Annex III: Guiding principles and factors for determining terms of financial instruments

(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.