilateral development banks (MDBs) may deploy Climate Investment Funds (CIF) resources for future CIF operations.

2. On April 6th, 2020, the CTF and SCF Trust Fund Committees (TFC) reviewed the *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]*[1] document (the 'CIF Operational Modalities' document) and requested that the CIF Administrative Unit (CIFAU) and the Trustee work together to implement the operational modalities as set out in the document[2] for the four new action areas outlined below:

   (i) Climate-Smart Urbanization;
   (ii) Integration of Renewable Energy into Power Systems;
   (iii) Nature, People and Climate Investments; and,
   (iv) Accelerating Low-Carbon, Climate-Resilient Transition in Industry.

3. Following the document's review, the CIFAU received feedback on Section 6.1 (*Financing modalities - Financing terms)* 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.

4. 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. The document *Comparative Analysis of Historical Financing Terms for the Climate Investment Funds and other Development Finance Institutions* [3] was prepared, as an information brief, to inform and guide the recommendations of financial terms and conditions contained herein.

5. The resulting policy, *Climate Investment Funds Financial Terms and Conditions*, includes the financing terms and conditions that will apply to all new CTF and SCF operations that are approved by the relevant Trust Fund Committee from and including July 1, 2021. This policy document also supersedes Section 6.1 *Financing modalities - Financing terms* of the *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]* document, with regards to financing terms proposed for the CIF's new strategic programs under SCF.

6. The following documents are also relevant to the financial terms and conditions of the CIF's new strategic programs:

   (a) *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]*, Joint CTF-SCF/TFC.22/4, dated March 4, 2020;
   (b) *Country Selection Process for the Climate Investment Funds' New [Strategic Programs],* approved in October 2020, dated October 7, 2020*;*
   (c) *Governance Framework for the Strategic Climate Fund,* Adopted November 2008 and amended December 2011; and

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[1] The establishment of Programs under SCF for the new action areas will be subject to the criteria stipulated in the SCF Governance Framework.

[2] Decision text of the Joint Meeting of the CTF and SCF Trust Fund Committees, available here: https://www.climateinvestmentfunds.org/sites/cif_enc/files/events/files/joint_meeting_of_ctf_and_sfc_tfc_march_2020_approved_decision1.pdf

[3] The document *Comparative Analysis of Historical Financing Terms for the Climate Investment Funds and other Development Finance Institutions* is provided under Annex 3.

(d) *Governance Framework for the Climate Investment Fund,* Adopted November 2008 and amended June 2014.

2. Principles and guidelines for using CIF concessional resources

7. The *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]* document defines general principles for the use of CIF concessional resources for both public and private sector programs and projects.[4]

- *Economic rationale for using blended concessional finance*: CIF concessional resources should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. They should be used to address institutional and market failures or other barriers that would not make a given intervention possible. CIF concessional financing should be used when MDBs' own standard financial products are insufficient to catalyze the investment, and if the project would not happen without it.
- *Crowding-in and minimum concessionality*: MDBs use of CIF concessional resources should, to the extent possible, contribute to catalyzing market development and mobilizing resources from other sources, particularly from the private sector, and minimize the use of concessional resources. The degree of concessionality should seek to address as directly as possible critical gaps in the financing structure and to minimize the need for future, ongoing concessionality. Where possible, the level of concessionality should be sized relative to the value of the externality[5] or obstacle identified.
- *Commercial sustainability*: The deployment of CIF concessional resources should envision a strategy to phase out concessional support over time to achieve long-term financial sustainability or market viability and avoid dependence on a continuous flow of concessional resources. The CIF subsidy element of the investment should be transparent, targeted to address specific financing gaps, and time bound, with credible expectations that future investments in a similar project in a given sector will gradually require lesser levels of concessionality as market failures or other obstacles are reduced. The impact achieved by the intervention supported with CIF concessional resources should aim to be sustainable over time once CIF resources are no longer available/have been used.
- *Reinforcing markets*: MDBs use of concessional resources should be structured to effectively and efficiently address institutional and market failures and minimize the risk of disrupting or unduly distorting markets or crowding out private finance, including new entrants.
- *Promoting high standards*: MDBs use of concessional resources should seek to promote adherence to high standards of conduct in their clients, including in the areas of corporate governance, environmental impact, gender equality and social inclusion, transparency, integrity, and disclosure.

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[4] These CIF general principals have been developed from the following frameworks: PPCR (2009), *Programming and Financing Modalities For The SCF Targeted Program, The Pilot Program For Climate Resilience (PPCR)*; FIP (2010), *Investment Criteria and Financing Modalities*; SREP (2010), *SREP Financing Modalities*; CTF (2012), *CTF Private Sector Operations*; CTF (2015), *Financing Products, Terms, and Review Procedures for Public Sector Operations*; GCF/B.10/06 (2015), *Level of Concessional Terms for the Public Sector*; GCF/B.19/12/Rev.01, *Concessionality: Potential Approaches for further Guidance*. In the context of private sector operations, and the principles to which CIF partner MDBs will adhere to, see the *Enhanced Principles for Blended Concessional Finance for Private Sector Operations* agreed by the Heads of MDBs and European Development Finance Institutions in October 2017 https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=lYCLe0B , which defines common guidelines that provide a framework that allows each institution to formalize the Enhanced Principles within their own processes, varying mandates and operational contexts.

[5] The existence of an externality is not in itself justification for concessional financing. The principles in this section will apply.

8. In addition to the general principles outlined above, in order to ensure the sound financial management of CIF's future operations, the following guidelines will be taken into account in determining financing terms:

    - Recognition that the MDBs each have their own unique pricing policies which have been developed over time to meet their individual organization's needs and the needs of their various stakeholders.
    - CIF pricing, in general, needs to be more concessional than MDBs' own lending terms, in order to incentivize MDBs and recipient countries to take on the transformative initiatives underpinning CIF's mandate.
    - Outgoing funding cannot be more concessional than incoming contributors' contributions, therefore, the degree of concessionality of CIF resources will be dependent on the type of contributions received.
    - CIF will seek to use its resources to maximise total investment in the near term. Public and private sector investment projects may use CIF capital grants (performance payments, interest rate subsidies, capital grants and other instruments) in place of, or alongside, other financial instruments (including senior and subordinated loans and equity) provided donor resources are available to support such grants.[6]

3. Financing modalities

9. The *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]* document provides that CIF's concessional resources can be used through a broad range of financing instruments that can be made available through MDBs to address the variety of context-specific barriers and risks to climate action. CIF resources are expected to be used to finance the following main type of operations:

    - *Technical assistance and advisory services for public and private sector operations:* Provision of (i) non-reimbursable technical cooperation operations and advisory services or ii) contingent recovery technical cooperation operations supportive of investment operations, blended finance operations, or "upstream" analyses carried out for identifying investment opportunities, creating markets, or advancing the development of innovative financing structures or business models.
    - *Costs related to MDB Project Implementation and Supervision Services (MPIS) for preparation and supervision of investments and technical assistance and advisory services interventions (MDBs fees):* Costs include MDBs' expenditures relating to managing the project cycle and covering the incremental staff, consultant, travel, and related costs of project development, implementation, supervision and reporting.
    - *Investment operations:* Provision of reimbursable or non-reimbursable concessional resources to MDBs for the implementation of public sector program and project interventions, which may take the form of investment grants, concessional loans, guarantees, or a combination of these.
    - *Blended finance investment operations:* Provision of reimbursable concessional resources to MDBs for private sector projects, which may consist of debt instruments at softer terms and conditions, local currency financing, or risk mitigation instruments such as guarantees, or equity investments, among other financial instruments

10. This Policy does not address matters pertaining to *technical assistance and advisory services* and *costs related to MDB project implementation and supervision services,* described above. Section 7 *Modalities*

[6] In accordance with the terms of this Policy, including Section 9. Exceptions, where applicable.

for MDB Cost Recovery of the *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]* document should be consulted for information on these financing modalities.

11. This Policy provides the financial terms and conditions for CIF resources used to finance *investment operations* and *blended finance investment operations*, described above. The scope of financial instruments to which this Policy applies are based on Section 6.2 *Financing instruments* of the *Operational Modalities for the Climate Investment Funds' New [Strategic Programs]* document.

12. Exceptions for innovative project financing instruments, such as interest rate subsidies, additional types of guarantee products, and other financing arrangements, may be considered for all CIF-eligible countries, subject to the requirements outlined in Section 9 of this Policy.

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

a) Public sector programs and projects

13. Grant recipients may be a sovereign government, sub-national government, state-owned utility, or any other public sector entity which implements the proposed CIF project or program. Concessional lending includes: (a) lending to sovereign governments; (b) lending to sovereign governments for on-lending to sub-national entities; or, (c) lending to sub-national entities, state-owned utilities or any other public sector entity. [7] Consistent with MDBs' standard lending practice, they will not be required to seek a guarantee or security for CIF loans to sovereign governments. If a CIF loan is made to a sub-national entity, the member country will be required to guarantee the loan to be able to access public sector lending terms and conditions for the loan.

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

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

    The mix of funds, or product mix, is described in Section 4.b) Product mix, while the lending terms are provided in Section 4.c) Lending terms and conditions, below.

b) Product mix

The following table presents the product mix provided for CIF public sector financings.

[7] Sub-national entities would be eligible for support under either the public or the private sector window depending upon the source of complementary multilateral support. CIF financing could also be provided to special purpose vehicles owned either by the private sector or owned in part by the private sector and the government to carry out a project on a limited recourse basis where the resources for the project are derived from government entities. Such entities would be eligible for support under either the public or private sector windows depending upon the source of complementary multilateral support.

Table 1. CIF product mix

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

a. Countries are deemed eligible for CIF concessional resources if holding the Official Development Assistance (ODA)-eligibility status at the time of selection and approval by the relevant CIF governing body. The Organization for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) list of ODA recipients is available on the OECD websitehttp://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm . See also Annex 1.
b. Low income countries are IDA-eligible countries (or MDB equivalent). High risk, moderate risk and low risk classifications based on the Joint World Bank-IMF Debt Sustainability Framework. See latest Debt Sustainability Analysis by country on IMF's website: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf.
c. A country which holds Official Development Assistance-eligibility status but is not considered a low-income country as defined in b. above.
d. Grants to be considered on an exception basis.

15. Grants may include investment grants, convertible grants and contingent recovery grants. Concessional loans may include development policy loans and other concessional loans.

16. *CIF-eligible low income countries:* 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.[8] As a result, countries in debt distress or at high-risk of debt distress are eligible to receive 100 percent of CIF financing as grants. Countries at moderate risk of debt distress are eligible to receive 50 percent of CIF financing as grants and the remaining 50 percent as credits, while countries at low risk are eligible to receive 100 percent of CIF project financing as credits, with grants considered on an exception basis, subject to the requirements outlined in Section 9.

    CIF-eligible middle-income countries: Lower middle income and upper middle-income countries are eligible to receive 100 percent of CIF project financing as credits, with grants considered on an exception basis, subject to the requirements outlined in Section 9.

c) Lending terms and conditions:

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

    a. *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;
    b. *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

[8] Please refer to the IMF's website https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries for more information.

c. *Tier 3 Terms:* A country which holds Official Development Assistance (ODA)-eligibility status[9], but does not fall under the CIF Tier 1 or Tier 2 classifications.

18. 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.

The following table presents the terms and conditions of CIF concessional loans provided to the public sector.

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 [a.]	*Percentage of IDA-only Regular service charge*			
	40%	*60%*	*75%*	*90%*
Currency [b.]	USD and EUR			
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 [c.] **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 [d.]	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		

a. Refer to IDA's website https://treasury.worldbank.org/en/about/unit/treasury/ida-financial-products/lending-rates-and-fees for the latest IDA-only Regular service charge rates.
b. CIF concessional financing will be provided in USD or EUR (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.
c. Calculated in accordance with IMF-World Bank methodology. See IMF website for further details. https://www.imf.org/external/np/pdr/conc/calculator/default.aspx. Tier 1 grant element represents tailored calculation due to the non-standard principal repayment terms associated with this loan type.
d. For Tier 1, illustrative principal repayment schedule for a loan with a 40-year maturity and a 10-year grace period: 2% principal repayment for years 11-20 and 4% principal repayment for years 21-40.

19. Annex 2 provides a listing of CIF-eligible countries' relative risk of debt distress, product mix, and, where applicable, their tier classification.

[9] The Organization for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) list of ODA recipients is available on the OECD websitehttp://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm . See also Annex 1.

d) Other terms:

I. *Currencies:* CIF grants and public sector loans are offered in either USD or EUR. Local currency funding to be considered on a case-by-case basis by the TFC. [10]
II. *Lending rate*: For every CIF public sector loan, a fixed interest charge is payable semi-annually on the principal amount withdrawn and outstanding.
III. *Other:* In cases where sovereign governments borrow from the MDBs for on-lending to sub-national governments, MDBs will specify in the financing agreements that the pricing of CIF concessional resources must be maintained.

5. Financial terms and conditions – Public Sector Guarantees

20. Public sector guarantees include guarantee arrangements where the CIF guarantees the obligations of a sovereign government, sub-national government, state-owned utility, or any other public sector entity which implements the proposed public sector low carbon technology project or program.

a) Types of public sector guarantees:

21. CIF resources may be deployed for two categories of guarantee products:

I. Loan Guarantees which cover the loss to private lenders on account of debt service default by public sector borrowers, up to an agreed portion of the actual loss, with a view to extending maturities of commercial loans for low carbon projects so that they are competitive with base case technologies, or to address specific incremental operating or construction risks that could cause default.
II. Contingent Finance guarantees disbursed to the project upon underperformance of a low carbon technology and where such risk is not commercially insurable at reasonable costs or has occurred beyond the period for which commercial insurance is available.

b) Guarantee pricing:

22. Table 3 provides the pricing for CIF public sector guarantees.

Table 3. CIF public sector guarantee pricing

Charges	Fees	Public Projects
Upfront Charges *(one-time fees charge on guarantee amount)*	**Processing**	-
	Initiation	-
Recurring Charges *(per annum)*	**Standby**	-
	Guarantee [a.]	25 bps

a. For loan guarantees, the fee is charged on the disbursed and outstanding amounts of the guaranteed financing and for contingent finance guarantees, the fee is charged on the committed and undisbursed balance of the contingent finance.

