

Guiding principles and factors determining terms of financial instruments

This document is as adopted by the Board and contained in annex III to decision B.05/07, paragraph (a).



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- (a) Guiding principles applicable to public and private sector operations:
- (i) Grant elements should be tailored to incremental cost or the risk premium required to make the investment viable, or to cover specific activities such as technical assistance;
 - (ii) Seeking the right level of concessionality, so as not to displace investments that would otherwise have occurred, including for private sector investment;
 - (iii) Levels of indebtedness capacity of the recipient should be taken into account so as not to encourage excessive indebtedness;
 - (iv) Structure terms on a case-by-case basis to address specific barriers;
 - (v) Avoid crowding out commercial financing;
 - (vi) Leveraging of other financing, including public and private financing, seeking to maximise leverage in the case of private financing;
 - (vii) Promote long-term financial sustainability; and
 - (viii) Apply due diligence to assess the risk to the investment.
- (b) When determining terms of financial instruments applicable to both public and private operations, the following factors will need to be taken into account:
- (i) The average concessionality or grant element of the financial inputs to the Fund and the average concessionality or grant element of financial instruments of the Fund;
 - (ii) The grant element of concessional finance will be tailored to provide the appropriate incentive to facilitate the implementation of mitigation and adaptation activities;
 - (iii) Concessional forms of finance will be designed to minimize market distortions and potential disincentives to private investment;
 - (iv) The expertise and capacity of financial intermediaries and implementing entities; and
 - (v) The risk sharing between public and private investment, when relevant.



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