[10] Pending development of a local currency funding policy for CIF public sector operations.

c) **Other terms:**

a) **Eligibility**: CIF provides guarantees to CIF-eligible middle-income countries and CIF-eligible low-income countries at low or moderate risk of debt distress, using the same eligibility criteria set out in Section 4 of this policy.

b) **Currencies**: CIF guarantees are offered in either USD or EUR.

c) **Guarantee charge:** CIF guarantee rates will be offered based on CIF pricing in place at the time of approval. Once the guarantee-related fees are fixed for a specific guarantee, they will remain unchanged for the life of that guarantee. See Table 3 for pricing.

d) **Maturity limits**: CIF's financial exposure under CIF loan guarantees is subject to the same maximum allowable final maturity limits as those applicable to CIF public sector loans as set out under Section 4. Table 2, as applicable to the member country. The term of contingent finance guarantees will be decided on a case-by-case basis, not exceeding 20 years.

e) **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.

f) **Counter-guarantee:** No requirement for sovereign government indemnity for any CIF guarantee. Credit risk exposure under the CIF financing will be borne by the relevant CIF trust fund.

g) **Ongoing eligibility**. Consistent with IDA guarantees provided on a concessional basis, approved and/or outstanding guarantees provided by CIF will not be subject to transition requirements, as outlined in Section 7.

6. Financial terms and conditions – Private Sector Projects

23. 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.

24. For private sector projects, the degree of concessionality of CIF resources shall be determined by MDBs on a case-by-case basis, implementing the common guidelines of the Enhanced Blended Concessional Finance Principles for Private Sector Investment Operations agreed by the heads of MDBs and European Development Finance Institutions in October 2017, within their own processes and operational contexts.[11]

25. CIF concessional finance for such projects may be provided through a variety of instruments utilized by the MDBs for lending, investing and providing technical assistance and advisory services. Types of financial instruments that MDBs might use to deploy CIF concessional resources for such projects will be

[11]Joint-DFIs (2017), DFI Working Group on Blended Concessional Finance for Private Sector Projects; Summary Report 2017 https://www.ifc.org/wps/wcm/connect/a8398ed6-55d0-4cc4-95aa-bcbabe39f79f/DFI+Blended+Concessional+Finance+for+Private+Sector+Operations_Summary+R....pdf?MOD=AJPERES&CVID=lYCLe0B , DFI Working Group on Blended Concessional Finance for Private Sector Projects – Joint Report, October 2018 Update. https://www.ifc.org/wps/wcm/connect/3aaf1c1a-11a8-4f21-bf26-e76e1a6bc912/201810_DFI-Blended-Finance-Report.pdf?MOD=AJPERES&CVID=mpvbN7c

project specific and subject to CIF requirements[12] and approvals by the relevant CIF governing body. Examples of financing instruments (non-exhaustive) include convertible grants and contingent recovery grants, contingent recovery loans, subordinated loans/mezzanine instruments, equity, guarantees, senior/subordinated loans in USD or EUR, and senior/subordinated loans in local currency.[13]

7. Eligibility for concessional funds: initial and ongoing

a) Initial eligibility:

26. As noted in Section 1 of the *Country Selection Process for the Climate Investment Funds' New [Strategic Programs]* document, a country will be deemed eligible for CIF concessional resources under the new CIF programs, if the country holds ODA-eligibility status at the time of the relevant CIF governing body inviting a country into a CIF Program.

27. 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.

b) Ongoing eligibility:

28. The timelines for CIF's programs span many years, during which time a country's relative risk of debt distress (indicated in Table 1), its borrowing status (Tier) (indicated in Table 2), or its ODA eligibility might change (graduation or reversal, as described below).

c) Graduation:

29. CIF will adopt a transition framework, similar to what many of the MDBs have in place themselves, to account for instances when a country 'graduates' from one lending category to another while recognizing a country's ongoing eligibility to receive concessional funds in support of lending activities under CIF programs.

<u>*Graduation within CIF lending categories*</u>:

i. Where a country moves from high risk to moderate risk or from moderate risk to low risk, as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology; or

ii. Where a country moves from Tier 1 to Tier 2, or from Tier 2 to Tier 3, as defined in Section 4 of this Policy.

30. 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. CIF lending rates and repayment terms, once fixed for a project or program, will remain unchanged for the life of that particular CIF program or project. 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.

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[12] Refer to *Operational Modalities for the Climate Investment Funds' New Strategic Programs,* Joint CTF-SCF/TFC.22/4, dated March 4, 2020, Section 6.2 Financing instruments, for further information.

[13] Current guidance for use of local currency for private sector operations includes the following CTF policy: https://www.climateinvestmentfunds.org/sites/cif_enc/files/meeting-documents/ctf_tfc.12_9_use_of_local_currency_0.pdf

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

d) Reversals:

32. When a recipient country's economic condition has deteriorated significantly, and the recipient country has outstanding CIF loans, CIF may, if the recipient requests, examine the feasibility of offering additional concessionality. 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 financing provided to CIF-eligible countries, or
   ii) Where a country moves from low risk to moderate risk or from moderate risk to high risk as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology; or
   iii) Where a country moves from Tier 3 to Tier 2 or from Tier 2 to Tier 1, as defined in Section 4 of this Policy.

33. 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[14] and impact on CIF's risk profile at that time.

e) Approvals:

34. Any change in lending terms or product mix to a recipient country under Section 7 of this Policy would be subject to the review and approval by the TFC.

8. Periodic review of terms and conditions

35. To ensure the continued relevance of the CIF pricing and other terms and conditions, the following review cycle will be implemented:

- An annual update to this document will be prepared by July 1 of each year, to reflect changes in:
   i) lending and guarantee rates, applicable for new CIF public sector financings, arising from assessments carried out in accordance with this Policy;
   ii) CIF eligible countries, based on ODA-eligibility status;
   iii) CIF countries' relative risk of debt distress, as defined by the Joint World Bank-IMF debt sustainability framework (which determines CIF public sector product mix eligibility); and
   iv) CIF country classifications (tiers) applicable for new CIF public sector financings.

   These updates will be submitted to the TFC for information purposes; and

[14] Subject to the terms of the CTF and/or SCF Contribution Agreements/Arrangements and applicable Standard Provisions.

- A biennial[15] review of policy-related matters pertaining to financial terms and conditions, including lending and guarantee rates, maturity, grace period, and country eligibility criteria, for CIF public sector financings; and, where relevant, the presentation of recommendations for consideration by the TFC.

9. Exceptions

36. Exceptions to this Policy are not normally considered. However, under extraordinary country, project or program circumstances, exceptions to the terms and conditions outlined in this Policy 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.

[15] Or more frequently, as required, to address TFC requests, or to reflect impacts arising from changes in CIF-related policy matters.

10. Annex 1: DAC List of ODA Recipients

Effective for reporting on 2020 flows[16]

Least Developed Countries	**Other Low-Income Countries** (per capita GNI <= $1 005 in 2016)	**Lower Middle-Income Countries and Territories** (per capita GNI $1 006-$3 955 in 2016)	**Upper Middle-Income Countries and Territories** (per capita GNI $3 956-$12 235 in 2016)
Afghanistan Angola [a] Bangladesh Benin Bhutan [a] Burkina Faso Burundi Cambodia Central African Republic Chad Comoros Democratic Republic of the Congo Djibouti Eritrea Ethiopia Gambia Guinea Guinea-Bissau Haiti Kiribati Lao People's Democratic Republic Lesotho Liberia Madagascar Malawi Mali Mauritania Mozambique Myanmar Nepal Niger Rwanda Sao Tome and Principe [a]	Democratic People's Republic of Korea Zimbabwe	Armenia Bolivia Cabo Verde Cameroon Congo Côte d'Ivoire Egypt El Salvador Eswatini Georgia Ghana Guatemala Honduras India Indonesia Jordan Kenya Kosovo Kyrgyzstan Micronesia Moldova Mongolia Morocco Nicaragua Nigeria Pakistan Papua New Guinea Philippines Sri Lanka Syrian Arab Republic Tajikistan Tokelau Tunisia Ukraine Uzbekistan	Albania Algeria Antigua and Barbuda [b] Argentina Azerbaijan Belarus Belize Bosnia and Herzegovina Botswana Brazil China (People's Republic of) Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador Equatorial Guinea Fiji Gabon Grenada Guyana Iran Iraq Jamaica Kazakhstan Lebanon Libya Malaysia Maldives Marshall Islands Mauritius Mexico Montenegro Montserrat

[16] Source: The Organization for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) list of ODA recipients is available on the OECD websitehttp://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm .

Senegal Sierra Leone Solomon Islands [a.] Somalia South Sudan Sudan Tanzania Timor-Leste Togo Tuvalu Uganda Vanuatu [a.] Yemen Zambia		Viet Nam West Bank and Gaza Strip	Namibia Nauru Niue North Macedonia Palau [b.] Panama [b.] Paraguay Peru Saint Helena Saint Lucia Saint Vincent and the Grenadines Samoa Serbia South Africa Suriname Thailand Tonga Turkey Turkmenistan Venezuela Wallis and Futuna

a. General Assembly resolution A/RES/70/253, adopted on 12 February 2016, decided that Angola will graduate on 12 February 2021. General Assembly resolution A/73/L.40/Rev.1, adopted on 13 December 2018, decided that Bhutan will graduate on 13 December 2023 and that Sao Tomé and Principe and Solomon Islands will graduate on 13 December 2024. General Assembly resolution A/RES/68/18, adopted on 4 December 2013, decided that Vanuatu will graduate on 4 December 2017. General Assembly resolution A/RES/70/78, adopted on 9 December 2015, decided to extend the preparatory period before graduation for Vanuatu by three years, until 4 December 2020, due to the unique disruption caused to the economic and social progress of Vanuatu by Cyclone Pam.

b. According to World Bank data from 10 July 2019, Antigua and Barbuda, Palau and Panama exceeded the high-income threshold in 2017 and 2018. In accordance with the DAC rules for revision of this List, if they remain high income countries until 2019, they will be proposed for graduation from the List in the 2020 review.

11. Annex 2: CIF-eligible countries [17]

CIF-ELIGIBLE LOW-INCOME COUNTRIES			
COUNTRY	**RISK OF DEBT DISTRESS** [18]	**PRODUCT MIX**[19]	**CIF LENDING TERMS** [20]
Afghanistan	High	100% grants	Tier 1
Bangladesh	Low	100% loans	Tier 2
Benin	Moderate	50% grants/50% loans	Tier 1
Bhutan	Moderate	50% grants/50% loans	Tier 1
Burkina Faso	Moderate	50% grants/50% loans	Tier 1
Burundi	High	100% grants	Tier 1
Cabo Verde	High	100% grants	Tier 1
Cambodia	Low	100% loans	Tier 2
Cameroon	High	100% grants	Tier 2
Central African Republic	High	100% grants	Tier 1
Chad	High	100% grants	Tier 1

[17] CIFAU will update this list on an annual basis in the month of July.

[18] The degree of concessionality for CIF-eligible low-income countries considers the countries' relative risk of debt distress as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology. The risk of debt distress is as of September 30, 2020 and based on the most recently published data on IMF's website. Please see IMF's website https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf for the latest debt sustainability analysis for Low Income Countries.

[19] Countries in debt distress or at high-risk of debt distress are eligible to receive 100 percent of CIF financing as grants. Countries at moderate risk of debt distress are eligible to receive 50 percent of CIF financing as grants and the remaining 50 percent as credits, while countries at low risk are eligible to receive 100 percent of CIF project financing as credits, with grants considered on an exception basis.

[20] CIF offers concessional public sector loans on three sets of terms: *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; *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 *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 MDB implementing entities, the more favourable tier classification has been applied for that country.

Comoros	Moderate	50% grants/50% loans	Tier 1
Congo, Dem. Rep.	Moderate	50% grants/50% loans	Tier 1
Congo, Republic of	In distress	100% grants	Tier 2
Cote d'Ivoire	Moderate	50% grants/50% loans	Tier 2
Djibouti	High	100% grants	Tier 1
Dominica	High	100% grants	Tier 1
Eritrea	Latest data is not publicly available	To be determined	Inactive countries: no active financing due to protracted non-accrual status
Ethiopia	High	100% grants	Tier 1
Fiji	Not included in Debt Sustainability List	To be determined	Tier 1
Gambia, The	High	100% grants	Tier 1
Ghana	High	100% grants	Tier 2
Greneda	In distress	100% grants	Tier 1
Guinea	Moderate	50% grants/50% loans	Tier 1
Guinea-Bissau	Moderate	50% grants/50% loans	Tier 1
Guyana	Moderate	50% grants/50% loans	Tier 1
Haiti	High	100% grants	Tier 1
Honduras	Low	100% loans	Tier 2

Kenya	High	100% grants	Tier 2
Kiribati	High	100% grants	Tier 1
Kosovo	Not included in Debt Sustainability List	To be determined	Tier 2
Kyrgyz Republic	Moderate	50% grants/50% loans	Tier 1
Lao PDR	High	100% grants	Tier 2
Lesotho	Moderate	50% grants/50% loans	Tier 2
Liberia	Moderate	50% grants/50% loans	Tier 1
Madagascar	Low	100% loans	Tier 1
Malawi	Moderate	50% grants/50% loans	Tier 1
Maldives	High	100% grants	Tier 1
Mali	Moderate	50% grants/50% loans	Tier 1
Marshall Islands	High	100% grants	Tier 1
Mauritania	High	100% grants	Tier 1
Micronesia, Fed. Sts.	High	100% grants	Tier 1
Mozambique	In distress	100% grants	Tier 1
Myanmar	Low	100% loans	Tier 2
Nepal	Low	100% loans	Tier 1
Nicaragua	Moderate	50% grants/50% loans	Tier 2
Niger	Moderate	50% grants/50% loans	Tier 1

Nigeria	Not included in Debt Sustainability List	To be determined	Tier 2
Pakistan	Not included in Debt Sustainability List	To be determined	Tier 2
Papua New Guinea	High	100% grants	Tier 2
Rwanda	Moderate	50% grants/50% loans	Tier 1
Samoa	High	100% grants	Tier 1
São Tomé and Principe	In distress	100% grants	Tier 1
Senegal	Moderate	50% grants/50% loans	Tier 1
Sierra Leone	High	100% grants	Tier 1
Solomon Islands	Moderate	50% grants/50% loans	Tier 1
Somalia	In distress	100% grants	Tier 1
South Sudan	In distress	100% grants	Tier 1
St. Lucia	Moderate	50% grants/50% loans	Tier 1
St. Vincent and the Grenadines	High	100% grants	Tier 1
Sudan	In distress	To be determined	Inactive countries: no active financing due to protracted non- accrual status
Syrian Arab Republic	Not included in Debt Sustainability List	To be determined	Inactive countries: no active financing due to protracted non- accrual status
Tajikistan	High	100% grants	Tier 1
Tanzania	Low	100% loans	Tier 1

Timor-Leste	Low	100% loans	Tier 1
Togo	Moderate	50% grants/50% loans	Tier 1
Tonga	High	100% grants	Tier 1
Tuvalu	High	100% grants	Tier 1
Uganda	Low	100% loans	Tier 1
Uzbekistan	Low	100% loans	Tier 2
Vanuatu	Moderate	50% grants/50% loans	Tier 1
West Bank and Gaza Strip	Not included in Debt Sustainability List	100% grants[21]	See footnote 23 below
Yemen, Rep.	Moderate	50% grants/50% loans	Tier 1
Zambia	High	100% grants	Tier 2
Zimbabwe	In distress	To be determined	Inactive countries: no active financing due to protracted non- accrual status

[21] West Bank & Gaza is not a member country of IDA so is not eligible for direct regular IDA financing, but receives grants through the Trust Fund for Gaza and the West Bank.

Annex 2 (continued)

CIF-ELIGIBLE MIDDLE-INCOME COUNTRIES[22] PRODUCT MIX: 100% LOANS LENDING TERMS: TIER 3A AND TIER 3B			
Albania Algeria Angola Antigua and Barbuda Argentina Armenia Azerbaijan Belarus Belize Bolivia Bosnia and Herzegovina Botswana Brazil China Colombia	Costa Rica Cuba Dominican Republic Ecuador Egypt El Salvador Equatorial Guinea Eswatini Gabon Guatemala India Indonesia Iran Iraq Jamaica Jordan	Kazakhstan Korea, Democratic People's Republic of Lebanon Libya Malaysia Mauritius Mexico Moldova Mongolia Montenegro Montserrat Morocco Namibia Nauru Niue North Macedonia Palau	Panama Paraguay Peru Philippines Saint Helena Serbia South Africa Sri Lanka Suriname Thailand Tokelau Tunisia Ukraine Turkey Turkmenistan Venezuela Viet Nam Wallis and Futuna

[22] CIF offers concessional public sector loans on three sets of terms: *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; *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 *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 MDB implementing entities, the more favourable tier classification has been applied for that country.

12. Annex 3: Comparative Analysis of Historical Financing Terms for the Climate Investment Funds and other Development Finance Institutions

Background

37. The concessional resources provided by the CIF seek to push boundaries necessary to drive innovation, move MDBs to the frontier of risk taking, and pursue frontier approaches with a view of pulling private capital into contexts otherwise deemed too risky or costly. These resources are instrumental to enabling large-scale interventions that would not otherwise happen with MDBs' own resources.

38. To date, the four current programs under the CIF have maintained the same pricing as identified in their original design documents from 2008-2010.[23] Given that the climate finance landscape and wider low-carbon markets are substantially different now compared with when the CIF programs were first developed, it is proposed that the CIF develop a new pricing policy that better reflects current and future market realities.

39. On April 6th, 2020, the CTF and SCF Trust Fund Committees reviewed the *Operational Modalities for the Climate Investment Funds' [New Strategic Programs]* document and requested that the CIFAU and the Trustee work together to implement the operational modalities as set out in the document[24] for the four new action areas outlined below:

    (i) Climate-Smart Urbanization;
    (ii) Integration of Renewable Energy into Power Systems;
    (iii) Nature, People and Climate Investments; and,
    (iv) Accelerating Low-Carbon, Climate-Resilient Transition in Industry.

40. Following the document's review, the CIFAU received feedback on Section 6.1 (*Financing modalities - Financing terms)* 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.

41. The CIFAU agreed to review the pricing and other significant terms and conditions, offered by the CIF implementing agencies and other concessional entities to determine whether enhancements to the original pricing model presented in the document should be presented for consideration.

42. This brief examines the terms and conditions of lending and guarantee products offered by CIF, the CIF implementing agencies, other World Bank entities, including IDA and MIGA, and other climate funds, including the Green Climate Fund. The primary focus of the brief is on the pricing of financing arrangements, both concessional and non-concessional, in support of public sector projects. This brief has limited its review to US dollar denominated financing products, which represents the majority of outgoing financing provided by CIF to date.

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[23] See Appendix IV for the public sector concessional lending terms and conditions for the current CIF programs.
[24] Decision text of the Joint Meeting of the CTF and SCF Trust Fund Committees, available here: https://www.climateinvestmentfunds.org/sites/cif_enc/files/events/files/joint_meeting_of_ctf_and_sfc_tfc_march_2020_approved_decision1.pdf

43. The pricing and terms provided in this brief are based on the information publicly disclosed, as of June 1, 2020, by each of the entities examined. These terms and conditions are subject to change. Appendix I provides a detailed list of sources applied throughout this brief.

13. Public sector lending – Non-concessional - Comparison of MDB terms and conditions

44. Public sector non-concessional lending terms and conditions offered by IBRD, AfDB, IDB, and ADB were examined. Public sector lending includes: (a) lending to sovereign governments; (b) lending to sovereign governments for on-lending to sub-national entities; or, (c) lending to sub-national entities, state-owned utilities or any other public sector entity. Consistent with MDBs' standard lending practice, they will not be required to seek a guarantee or security for CIF loans to sovereign governments. If a CIF loan is made to a sub-national entity, the member country will be required to guarantee the loan to be able to access public sector lending terms and conditions for the loan.

a) Fixed vs Floating Rates

45. Sovereign, non-concessional loans offered by the MDBs are primarily structured as floating rate loans. A floating rate loan, also known as a variable rate loan, does not have a fixed rate of interest over the life of the loan, rather the interest rate changes, based on changes in an underlying reference rate.

46. Although fixed rate loans are offered by some MDBs (IBRD and ADB) through conversion or hedging, other MDBs examined (AfDB and IDB) provide that only the base rate can be fixed, with the rest of the components which make up the loan price, offered on terms consistent with that of a variable rate loan, as described below.

47. The practice by MDBs of offering primarily floating rate loans to sovereign borrowers is in direct contrast to the concessional lending arrangements provided by MDBs and other entities examined in this paper. These arrangements are provided on a fixed rate basis only.

48. The rest of this section focuses on the terms and conditions of non-concessional variable rate loans offered by the MDBs to sovereign borrowers.

b) Variable lending rates

49. Pricing of variable rate loans includes several components:

1. **Base/reference rate**
    a. Varies by currency; for USD financings generally equal to 6-month LIBOR.
    b. Determined on each interest rate reset date and are applicable for the following interest period.
    c. Reference interest rates represent standard benchmarks used in the market for pricing of floating-rate loans.[25]

[25] There is currently a transition underway globally to phase out the use of LIBOR as the primary benchmark for pricing floating rate financial products. Global regulators and market participants have begun a process of phasing out the use of LIBOR across all currencies and identifying appropriate alternative benchmark rates. It is expected that LIBOR rates will no longer be available/published by the end of 2021. The Secured Overnight Financing Rate, a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement market, has been selected as the replacement rate for USD derivatives and financial markets. MDBs will continue to monitor market developments very closely and collaborate with partners in the financial industry to identify best practices and coordinate transition efforts, where possible. It is important

2. **Funding spread** relative to the reference rate.
    a. The funding spread represents the MDBs' actual average funding cost (relative to the reference rate) which the MDB has incurred in the period (e.g. 6-month LIBOR + 0.75%).
    b. Determined on each interest rate reset date and are applicable for the following interest period.
    c. If the MDB funds loans at a cost lower/higher than the reference rate, the actual funding cost relative to the reference rate will be passed on to the borrower through a rebate or a surcharge.
    d. The rebate/surcharge is applied as an adjustment to the borrower's interest rate, beginning in the following interest rate period.
3. **Lending spread**
    a. The lending spread is determined periodically by each MDB and represents a standard fixed rate charge applied to all sovereign loans.
    b. Ranges from 0.50% to 0.80% for MDBs examined.
    c. Determined at loan signing and remains constant over the life of the loan.
4. **Maturity premium**
    a. Used to differentiate loan pricing by average maturity (AfDB and ADB[26]). IBRD's maturity premiums also factor in national income and other factors.
    b. Determined at loan signing and remains constant over the life of the loan.

c) Other terms

50. Maximum maturities for non-concessional public sector loans range from 20 years for IDB, up to 35 years for IBRD; with the weighted average life (WAL)[27] ranging from 12.75 -15.25 years for IDB, up to 19 years for ADB and up to 20 years for IBRD. The grace period, where specified, ranges from 5.5 – 8 years.

51. For more information, please see Appendix III, which provides a detailed comparison of public sector non-concessional lending terms and conditions for the MDBs examined.

d) Pricing – an illustration

52. Pricing for a public sector, US dollar, variable spread loan, was calculated for each MDB, with terms applied as of January 1, 2020 and June 1, 2020, based on each MDBs' loan pricing frameworks.

53. Two cases were examined, each with a different weighted average life:

- Case 1: a shorter-term loan (WAL of 12.75 years) and,
- Case 2: where offered, a longer-term loan (WAL of 19 years).

54. The following table summarizes the results. See Appendix III for the detailed analysis.

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to note that proposed new CIF pricing for public sector lending and guarantees, as described in the 'Recommendations – New CIF Programs' section in this document, is not directly tied to LIBOR and will not be materially affected by this transition.

[26] Starting January 1, 2021, ADB will adopt differentiated loan pricing with the applicable level of maturity premium based on both average maturity and country classifications (which consider national income and other factors).
[27] WAL represents the weighted average time to receive all principal repayments associated with a loan. WAL does not consider payments of interest nor does it discount the principal repayments. WAL = time-weighted value of principal repayments/principal of the loan.

Table 1. MDB Public Sector *Non-Concessional* illustrative lending rates

	IBRD [a.]		AfDB	IDB	ADB	
Lending Rate	**Case 1**	**Case 2**	**Case 1**	**Case 1**	**Case 1**	**Case 2**
Jan 1, 2020	2.69%	2.89%	2.98%	2.75%	2.41%	2.61%
June 1, 2020	1.30%	1.50%	2.56%	2.11%	1.01%	1.21%

a. Represents the rates applicable for loans to Group A countries, which represents the group with the greatest number of IBRD countries under IBRD's pricing policy. For pricing for all IBRD groups, please see Appendix III.

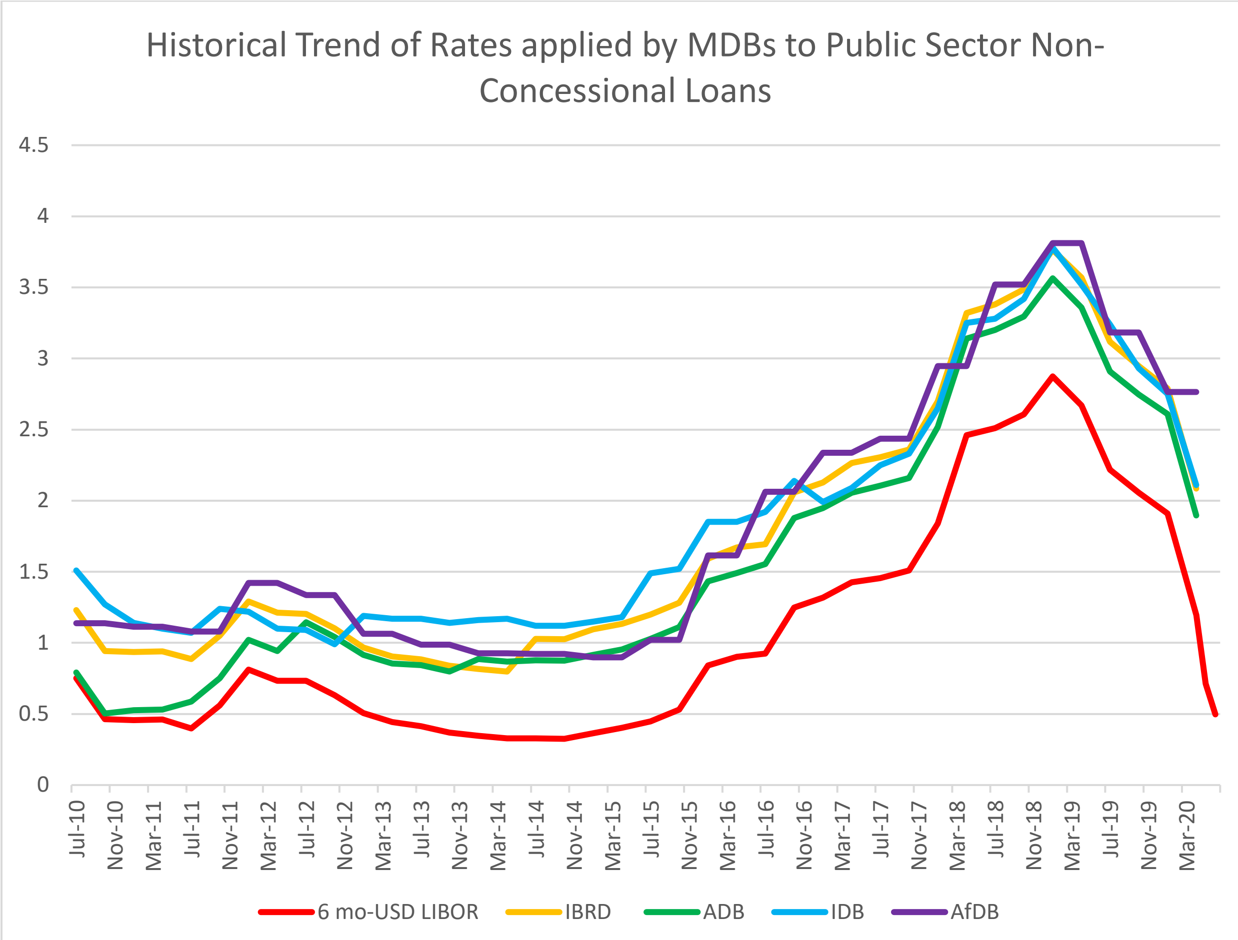
55. The pricing differences amongst the MDBs between the two dates examined largely reflect the frequency and the date on which the reference rates are determined and the change in the underlying reference rates during that time.[28]

56. In a rapidly changing interest rate environment, differences in the frequency of pricing updates of the underlying reference rate used can result in notable differences in lending rates offered over the short term.

57. Over a longer-term horizon these pricing differences are less observable, as demonstrated by the following graph which provides the historical trend of non-concessional rates applied by the MDBs in their public sector lending activities.

[28] IBRD determines reference rates on the 1st and 15th of each month; while IDB fixes its reference rates on a quarterly basis. AfDB fixes its reference rates semi-annually, with all new loans during the period set at the rates published at the beginning of the interest rate period. ADB determines reference rates on the 1st or 15th of each month but resets the rate per loan semi-annually on the loan service payment date.

Figure 1. Historical Trend of MDB Public Sector *Non-Concessional* lending rates



Notes:

1. Rates reflect US dollar, variable spread loans.
2. Maturity premiums, where applicable, reflect the longest average maturities offered by each MDB, with the exception of IBRD where an average maturity greater than 15 and up to 18 years was applied (to ensure greater comparability to the average maturities offered by other MDBs, which are shorter in term).
3. Effective July 1, 2018, IBRD increased the maturity premium by 10-40 basis points on loans with an average maturity of more than 10 years and introduced a classification of countries into four pricing groups based on income and other factors.
4. The rates after July 1, 2018 for IBRD represent the rates applicable for loans to Group A countries, which represents the group with the greatest number of IBRD countries under the IBRD pricing policy.

58. The graph demonstrates that sovereign lending rates offered by the MDBs for their non-concessional lending activities closely track 6- month USD LIBOR**,** reflecting the fact that 6-month USD LIBOR is the reference rate used for pricing by the MDBs examined, with the exception of IDB which applies the 3-month USD LIBOR reference rate. Variability in lending rates across the MDBs over the longer-term reflects pricing differences across the MDBs relating to the funding spread (MDBs' cost of borrowing relative to the reference rate), lending spread (fixed rates applied by each MDB to sovereign loans) and/or the maturity premium (differentiated pricing premiums applied based on average maturity).

14. Public sector lending – Concessional - Comparison of MDB terms and conditions

59. Public sector concessional lending terms currently offered by IDA, ADB and the African Development Fund (ADF), AfDB's concessional lending window, were examined. Pricing offered by the Green Climate Fund (GCF) was also included in the review. IDB's concessional lending arrangements were excluded from the review due to their limited scope.[29]

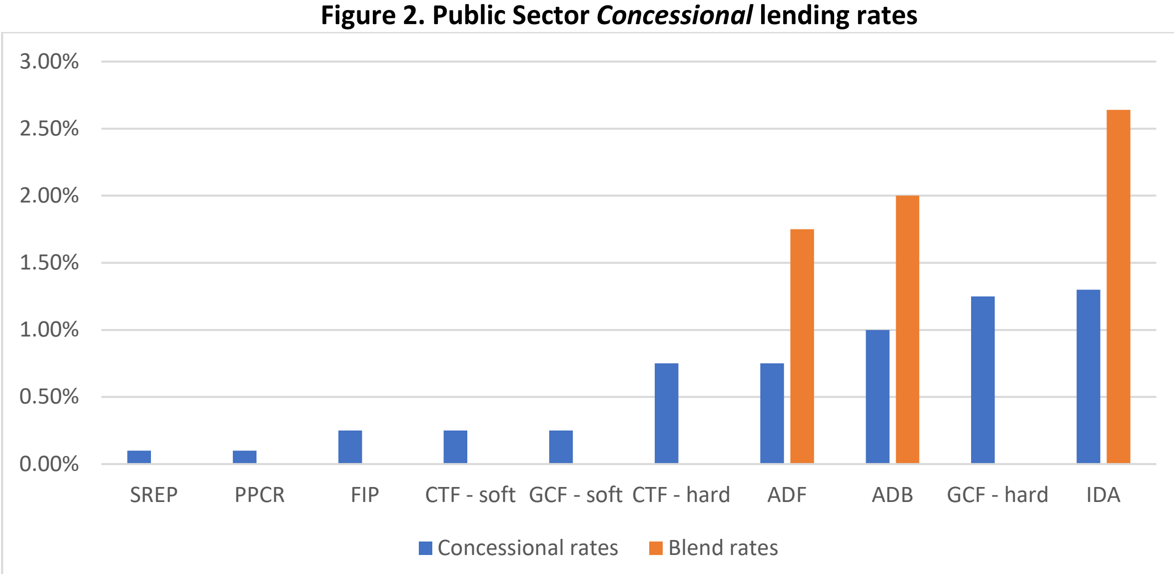
60. MDBs offer concessional and blend term arrangements:

- A concessional loan refers to loans extended on terms that are below market terms with the aim of achieving a certain goal. Concessionality is achieved through:
    - i) interest rates below those available on the market;
    - ii) long maturity and grace periods, and security, seniority or back-weighted repayment profiles that would not be accepted/extended by a commercial financial institution; and/or
    - iii) extending financing to borrower/recipients not otherwise served by commercial financing (see *Other Implementation Matters* section below).
- Blend terms apply to countries which are eligible for concessional financing but have also been assessed as creditworthy for harder term financing. A transition framework is used by MDBs which provides criteria that determine the length of the transition period and the financing mix during this period.

a) <u>Lending rates</u>

61. Concessional lending is provided on a fixed rate basis with pricing comprised of one, or a combination of elements including; a service charge; and/or interest rate.

Figure 2. Public Sector *Concessional* lending rates



Notes:

1. ADB's concessional lending rate is 1% during the grace period and 1.5% during the amortization period.
2. The lending rates are applied on the principal amount outstanding.

[29] IDB offers concessional lending to its most vulnerable member countries only. At present, only Guyana, Honduras and Nicaragua qualify for an allocation of concessional financing which is blended with regular financing. Concessional allocation terms include: a 0.25% annual lending rate, 40-year maturity, 40-year grace period, and a bullet repayment of principal at maturity.

62. The lending rates applied by MDBs on concessional loans have generally remained the same for the past several years, and in some cases, have remained the same since the entity's inception. The service charge currently applied to all IDA loans continues to be fixed at a 0.75% Special Drawing Right (SDR) rate, the same underlying rate which IDA began lending at in 1961.[30]

63. The SDR is not itself a currency that can be bought and sold in the financial markets, but its value is linked to a basket of currencies[31], which closely reflects the currency composition of IDA's primary partner contributions. IDA clients can borrow based on SDR or directly in USD, EUR, JPY and GBP. Single currency denominated IDA loans are priced quarterly, based on the single currency equivalent of the SDR basket of currencies. Similarly, the 0.75% SDR service charge is converted to a single currency equivalent each quarter. Based on rates as of April 1, 2020, IDA's 0.75% SDR service charge is 1.30% for US dollar denominated loans. Although the IDA pricing is fixed at the same underlying SDR rate, the IDA single currency rate changes each quarter based on the value of the underlying SDR currencies. Therefore, IDA's single currency lending rates do change over time, albeit within a relatively narrow range.

64. Generally, most other concessional loan providers have also kept their pricing constant. The GCF approved its existing financial terms and conditions for concessional loans in 2015[32], while the CIF's programs have maintained the original pricing and terms introduced under each program's financing modalities policy paper approved during 2009 and 2010.

b) Other terms

65. Concessional loan maturities range from 20 to 40 years and grace periods range from 5 to 10 years. Blend term loan maturities range from 25 – 30 years, with all offering a 5-year grace period.

c) Eligibility

66. Eligibility for concessional and blend term arrangements are based on country classifications, which are maintained and updated in accordance with frameworks and policies established by each respective MDB. A differentiation in lending terms, which recognizes the varying stages of economic development of countries is in place for each MDB examined.

67. For a detailed comparison of public sector concessional lending terms and conditions, including eligibility, please see Appendix IV.

d) Other concessional finance considerations

68. Although the pricing of concessional loans has remained fixed over time, the application and use of concessional finance by many of the organizations examined has progressed and continues to evolve.

69. Refinements in transition frameworks and country-based criteria which examine the level of indebtedness, the gross domestic product and other factors of the recipient country, continue to be

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[30] https://books.google.ca/books?id=i7cjAQAAMAAJ&pg=PT53&lpg=PT53&dq=Development+credit+service+charges+IDA+1965&source=bl&ots=GVZPcM9p0S&sig=ACfU3U3Tr1Kgp-nOuxeLZqCpvyV8-_U7bw&hl=en&sa=X&ved=2ahUKEwiy8v-SvPrpAhVlIjQIHdHcBbkQ6AEwAXoECAgQAQ#v=onepage&q=Development%20credit%20service%20charges%20IDA%201965&f=false

[31] The SDR basket currently includes the US dollar, euro, pound sterling, Japanese yen and Chinese yuan.

[32] The GCF Board passed a decision in 2019 (B.BM-2019/08) for the GCF Secretariat to review the financial terms and conditions of the Fund's instruments on a biennial basis and to report biennially the outcome of such review to the GCF Board (previous terms of reference required an annual review of financial terms and conditions).

made. These frameworks provide a quantitative rationale for the mix of funds and lending terms that recipient countries can access.

70. Organizations continue to improve methodologies used to calculate the degree of concessionality of a loan, or the "grant element"[33], to ensure the grant element more closely reflects the incremental cost or risk premium required to make the investment viable. The larger the grant element is, the more concessional the loan. In October 2013, the IMF and the World Bank approved the proposed *Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries*[34]. This proposal simplified the system of discount rates used by the World Bank and the IMF in analyzing external debt issues in low-income countries and resulted in the adoption of a single, fixed, unified discount rate of 5 percent to calculate the grant element of individual loans for low-income countries. Refinements to grant element thresholds also continue to be examined. OECD's definition of modernized aid requires that for funds to be concessional in nature, the grant element must be a minimum of 45% for least developed countries and low-income countries, 15% for lower-middle income countries and 10% for upper middle-income countries.[35]

15. Public sector lending - Comparison of MDB Non-concessional and Concessional terms and conditions

71. This section compares the lending rates and other terms offered by the MDBs to sovereign borrowers under concessional and non-concessional arrangements.

72. The following table compares the lending rates, and maturity and grace periods offered by MDBs for public sector lending activities.

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[33] The grant element is defined as the difference between the loan's nominal value (face value) and the sum of the discounted future debt-service payments to be made by the borrower (present value), expressed as a percentage of the loan's face value. Whenever the interest rate charged for a loan is lower than the discount rate, the present value of the debt is smaller than its face value, with the difference reflecting the (positive) grant element of the loan.

[34] https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Unification-of-Discount-Rates-Used-in-External-Debt-Analysis-for-Low-Income-Countries-PP4824

[35] http://www.oecd.org/dac/stats/What-is-ODA.pdf

Table 2. MDB Public Sector lending terms and conditions

	IBRD		AfDB	IDB	ADB	
Non-concessional [a]						
	Case 1 [b]	Case 2 [b]	Case 1	Case 1	Case 1	Case 2
Rates (as of Jan 1, 2020)	2.69%	2.89%	2.98%	2.75%	2.41%	2.61%
Rates (as of June 1, 2020)	1.30%	1.50%	2.56%	2.11%	1.01%	1.21%
Maturity or Weighted Average Life (WAL)	35 years, WAL 20 years		25 years	20-25 years WAL 12.75 – 15.25 years	WAL 19 years	
Grace period	Can be tailored, WAL of 20 years not to be exceeded		8 years	5.5 years	Can be tailored, WAL of 19 years not to be exceeded	
Blend [c]						
Rates	2.64% (1.29% service charge + 1.35% interest rate)		1.75%	n/a	2.0%	
Maturity	30 years		30 years	n/a	25 years	
Grace period	5 years		5 years	n/a	5 years	
Concessional [c]						
Rates	1.3%		0.75%	n/a	1.0% - 1.5%	
Maturity	38-40 years		40 years	n/a	24 – 40 years	
Grace period	6-10 years		5-10 years	n/a	8 -10 years	

a. See Appendix III for more information.
b. Non-concessional pricing was examined under two scenarios: Case 1: a shorter-term loan (WAL of 12.75 years) and, Case 2: where offered, a longer-term loan (WAL of 19 years). See Appendix III for further information. In the case of IBRD, pricing represents lending rates applicable to Group A countries.
c. See Appendix IV for more information. IDB concessional pricing arrangement excluded from review due to its limited scope.

73. The table shows that maturities and grace periods generally become shorter as lending arrangements move from concessional financing, to blend arrangements, and ultimately to market-based terms. In addition, the ability to tailor repayment schedules and other lending terms are far greater in market-based lending arrangements compared with concessional arrangements, the terms of which are more standardized.

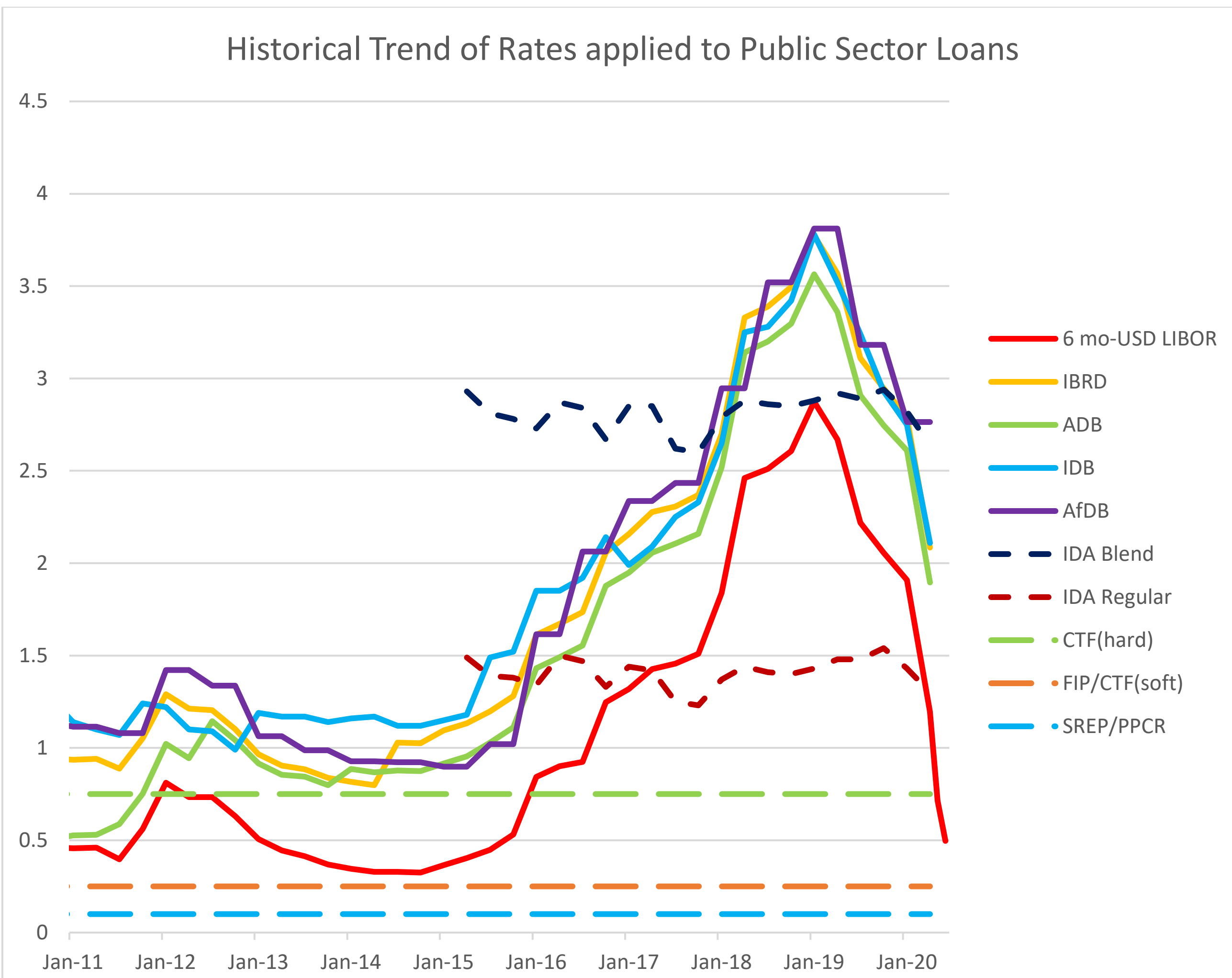
74. The table demonstrates that, as of June 1, 2020, the concessional and blend pricing offered by the MDBs examined, is, in many cases, priced higher than the non-concessional rates currently offered by the MDBs to sovereign borrowers.

75. These anomalies have arisen largely as a result of COVID-19, which has prompted governments and central banks to undertake drastic economic interventions, lowering interest rates to support economic activity, in response to the unprecedented global macroeconomic shocks caused by the pandemic.

76. Since the pricing frameworks which underlie concessional lending arrangements are based on a fixed service charge, rather than a variable interest rate, in a declining interest rate environment, the spread between non-concessional pricing and pricing offered under concessional and blend arrangements has become narrower, and in some cases, has been eliminated.

77. The following graph examines the historical trend of non-concessional lending rates applied by the MDBs and concessional rates offered by IDA and CIF in their public sector activities.

Figure 3. Trend of Public Sector lending rates applied by MDBs and CIF



Notes:

1. IBRD, ADB, IDB and AfDB rates represent each MDBs non-concessional U.S. dollar, variable spread rates for public sector loans.
2. Maturity premiums, where applicable, reflect the longest average maturities offered by each MDB, with the exception of IBRD where an average maturity greater than 15 and up to 18 years was applied (to ensure greater comparability to the average maturities offered by other MDBs, which are shorter in term).
3. Effective July 1, 2018, IBRD increased the maturity premium by 10-40 basis points on loans with an average maturity of more than 10 years and introduced a classification of countries into four pricing groups based on income and other factors.
4. The rates after July 1, 2018 for IBRD represent the rates applicable for loans to Group A countries, which is the group which represents the greatest number of IBRD countries under the IBRD pricing policy.
5. IDA rates for Regular and Blend loans are shown beginning April 2015. Prior to this period, single currency lending was only offered under a 3-year pilot program (beginning in 2012), with published single currency rates unavailable.

78. The sovereign lending rates offered by the MDBs for their non-concessional lending activities closely track 6- month USD LIBOR with variability across the MDBs arising from pricing differences relating to the funding spread, lending spread and/or the maturity premium.

79. As noted above, IDA’s lending rates for regular and blend loans have remained stable over the period examined, reflecting IDA’s loan pricing methodology, which is not tied to a market-based reference rate but is based on SDR. The modest variability in IDA lending rates over time reflects foreign exchange fluctuations against the SDR, rather than a change in the underlying lending rate.

80. Due to the fundamental difference in loan pricing (fixed vs floating) between concessional and non-concessional public sector lending, IDA’s lending rates have exceeded the non-concessional rates charged by MDBs in many periods over the years examined, due to the persistently low interest rate environment experienced over the last several years.

81. Under concessional financing arrangements, the borrower is protected, for the term of the loan, from sudden and potentially significant increases in interest payments if interest rates rise. Unlike fixed rate concessional loans, market-based, variable rate loans provided by the MDBs on a non-concessional basis, are re-priced every 6 months, exposing borrowers to potentially much higher (or much lower) borrowing costs as interest rates change.

16. Public sector guarantee terms and conditions

82. Public sector guarantees include guarantee arrangements where the MDB guarantees the obligations of a sovereign government, sub-national government, state-owned utility, or any other public sector entity which implements the proposed public sector project or program.

83. Concessional terms offered for public sector projects by IDA, IDB and ADF, and non-concessional terms offered by IBRD and IDB for public sector projects were examined. The pricing of guarantees is, in most cases, determined based on the concept of loan equivalency pricing.

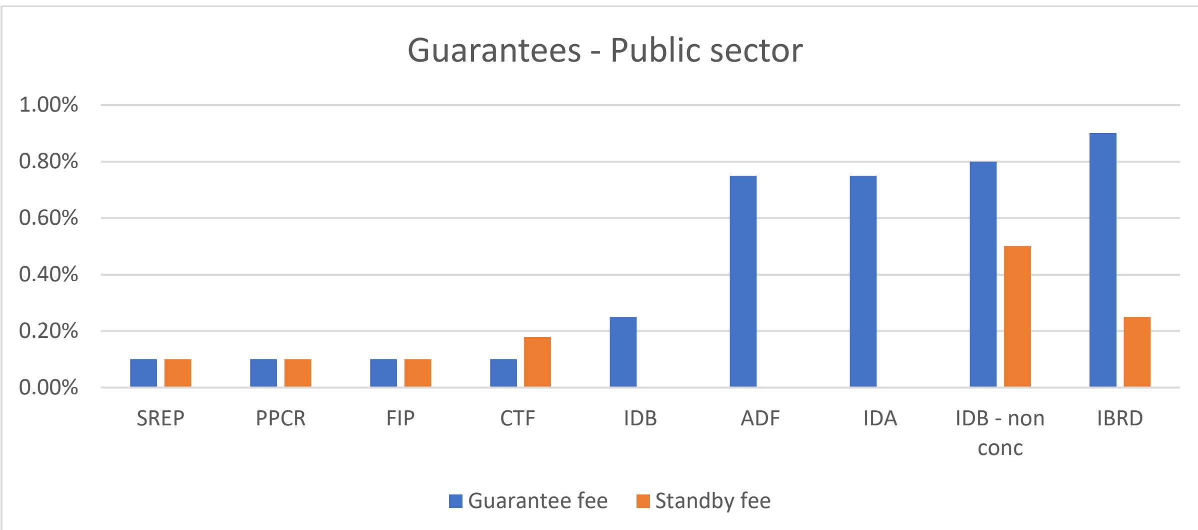
84. Guarantee pricing is comprised of three components:

   1. **Guarantee fee**
      a. Charged on the disbursed and outstanding amount of the guaranteed financing.
      b. Typically set at the same level as the contractual lending spread for loans.
      c. For non-concessional guarantees, the pricing is risk based, reflecting the risk associated with the particular guarantee, the lending margin for similar sovereign loans and/or a maturity premium.

2. **Standby fee**
    a. Charged on the amount of guaranteed principal that has not been disbursed.
    b. Similar to a commitment fee.
    c. Not always charged under concessional arrangements.
3. **Up-Front fee**
    a. A one-time fee typically set at the same level as the front-end fee on loans.
    b. Charged up-front on the maximum amount of the guarantee.
    c. Not always charged under concessional arrangements.

85. The following chart presents the guarantee and standby fees applied by the entities examined.

Figure 4. MDB Public Sector Guarantee pricing



Notes:
1. CIF programs (for loan guarantees) have the option of charging a standby fee or an upfront fee to cover MDB fees. The upfront fee is 0.25% for FIP, SREP and PPCR and 0.45% for CTF.
2. IBRD's guarantee fee is based on the average maturity and pricing group and ranges from 0.50% to 1.65%. Rate shown above represents fee for Group A countries, with an average maturity greater than 15 and up to 18 years.

a) <u>Other terms</u>

86. Public sector guarantees offered by MDBs generally require a counter-guarantee of the host government, creating a direct contractual link with the host country relating to the project.

87. This is in contrast to CIF guarantees, which do not require a sovereign government indemnity, with any credit risk exposure borne by the CIF funds directly. MDBs retain CIF funds in an amount to match the guarantees committed on a one-for-one basis.

88. For more information, please see Appendix V, which provides a detailed comparison of the terms and conditions offered by CIF and the MDBs for guarantee arrangements.

17. Private sector projects– Comparison of MDB terms and conditions

89. Through-out this brief and related appendices, private sector projects and 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.

a) CIF existing programs - Private sector projects

90. MDBs will seek to use CIF funds in private sector markets where the risk/reward profile of initial project entrants are not balanced (i.e. when the investment return on the initial projects do not compensate sponsors for the risks they experience) but where the risk/reward profile for future projects are eventually expected to be sufficient to encourage private investment without future subsidies.

91. Because each country, sector and project face a unique set of barriers, CIF financing is not uniformly offered to all private sector companies but is tailored to address the specific barriers identified in each project and intervention.

b) MDBs - Private sector projects

92. Private sector lending by the MDBs is project specific and is based on each MDB's assessment of the risks inherent in each project. MDBs apply market-based pricing to determine the lending spread, front-end fees, and commitment charges for each loan. The lending spread is intended to cover the MDB's risk exposure to specific borrowers and projects and the font-end fee to cover the administrative costs in loan origination.

93. For guarantees, MIGA and other MDBs which provide private sector guarantees, tailor the pricing to the specific transaction, with guarantee fees, standby fees and upfront fees in place. MIGA requires host country approval before issuing a guarantee, while private sector guarantees offered by MDBs do not require counter-guarantees, with credit risks being managed through limits, pricing reflective of project and country risks, and through reinsurance.

94. Appendix VI provides a summary of terms for loans and guarantees, where publicly disclosed, applied by the MDBs in their private sector investments.

18. Recommendations – Future CIF Operations

a) General considerations

95. This brief examined the pricing and other significant terms and conditions, offered by the CIF implementing entities and other concessional entities, to determine whether enhancements to the original pricing model for public sector loans and public sector guarantees presented in the CIF Operational Modalities document should be presented for consideration[36] (see Appendix II for the full terms and pricing proposed in the CIF Operational Modalities document).
96. Recommendations provided in this section are based on the recognition that the MDBs each have different pricing policies which have developed over time to meet their stakeholder needs and that CIF's

[36] Under the key terms originally proposed under the CIF Operational Modalities paper for public sector projects under the new CIF programs, CIF's resources would be expected to be:

- For non-IDA eligible countries (typically middle-income countries): equal to the least concessional among IDA's terms;
- For IDA only countries (typically low/lower-income countries): softer than IDA's terms subject to MDBs' justification of the need for a higher degree of concessionality in the relevant program or project document. The degree of concessionality for low-income countries shall consider countries' relative risk of debt distress as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology. As a result, countries in debt distress or at high-risk of debt distress are eligible to receive 100 percent of CIF financing as grants. Countries at moderate risk of debt distress are eligible to receive 50 percent of financing as grants and the remaining 50 percent as credits.
- The amount of grants as a percentage of the overall CIF funding package would be agreed by the relevant CIF governing body on the basis of a country's need as outlined in the investment plan or program/project-specific circumstances.

pricing, in general, needs to be more concessional than the MDBs to continue to incentivize the MDBs to take on CIF projects.

b) Recommended changes - Public Sector grants and loans

I. Product mix:

The following table presents the product mix recommended for CIF public sector financings.

Table 3. CIF product mix

<table>
<tr><th colspan="4">CIF product mix</th></tr>
<tr><th colspan="3">Low Income Countries [a.b.]</th><th>Middle Income Countries [a.c.]</th></tr>
<tr><th>High Risk Countries</th><th>Moderate Risk Countries</th><th>Low Risk Countries</th><td rowspan="2">100% loans [d.]</td></tr>
<tr><td>100% grants</td><td>50% grants
50% loans</td><td>100% loans [d.]</td></tr>
</table>

a. Countries are deemed eligible for CIF concessional resources if holding the Official Development Assistance (ODA)-eligibility status at the time of selection and approval by the relevant CIF governing body. The Organization for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) list of ODA recipients is available on the OECD websitehttp://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm . See also Annex 1.

b. Low income countries are IDA-eligible countries (or MDB equivalent). High risk, moderate risk and low risk classifications based on the Joint World Bank-IMF Debt Sustainability Framework.

c. A country which holds Official Development Assistance-eligibility status but is not considered a low-income country as defined in b. above.

d. Grants to be considered on an exception basis.

97. *CIF-eligible low income countries:* 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.[37] As a result, countries in debt distress or at high-risk of debt distress are eligible to receive 100 percent of CIF financing as grants. Countries at moderate risk of debt distress are eligible to receive 50 percent of CIF financing as grants and the remaining 50 percent as credits, while countries at low risk are eligible to receive 100 percent of CIF financing as credits, with grants considered on an exception basis.

98. *CIF-eligible middle-income countries:* Lower middle income and upper middle-income countries receive 100 percent of CIF project financing as credits, with grants considered on an exception basis.

II. Lending terms and conditions:

99. Recommended lending rates, maturity and grace periods have been based on the review of terms offered by the MDBs and other funds examined for public sector loans. Concessional and non-concessional arrangements were considered.

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[37] Please refer to the IMF's website https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries for more information. See latest Debt Sustainability Analysis by country on IMF's website: https://www.imf.org/external/pubs/ft/dsa/dsalist.pdf.

100. CIF to offer 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[38], but does not fall under the CIF Tier 1 or Tier 2 classifications.

101. In instances where a CIF-eligible country is classified differently across the MDB implementing entities, the more favourable tier classification would be applied for that country.

102. The following table presents the recommended terms and conditions for CIF concessional loans provided to the public sector.

Table 4. CIF public sector lending terms and conditions

Public Sector Lending Terms				
CIF country classification	**Tier 1**	**Tier 2**	**Tier 3**	
			A	**B**
Lending rate [a.]	*Percentage of IDA-only Regular service charge*			
	40%	*60%*	*75%*	*90%*
Currency [b.]	USD and EUR			
Lending rate (July 1, 2020)				
USD	0.52%	0.79%	0.98%	1.18%
EUR	0.30%	0.45%	0.56%	0.68%
Grant element [c.]				
USD	64%	52%	40%	45%
EUR	67%	56%	44%	51%
Maturity (years)	Up to 40	Up to 30	Up to 20	Up to 30
Grace period (years)	10	10	8	8
Principal repayments [d.]	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		

a. Refer to IDA's website https://treasury.worldbank.org/en/about/unit/treasury/ida-financial-products/lending-rates-and-fees for the latest IDA-only Regular service charge rates.
b. CIF concessional financing will be provided in USD or EUR (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.

[38] The Organization for Economic Co-operation and Development/Development Assistance Committee's (OECD/DAC) list of ODA recipients is available on the OECD websitehttp://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/daclist.htm .

c. Calculated in accordance with IMF-World Bank methodology. See IMF website for further details. https://www.imf.org/external/np/pdr/conc/calculator/default.aspx. Tier 1 grant element represents tailored calculation due to the non-standard principal repayment terms associated with this loan type.
d. For Tier 1, illustrative principal repayment schedule for a loan with a 40-year maturity and a 10-year grace period: 2% principal repayment for years 11-20 and 4% principal repayment for years 21-40.

III. Overview of recommended changes:

103. As specified below, the recommended framework materially lowers the proposed pricing compared with what was specified in the CIF Operational Modalities document, while increasing the pricing compared with most original CIF programs that have been in place since 2008-2009, to better align with what other concessional finance providers in the market are currently offering. The proposed framework provides for differentiated pricing and terms between low-income and middle-income countries, which the original CIF programs' pricing does not provide. The proposed framework also moves away from using strictly IDA classifications for CIF-eligible countries, recognizing the MDB implementing entities' equivalent.

104. **Tier 1 and Tier 2 countries:** A lending rate of 40% of the IDA-only regular service charge is recommended for CIF loans in IDA-only countries (or the MDB implementing entities' equivalent) and a lending rate of 60% of the IDA-only regular service charge is recommended for CIF loans in IDA Gap or Blend countries (or the MDB implementing entities' equivalent). These rates are materially softer than IDA's terms, which is consistent with the original high-level recommendation provided in the CIF Operational Modalities document.

105. The maturity, grace period and principal repayments recommended for Tier 1 countries are equal to CIF's existing terms for FIP, SREP, PPCR and CTF soft concessional loans. For Tier 2 countries, the recommended grace period and principal repayments are equal to that of CTF's hard loans, while the maturity allows for terms up to 10 years beyond CIF's existing maturity for CTF hard loans.

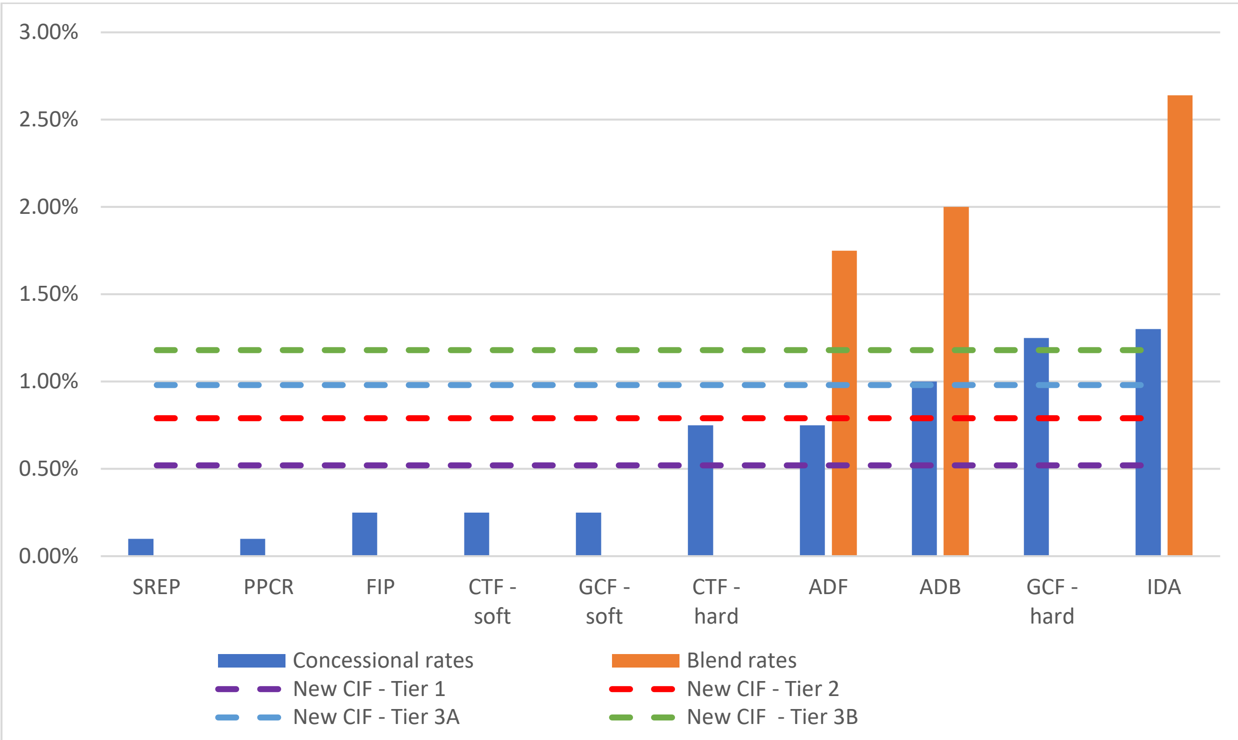
Tier 3 countries: The original high-level recommendation provided in the CIF Operational Modalities document, recommended that non-IDA eligible countries, which are primarily middle-income countries, be offered lending rates equal to the least concessional among IDA's terms (the IDA Blend rate). A review of historical public sector lending rates applied by the MDBs compared with the IDA Blend rate confirmed that IDA's Blend rate has exceeded the non-concessional rates charged by MDBs in many periods, due to the persistently low interest rate environment experienced over the last several years.

106. In keeping with the high-level principle that CIF pricing, in general, needs to be more concessional than MDBs' own lending terms, two classifications of lending terms are recommended for Tier 3 countries as follows: Tier 3A, for shorter term loans, with a lending rate of 75% of the IDA-only regular service charge, and Tier 3B, for longer term loans, with a lending rate of 90% of the IDA-only regular service charge.

107. Recommended maturity for Tier 3 countries is as follows: Tier 3A loans, up to 20 years is recommended, which is equal to the maturity of CTF's hard concessional loans; and Tier 3B loans, a term of up to 30 years is proposed, which is halfway between the CIF's maturity for CTF hard and soft concessional loans and is equal to IDA and AfDB's maturity offered for blend countries. The recommended grace period for Tier 3 countries of 8 years is in between the grace periods offered by most MDB implementing entities under concessional arrangements (10 years) and blend arrangements (5 years).

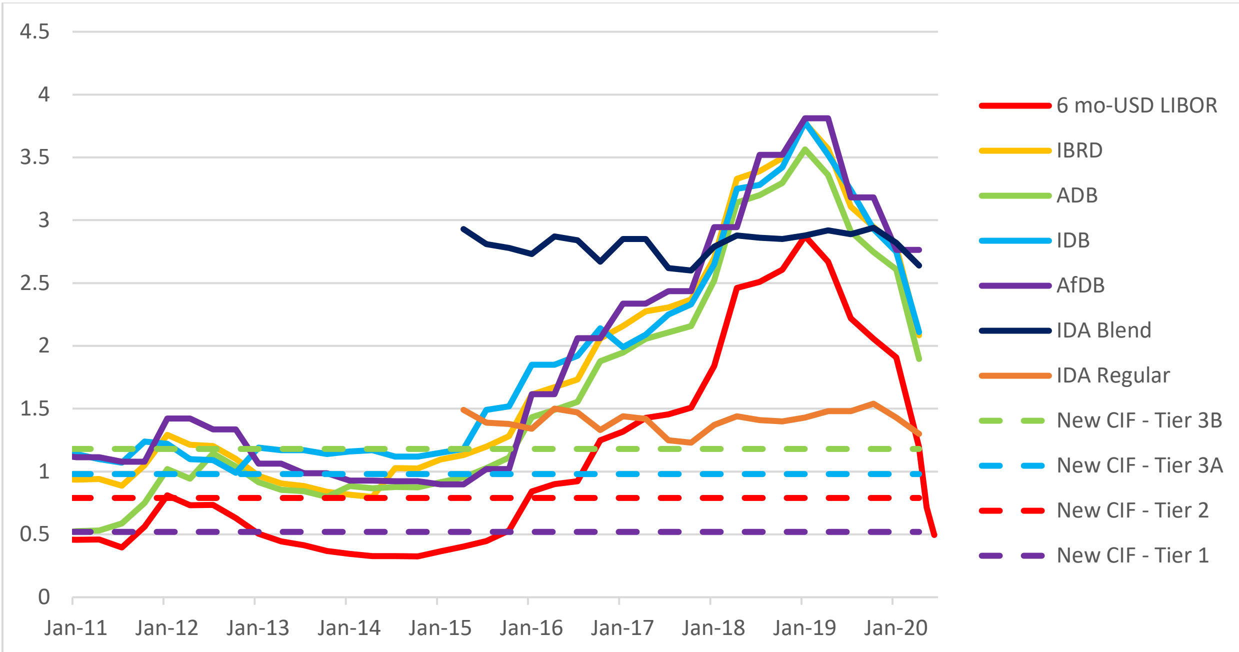
108. The following graph illustrates how the recommended pricing compares with the concessional and blend pricing arrangements currently offered by the MDBs examined.

Figure 5. Future CIF Operations – Recommended Loan Pricing compared with MDB *Concessional* lending rates



109. The following graph illustrates how the recommended CIF pricing for public sector loans compares with the non-concessional arrangements historically offered by the MDBs examined.

Figure 6. New CIF Programs – Recommended Loan Pricing compared with MDB *Non-Concessional* lending rates



Notes:

1. IBRD, ADB, IDB and AfDB rates represent each MDBs non-concessional rates for public sector loans.

110. The above graph demonstrates that the recommended CIF loan pricing for Tier 3 countries would have resulted in lending rates that are more concessional than MDBs' own lending terms in many of the years examined. However, in some years, (i.e. the 2011-2014 window in Figure 6), the recommended CIF loan pricing may result in rates that are higher than the MDBs' commercial lending rates offered over the same period.

111. Unlike the fixed rate concessional loans offered by CIF, the market-based, variable rate loans provided by the MDBs on a non-concessional basis, are re-priced every 6 months, exposing borrowers to potentially much higher borrowing costs as interest rates change. Under concessional financing arrangements, the borrower is protected, for the term of the loan, from sudden and potentially significant increases in interest payments if interest rates rise.

Alternative loan pricing frameworks considered:

112. **Variable rate loans:** The possibility of offering concessional loans on variable rate terms was examined, subject to a minimum interest rate and a maximum interest rate limit. Interest rates would re-set semi-annually, similar to the variable rate pricing arrangements in place for most MDBs' public sector loans, subject to an interest rate floor and cap.

113. Although this concept could be favorable from a rate perspective, the complexity in managing this type of arrangement may be challenging to implement consistently across each of CIF's implementing entities. Therefore, further consideration of this type of alternative pricing was discontinued.

Current market conditions – Potential impact on financial terms and conditions of future CIF operations

In response to the global outbreak of the coronavirus disease (COVID-19), governments and central banks have taken drastic measures to lower interest rates and introduce other support measures aimed at cushioning the economic shocks from COVID-19. The duration of the COVID-19 pandemic and its effects cannot be reasonably estimated at this time, nor is it possible to predict the efficacy and duration of government interventions.

The CIFAU continues to monitor developments closely. Although the tenor of CIF's financial instruments are longer-dated in nature, it is important that the terms, particularly the pricing mechanisms proposed in the CIF Operational Modalities document, be re-examined to confirm their ongoing relevance, in light of ongoing developments.

114. **Fixed rate loans, with lending rate determined based on floating rates at time of signing:** In the past, IDA offered credits on hardened terms (approved during IDA13-IDA15) to countries classified as blend, with a 0.75% SDR service charge and an interest charge corresponding to the IBRD fixed rate equivalent minus 200 basis points. The hard-term interest charge was set on an annual basis and was fixed at that rate for all credits approved in that year. Although an arrangement based on these principles may be possible, this type of arrangement is more appropriate for blend pricing, rather than financing arrangements which seek to offer greater concessionality, particularly in a rising interest rate environment.

c) Recommended Changes – Public sector guarantees

115. The CIF Operational Modalities document recommended that IDA's concessional pricing for public sector guarantees be adopted. IDA pricing currently in effect for guarantees provided on a concessional basis is provided below in Table 5.

Table 5. IDA guarantee pricing for guarantees approved on or after October 1, 2018[39]

Charges	Fees	Public Projects
Upfront Charges *(one-time fees charge on guarantee amount)*	**Processing**	-
	Initiation	-
Recurring Charges *(per annum)*	**Standby**	-
	Guarantee	75 bps

116. Based on the review of terms and conditions of guarantees provided by MDBs for public sector projects, offered on both a concessional and non-concessional basis, it is recommended that CIF adopt a guarantee fee of 25 bps per annum.

117. The recommended CIF guarantee fee of 25 bps per annum is higher than CIF's current guarantee fee of 10 bps, but lower than IDA's fee of 75 bps. The proposed CIF guarantee fee of 25 bps per annum would be in addition to the CIF MDB fees associated with guarantees, which would remain unchanged, and are outlined in Section 7 of the CIF Operational Modalities document. The CIF Operational Modalities document provides for the following MDB fees associated with CIF guarantees:
    a. Loan guarantees: 18 bps per annum on the undisbursed balance of the guaranteed financing, or a 45 bp front-end fee on the guaranteed amount.
    b. Contingent finance guarantees: one-time charge of USD 200,000.

118. Rationale for this recommendation is based on the assessment that CIF pricing for current programs represents a hybrid of the pricing arrangements offered by other guarantee providers and is generally on the lower end of concessional pricing offered for public sector guarantees.

39 Please see IDA's website for current terms and conditions: https://treasury.worldbank.org/en/about/unit/treasury/ida-financial-products/lending-rates-and-fees#3.

Appendix I - Detailed Source Listing for Terms and Conditions

IBRD/IDA:

a. IBRD/IDA Financial Terms and Conditions of Bank Financing: https://policies.worldbank.org/sites/ppf3/PPFDocuments/Forms/DispPage.aspx?docid=1644&ver=current
b. IBRD Lending Rates and Spreads: http://documents.worldbank.org/curated/en/731951588366654098/IBRD-Lending-Rates-and-Spreads-Applicable-on-or-after-April-1-2020;
c. IDA Lending Terms: https://ida.worldbank.org/sites/default/files/pdfs/ida-terms-effective-april-1-2020.pdf.
d. IDA/IBRD guarantee terms: https://treasury.worldbank.org/en/about/unit/treasury/ida-financial-products/lending-rates-and-fees#3.

IDB:

a. Flexible Financing Facility Terms at a Glance: http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-396098489-2741;
b. Current interest rates and loan charges: http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1436601171-374;
c. Current fees: http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=EZSHARE-1436601171-396 ;
d. Concessional financing terms and conditions: http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35770512;
e. Guarantee terms: https://www.iadb.org/en/idb-finance/guarantees.

AfDB/ADF:

a. AfDB's Financial Products - Terms and Conditions: https://www.afdb.org/en/projects-operations-financial-products-african-development-bank-loans/ffl-terms-and-conditions ;
b. AfDB lending rates: https://www.afdb.org/en/documents/adb-applicable-lending-rates-sovereign-guaranteed-loans-1-february-31-july-2020;
c. ADF Guarantees: https://www.afdb.org/en/projects-and-operations/financial-products/african-development-fund/guarantees;
d. ADF Guarantee terms: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Stewart%20Kinloch%20Presentation.pdf;
e. ADF loan terms: https://www.afdb.org/en/projects-and-operations/financial-products/african-development-fund/loans;
f. ADF Recipient Countries: https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-recipient-countries.

ADB

a. ADB Financial Products terms: https://www.adb.org/sites/default/files/publication/29122/adb-financial-products.pdf;
b. LIBOR-based loans at a Glance: https://www.adb.org/sites/default/files/institutional-document/33775/libor-based-loans-overview.pdf;
c. Indicative Lending rates for LIBOR-based loans: https://www.adb.org/sites/default/files/page/227681/adb-indicative-rates-01June2020.pdf;
d. Funding cost margins: https://www.adb.org/sites/default/files/institutional-document/437531/revised-lending-rates-and-funding-cost-margins-jan-2020.pdf;
e. ADB concessional loan terms and conditions: https://www.adb.org/site/public-sector-financing/financial-products;

f. Lending and Grant Policies (Concessional Assistance): https://www.adb.org/sites/default/files/institutional-document/31483/om-d2.pdf;
g. Classification of Developing Member Countries: https://www.adb.org/site/public-sector-financing/lending-policies.

EBRD:

a. Guide to EBRD financing: https://www.ebrd.com/news/publications/guides/a-guide-to-ebrd-financing.html.

IFC:

a. Loans: https://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Solutions/Products+and+Services/Loans.

Other MIGA:

a. Investment Guarantee Guide: https://www.miga.org/sites/default/files/archive/Documents/feature_images.old/IGGpa.pdf;
GCF: https://www.greenclimate.fund/sites/default/files/document/financial-terms-conditions-grants-loans.pdf ,
Revised terms of reference: B.BM-2019/08
https://www.greenclimate.fund/boardroom/decisions?f[]=field_meeting:279;

Appendix II - Extract of Section 6.1 Financing terms, Operational Modalities for the Climate Investment Funds' New Strategic Programs

Joint CTF-SCF/TFC.22/4, dated March 4, 2020

119. CIF's concessional resources seek to push boundaries to drive innovation, move MDBs to the frontier of risk taking, and pursue frontier approaches in difficult contexts with a view of pulling private capital into contexts otherwise deemed too risky or costly. CIF's concessional resources seek to enable interventions that would not otherwise happen with MDBs' own resources.

120. For public sector projects, CIF's resources would be expected to be:

- For non-IDA eligible countries[40] (typically middle-income countries): equal to the least concessional among IDA's terms effective as of July 1, 2019[41] (see Box 1)
- For IDA only countries (typically low/lower-income countries): softer than IDA's terms effective as of July 1, 2019 (see Box 1) subject to MDBs' justification of the need for a higher degree of concessionality in the relevant program or project document. The degree of concessionality for low-income countries shall consider countries' relative risk of debt distress as defined by the Joint World Bank-IMF's Debt Sustainability Framework methodology.[42] As a result, countries in debt distress or at high-risk of debt distress are eligible to receive 100 percent of CIF financing as grants. Countries at moderate risk of debt distress are eligible to receive 50 percent of financing as grants and the remaining 50 percent as credits.

121. CIF would apply the IDA's term effective at the time of funding approval for a program or project (or sub-project) by the relevant governing body. To reflect updates in IDA's terms and countries' eligibility, the CIF Administrative Unit will revise and update this document on an annual basis in the month of July.

122. The amount of grants as a percentage of the overall CIF funding package will be agreed by the relevant CIF governing body on the basis of a country's need as outlined in the investment plan or program/project-specific circumstances.

123. In cases where national governments will borrow from MDB for on-lending to sub-national governments, MDBs will specify in the financing agreements that the pricing of CIF concessional resources must be maintained.

124. For private sector projects, the degree of concessionality of CIF resources shall be determined by MDBs on a case-by-case basis and structured following the Enhanced Blended Concessional Finance Principles for Private Sector Investment Operations agreed by the heads of MDBs and European Development

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[40] Please refer to Annex 5 and IDA's web site for details on IDA eligible countries. For reference: eligibility for IDA support depends first and foremost on a country's relative poverty, defined as GNI per capita below an established threshold and updated annually ($1,175 in fiscal year 2020). IDA also supports some countries, including several small island economies, that are above the operational cutoff, but lack the creditworthiness needed to borrow from the International Bank for Reconstruction and Development (IBRD). For more details see IDA's web site.

[41] See Box 1 and IDA's web site.

[42] Please refer to the IMF's web site as the Debt Sustainability Framework is periodically reviewed.

Finance Institutions in October 2017.[43]

125. In light of the principle that outgoing funding cannot be more concessional than incoming contributions, the degree of concessionality of CIF resources for both public and private sector operations will be dependent on the type of contributions received.

Box 1: IDA terms effective as of July 1, 2019[44]

IDA maturity, grace period, principal repayment and acceleration clause

	Maturity	Grace Period	Principal Repayments		Acceleration Clause
Grants	NA	NA	NA	NA	NA
Small economy	40	10	2% for yrs. 11-20	4% for yrs. 21-40	Yes
Regular	38	6	3.125% for yrs. 7-38		Yes
Blend[45]	30	5	3.3% for yrs. 6-25	6.8% for yrs. 26-30	Yes

Fixed rates for FY20 Q1

	USD
Regular for small economy – service (10-yr grace and 40-yr maturity)	1.46%
Regular for IDA only – service (6-yr grace and 38-yr maturity)	1.48%
Blend – service	1.49%
Blend – interest	1.40%
Blend – total	2.89%

[43] Joint-DFIs (2017), DFI Working Group on Blended Concessional Finance for Private Sector Projects; Joint-DFIs (2018), DFI Working Group on Blended Concessional Finance for Private Sector Projects *– Joint Report, October 2018 Update*.

[44] Please refer to IDA's web site for the latest terms.

[45] Blend terms apply to blend countries and IDA countries with GNI per capita above the operational cutoff for more than two consecutive years, known as gap countries. An exception to the GNI per capita operational cutoff for IDA eligibility has been made for some small states and small island economies based on their vulnerability.

IDA guarantee pricing for guarantees approved on or after October 1, 2018			
Charges	**Fees**	**Private Projects**[46]	**Public Projects**[47]
Upfront Charges *(one-time fees charged on guarantee amount)*	Front end	-	-
	Initiation	Greater of 15 bps and US$100k	-
Recurring Charges *(per annum)*	Standby	-	
	Guarantee	75 bps	75 bps

Note: The pricing indicated would apply to both IDA-eligible and non-IDA eligible countries. For IDA eligible countries a degree of concessionality higher than IDA's terms can be granted subject to MDBs' justification in the relevant program/project document.

[46] Refers to guarantees extended to backstop a government's obligation with a private sector entity (e.g., in the case of Public- Private Partnerships).

[47] Includes Policy-Based guarantees. In accordance with IBRD and IDA Policy on Financial Terms and Conditions, policy-based guarantees cover debt service defaults, irrespective of the cause of such default, on a specified portion of commercial debt owed by Government and associated with the supported Government's program of policy and institutional actions. Policy-based guarantees do not support bilateral debt or debt extended by publicly owned entities that operate under public law for public policy purposes (e.g., bilateral financiers, government owned-policy banks and export/import agencies).

Appendix III – MDB Public Sector Non-Concessional lending terms and conditions

Comparison of MDB Public Sector *Non-Concessional* lending terms and conditions

	IBRD [a.]	**AfDB**	**IDB**	**ADB**
Loan Product	IBRD Flexible Loan (IFL)	Fully Flexible Loan	Flexible Financing Facility	LIBOR-based loans
Fixed rate loans [b.]	LIBOR + fixed or variable spread with option to fix the rates	Base rate only can be fixed	Base rate only can be fixed	Loans will initially have a floating rate unless borrowers request a fixed rate during life of loan
Floating Interest Rate				
Base rate/reference rate	USD-6-mo LIBOR, updated on the 1st and 15th of every month (with semi-annual resets thereafter)	USD 6-mo LIBOR, updated February 1 and August 1	USD 3-mo LIBOR, updated January 1, April 1, July 1 and October 1	USD-6-mo LIBOR, applied at time of loan signing
Funding spread [c.]	Variable spread: updated January 1, April 1, July 1 and October 1. Fixed spread: fixed for life of loan.	Updated February 1 and August 1	Updated quarterly (as above)	Updated January 1 and July 1
Lending spread [d.]	0.50%	0.80%	0.80%	0.50%
Maturity premium [e.]	Based on country grouping and average maturity. Group A maturity premium ranges from NIL for loans with average maturity of 8 years and below, and up to 0.50% for loans with average maturity greater than 18 years and up to 20 years.	0.10% for loans with average maturity greater than 12.75 years and up to 15 years 0.20% for loans with average maturity greater than 15 years	None	0.10% for loans with average maturity greater than 13 and up to 16 years 0.20% for loans with average maturity greater than 16 and up to 19 years.
Other Fees				
Commitment fee [f.]	0.25%	0.25%	0.50%	0.15%
Front-end fee [g.]	0.25%	0.25%	None	None
Other Terms				
Maximum Maturity or Weighted Average Life (WAL)	35 years, WAL 20 years	25 years	Investment Loans: 25 years, WAL 15.25 years. Policy Based Loans: 20 years, WAL 12.75 years	WAL:19 years

Grace Period	Borrowers have flexibility to tailor repayment schedule (including grace period) at loan preparation, with WAL of 20 years not to be exceeded	8 years	5.5 years	Borrowers have flexibility to tailor repayment schedule (including grace period) at loan preparation, with WAL of 20 years not to be exceeded
Repayment Schedule	Commitment-linked or disbursement-linked repayment schedule	Equal semi-annual. Other schedules (annuities, bullet, etc) may be considered.	Equal semi-annual. Other schedules (annuities, bullet, etc) may be considered.	Annuity, straight-line, bullet, disbursement linked or custom

a. A portion of IDA resources is offered at non-concessional terms (i) for operations financed by the IDA Scale-Up Facility, and (ii) on an exceptional basis, to the most recent IDA Graduates to help ensure a smooth transition from IDA. The terms of such IDA non-concessional credits are the same as for current IBRD Flexible Loans (based on Group A pricing).
b. Rates are fixed through conversion or hedging.
c. MDB's funding margin over/below reference rate. Can be a rebate or surcharge. Determined on each interest rate reset date and is applicable for the following interest period.
d. Determined at loan signing and remains fixed for entire life of loan. Lending spreads are reviewed periodically.
e. Determined at loan signing and remain fixed for entire life of loan. IBRD classifies borrowers into four pricing groups, whose applicable maturity premium is differentiated by exemptions, discounts or surcharges specific to each pricing group.
f. Based on undisbursed balance of loan, typically starts to accrue 60 days after signing date.
g. One-time fee charged on committed amount, can be paid out of loan resources.

Appendix III (continued)

Illustrative Public Sector *Non-Concessional* Pricing

126. To illustrate how the above-noted terms compare in practice, sample pricing, as of January 1, 2020 and June 1, 2020, have been calculated for a variable spread loan based on the following terms:

Currency:	US dollar
USD 6-mo LIBOR:	1.9095% (as of January 2, 2020) and 0.5098% (as of June 1, 2020)
Case 1:	**Weighted Average Life of 12.75 years**
Case 2:	**Weighted Average Life of 19 years**

Illustrative pricing as of January 1, 2020

	IBRD			**AfDB**	**IDB**	**ADB**	
Base rate (A)	1.9095%			2.19163%	1.83%	1.9095%	
Funding spread (a)	(0.02) %			(0.01)%	0.12%	0.0%	
Lending spread (b)	0.50%			0.80%	0.80%	0.50%	
Maturity premium (c)	Group	Case 1	Case 2	Case 1 *	Case 1 *.	Case 1	Case 2
	A	0.30%	0.50%	0	None	0	0.20%
	B	0.40%	0.70%				
	C	0.50%	0.90%				
	D	0.65%	1.15%				
	Group	Case 1	Case 2	Case 1*	Case 1 *	Case 1	Case 2

Total Spread (B)= a+b+c	A B C D	0.78% 0.88% 0.98% 1.13%	0.98% 1.18% 1.38% 1.68%	0.79%	0.92%	0.50%	0.70%
Lending Rate (A+B)	**Group**	**Case 1**	**Case 2**	**Case 1 ***	**Case 1 ***	**Case 1**	**Case 2**
	A **B** **C** **D**	**2.6895%** **2.7895%** **2.8895%** **3.0395%**	**2.8895%** **3.0895%** **3.2895%** **3.5895%**	**2.98163%**	**2.75%**	**2.4095%**	**2.6095%**

*Case 1 shown only, as Case 2 is not applicable for these MDBs, since the maturity and weighted average life exceed the maximum terms provided by the MDB. Case 2 is included to illustrate the pricing for the MDBs which provide loans with longer terms (ie in excess of 20 years).

Illustrative pricing as of June 1, 2020

	IBRD			**AfDB**	**IDB**	**ADB**	
Base rate (A)	0.5098%			1.76338	1.22%	0.5098%	
Funding spread	(0.01)%			0.0%	0.09%	0.0%	
Lending spread	0.50%			0.80%	0.80%	0.50%	
Maturity premium	Group	Case 1	Case 2	Case 1	Case 1.	Case 1	Case 2
	A B C D	0.30% 0.40% 0.50% 0.65%	0.50% 0.70% 0.90% 1.15%	0	None	0	0.20%
Total Spread (B)	Group	Case 1	Case 2	Case 1	Case 1	Case 1	Case 2
	A B C D	0.79% 0.89% 0.99% 1.14%	0.99% 1.19% 1.39% 1.64%	0.80%	0.89%	0.50%	0.70%
Lending Rate (A+B)	**Group**	**Case 1**	**Case 2**	**Case 1**	**Case 1**	**Case 1**	**Case 2**
	A **B** **C** **D**	**1.2998%** **1.3998%** **1.4998%** **1.6498%**	**1.4998%** **1.6998%** **1.8998%** **2.1498%**	**2.56338%**	**2.11%**	**1.0098%**	**1.2098%**

Appendix IV – MDB Public Sector Concessional lending terms and conditions

Comparison of MDB Public Sector *Concessional* lending terms and conditions

Entity	Maturity	Grace Period	Principal Repayments [a]		Recurring fees		
					Service Charge [b]	Interest Rate [c]	Other fees [d]
CIF							
CTF – Hard	20	10	10% for yrs 11-20		0.75%	n/a	0.18%
CTF – Soft	40	10	2% for yrs 11-20	4% for yrs 21-40	0.25%	n/a	0.18%
FIP	40	10	2% for yrs 11-20	4% for yrs 21-40	0.25%	n/a	e.
SREP	40	10	2% for yrs 11-20	4% for yrs 21-40	0.10%	n/a	e.
PPCR	40	10	2% for yrs 11-20	4% for yrs 21-40	0.10%	n/a	e.
IDA							
Regular	38	6	3.125% for yrs 7-38		1.30%	n/a	0%
Small Economy [f]	40	10	2% for yrs 11-20	4% for yrs 21-40	1.30%	n/a	0%
Blend [g]	30	5	3.3% for yrs 6-25	6.8% for yrs 26-30	1.29%	1.35%	0%
ADB [h]							
Concessional [i]	24 – 32	8	Equal installments after grace period		n/a	1.0% - 1.50%	n/a
Blend [j]	25	5	5% for yrs 6-25		n/a	2.0%	n/a
Emergency	40	10	2% for yrs 11-20	4% for yrs 21-40	n/a	1.0%	n/a
AfDB [k]							
Regular [l]	40	10	Equal installments after grace period		0.75%	0%	0.50%
Advance [l]	40	5	Equal installments after grace period		0.75%	0%	0.50%
Blend, Gap and Graduating [m]	30	5	Equal installments after grace period		0.75%	1.0%	0.50%
GCF							
High concessionality	40	10	2% for yrs 11-20	4% for yrs 21-40	0.25%	0.0%	Up to 0.50%
Low concessionality	20	5	6.7% for yrs 6-20		0.50%	0.75%	Up to 0.75%

a. IDA concessional credits include an acceleration clause, providing for doubling of principal payments from creditworthy borrowers where GNI per capita remains above eligibility thresholds.
b. Payable on the principal amount withdrawn and outstanding.
c. Interest rate is in addition to service charges and other fees.
d. In the case of CTF represents an MDB fee charged on the undisbursed amount to reimburse the MDB for its incremental staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and

reporting. In the case of ADF and GCF, represents commitment fees, charged on the undisbursed amount. These amounts are borne by the loan recipient (except in the case of SCF programs, see note e. below).

e. SCF programs' MDB project implementation services (MPIS) costs are borne by the SCF fund directly (rather than the SCR borrower). MPIS costs vary from project to project and cost recovery is based on benchmarks (per project) which range from USD 428,000 (when SCF financing is blended) to USD 777,000 (for a stand-alone SCF financed investment project).
f. Eligibility is limited to countries that meet the definition of a Small Island Economy or a Small State Economy per Section II of the Bank Policy for IBRD and IDA.
g. Blend terms apply to Blend Countries and Gap Countries.
h. Concessional assistance is provided in the form of concessional loans from ordinary capital resources of the ADB and grants from the Asian Development Fund. This information represents the concessional loan terms only (provided by ADB directly).
i. Countries that are eligible for sovereign concessional loans and/or Asian Development Fund grants. Maximum maturity is 24 years for policy-based loans and 32 years for project-based loans Interest rate is 1.0% during grace period and 1.5% during amortization period. These terms are applied to Group A and IDA-GAP countries.
j. Countries that are eligible for both sovereign regular and concessional loans (but not grants).
k. Concessional lending window for AfDB provided by the African Development Fund (ADF).
l. The ADF countries fall into two groups based on their GNI per capita. Countries with a GNI per capita above the average of all ADF-only countries are included in the Advance group, and all countries with a GNI per capita below the average are in the Regular group.
m. The AfDB's credit policy classification determines each regional member country's eligibility for either concessional resources (ADF), non-concessional resources (AfDB) or a combination of both (blend, gap and graduating countries).

Appendix IV (continued)

Eligibility for Concessional Sovereign financing

127. Eligibility for concessional and blend term arrangements are based on country classifications, which are maintained and updated in accordance with frameworks and policies established by each respective MDB. **Transition from one country classification to another may result in a change in lending terms for concessional loans currently outstanding**, details of which are provided below.

128. **AfDB/ADF**: The AfDB's credit policy classification determines each regional member country's eligibility for either concessional resources (ADF), non-concessional resources (AfDB) or a combination of both (blend, gap and graduating countries). ADF countries fall into two sub-groups (Regular and Advance) based on their GNI per capita. As of February 2018, there were 27 countries eligible for ADF resources, and eleven countries eligible for either gap, blend or graduating to AfDB terms.

129. AfDB has developed a framework which recognizes a country's transition from one credit status to another. The transition framework also provides the criteria which determines the length of the transition period and the financing mix during this period. The minimum transition period is two years and the maximum are five years.

130. **ADB**: ADB uses a classification system to determine eligibility of developing member countries to borrow from ordinary capital resources at near-market terms or at concessional loan terms or to receive grants from the Asian Development Fund. Country eligibility for concessional resources is determined in accordance with ADB's graduation policy which examines GNI per capita and creditworthiness. Under the policy, concessional loans are provided to group A countries (2020 includes: Kyrgyz Republic, Maldives, Solomon Islands and Vanuatu) while blend resources are provided to group B countries (2020 includes: Bangladesh, Mongolia, Pakistan, Palau, Papua New Guinea, Timor-Leste, Uzbekistan).

131. The terms of concessional loans may be adjusted to reflect changes in a country's economic circumstances. If the borrower's GNI per capita has exceeded ADB's GNI per capita operational cut-off for 5 consecutive years and the borrower has achieved the capacity for regular loans, ADB may modify

the terms of repayment of the loan or, as an alternative to accelerating principal repayments, at the request of the borrower, ADB may increase the interest charged. If after such modification, a country's economic condition has deteriorated significantly, at the request of the borrower, ADB may restore the original lending terms for the remainder of the loan.

132. **IDA:** Lending terms are determined with reference to recipient countries' risk of debt distress, the level of GNI per capita, and creditworthiness for the IBRD borrowing. Recipients with a high risk of debt distress receive 100 percent of their financial assistance in the form of grants and those with a medium risk of debt distress receive 50 percent in the form of grants. Other recipients receive IDA credits on regular or blend and hard terms. Blend terms apply to blend countries and IDA countries with GNI per capita above the operational cut-off for more than two consecutive years, known as gap countries.

133. IDA may modify the terms of an outstanding concessional loan if the country's annual GNI per capita has exceeded, for 3 consecutive years, the level established annually by IDA for determining eligibility to access IDA resources and IBRD considers the country creditworthy for IBRD borrowing. In these circumstances, recipients are required to repay twice the amount of principal installment not yet due until the credit is fully repaid, subject to a minimum grace period of five years. Alternatively, the recipient may request another interest charge or develop a customized repayment schedule. If IDA determines that a recipient's economic condition has deteriorated significantly after the terms have been adjusted, IDA may, if the recipient requests, revert to the original repayment schedule.

Appendix V – MDB Guarantee terms and conditions

Comparison of MDB Guarantee terms and conditions

	CIF		IDA		IDB	ADF	IBRD	IDB	AfDB	ADB
	Loan Guarantees	**Contingent Finance**	**Public**	**Private**						
CONCESSIONAL							**NON-CONCESSIONAL - PUBLIC**			
Front End Fee [a]	0.25% (FIP, SREP and PPCR) and 0.45% (CTF) for MDB fees OR recurring	USD 200,000 (MDB fees)	n/a	n/a	n/a	0 to 1%	0.25 %	n/a	yes, not disclosed	Specific details not disclosed
Initiation Fee	n/a	n/a	n/a	Greater of 0.15% of guarantee amount or USD 100,000	n/a	n/a	n/a	n/a	yes, not disclosed	
Processing Fee	n/a	n/a	n/a	Up to 0.50% of guarantee amount	n/a	n/a	n/a	n/a	yes, not disclosed	
Standby Fee [b]	0.10% (FIP, SREP and PPCR) and 0.18% (CTF) for MDB fees OR one-time up-front fee	0.1%	0	0	n/a	0.5%	0.25 %	0.50% (Equal to credit fee for sovereign loans)	0	
Guarantee Fee [c]	0.1%	n/a	0.75 %	0.75%	0.25 %	0.75 %	0.50 % to	0.80% (Equal	Equal to the	

						(equal to service charge for ADF loans)	1.65%	to variable lending margin for sovereign loans)	lending spread (on a similar Bank loan) + a risk premium	
Sovereign Guarantee	No, but MDB will retain CIF funds in an amount to match guarantees committed on a one-to-one basis		Yes		Yes	Yes	Yes	Yes	Yes	If none available, risk limits imposed

a. Fee is charged on the possible maximum exposure under the guarantee (which is typically equal to guarantee amount).
b. Similar to a commitment fee. Fee is charged on the amount of guaranteed principal that has not yet been disbursed. In the case of IDA, the standby fee is currently fixed at nil, but may change per changes in commitment charges, which are assessed annually by the Board.
c. Fee is charged on the disbursed and outstanding amount of the guaranteed financing. In the case of IBRD, the fee is based on average maturity and pricing group.

Appendix VI – MDB Private Sector terms and conditions

Comparison of MDB Private Sector lending terms and conditions

	IFC	EBRD	ADB	AfDB	IDB [a.]
Interest Rate					
Fixed vs Floating	Typically, variable (or fixed and swapped into variable). Weighted average contractual interest rate 5.4% as of March 31, 2020.	Fixed or floating rate	Loans will initially have a floating rate unless borrowers request a fixed rate during life of loan.	Typically, variable.	Borrowers can choose to fix or float the interest rate
Lending spread [b.]	Project specific Depends on assessment of country and project risks				
Other Fees					
Commitment fee [c.]	Not disclosed	Not disclosed	0.50% to 1.0%.	0 to 1.0%	Not disclosed
Front-end fee [d.]	Not disclosed	Not disclosed	1.0% to 1.25%	1%	Not disclosed
Other Terms					
Maximum Maturity and/or Weighted Average Life (WAL)	7 – 12 years, although some have been made for 20 years	1 – 15 years	Based on project needs.	Up to 15 years	Not disclosed
Grace Period	Not disclosed	Project specific	Project specific	Up to 5 years	Not disclosed
Repayment Schedule	Not disclosed	Normally equal, semi-annual instalments. Uneven repayment schedules considered on an exceptional basis.	Annuity or mortgage style, or tailored to meet project needs	Equal semi-annual. Other schedules (annuities, bullet) may be considered.	Annuity, straight-line, bullet, disbursement linked or custom

a. Beginning on January 1, 2016, and extending for a seven-year period, non-sovereign guaranteed activities are being originated by Inter-American Investment Corporation (IIC) and largely co-financed by IDB and the IIC.
b. Determined at loan signing and remains fixed for entire life of loan. Lending spreads are reviewed periodically.
c. Based on undisbursed balance of loan, typically starts to accrue 60 days after signing date.
d. One-time fee charged on committed amount.

Comparison of MDB Private Sector guarantee terms and conditions

MDB	Up-Front Fees (one-time)			Recurring Fees		Sovereign Guarantee
	Front End Fee [a.]	Initiation Fee	Processing Fee	Standby Fee [b.]	Guarantee Fee [c.]	
IBRD and IDA non-concessional	0.25%	Greater of 0.15% of guarantee amount or USD 100,000	Up to 0.50% of guarantee amount	0.25%	0.50% to 1.65%	Yes
AfDB	1.0%	yes, not disclosed	yes, not disclosed	Between 0 and 1% for MIC borrowers, and between 0.5% and 1% for other countries	Equal to the lending spread (on similar Bank loan) + risk premium (reflecting risks associated with particular guarantee)	No, subject to risk limits
MIGA	Prices reflect risk of project and country and usually range between 0.30% and 1.0% and up to 1.50% in some cases					No, but requires host country approval and subject to risk limits
IFC, EBRD, ADB	Specific details not disclosed					No, but subject to risk limits

a. Fee is charged on the possible maximum exposure under the guarantee (which is typically equal to guarantee amount).
b. Similar to a commitment fee. Fee is charged on the amount of guaranteed principal that has not yet been disbursed.
c. Fee is charged on the disbursed and outstanding amount of the guaranteed financing. In the case of IBRD/IDA non-concessional, the fee is based on average maturity and pricing group.