

CLIMATE INVESTMENT FUNDS

April 14, 2015

Approved by mail: Proposal for distributing grant and non-grant resources to SREP new pilot countries

Comments Received from Switzerland

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Dear Mafalda,

Thank you for circulating the document ***Proposal for Distributing Grant and Non-Grant Resources to the SREP New Pilot Countries.***

In order to be able to work out a position, we need some additional guidance.

We have the following questions:

1. How and by whom was the risk of debt distress appraised?
→ Debt sustainability analysis (DSA) is undertaken by the IMF and IDA. The DSA reports are public information available on the IMF website. Attached please find an example for Ghana. Footnote 4 of the proposal also provides a summary table (also attached) on the latest DSA data (<http://www.imf.org/external/Pubs/ft/dsa/DSAlist.pdf>).
2. What is the risk of debt distress for the remaining “existing” SREP countries, whose IP is not yet endorsed (i.e. Mongolia and Yemen)?
→ As shown in the attached table (see response to Q1), both Mongolia’s and Yemen’s debt distress is moderate.
3. What is the logic behind treating existing countries differently than new countries? Is this a “must” or could the SREP Subcommittee decide otherwise, e.g. by invoking the right to revisit the earlier decision about grant vs non-grant allocations (for existing SREP countries)?
→ The reason that new guidelines are needed for the new countries is that the resource situation for SREP has changed, with the new countries and with the additional contributions from the UK being (indicatively) half capital and half grant. In other words, if we were to apply the exiting guidelines to the new countries, we would not have enough grant resources. The Sub-Committee could revisit the guidelines for the existing countries; however, this might cause issues for projects under preparation from the endorsed investment plans. The remaining two existing countries that do not have endorsed investment plans are Mongolia and Yemen. Mongolia is working with the MDBs to development an investment plan, and plans to submit it for endorsement in November 2015. It is unlikely that Yemen will present an investment plan for endorsement in the foreseeable future.

4. What is at present available in terms of grant vs non-grant funds, given the committed funding and the expected needs of existing SREP countries?
 - ➔ Please see table attached on the SREP resource situation and the grant and non-grant allocations for the existing countries in the context of the existing guidelines. It should be noted that, as shown in the table, currently four existing countries are in “non-compliance” with the existing guidelines based on the funding approvals and expected funding requests for projects in the pipeline. Although the overall grant vs. non-grant situation for the existing countries in aggregate appears to be largely in line with the existing guidelines, Nepal has just submitted a revised investment plan – by switching from private to public sector programs, Nepal will request grant financing for the new program, which means that there will be a switch of USD 19 million from non-grant to grant resources for Nepal. Incidentally, under the existing guidelines, Nepal could request 100% grant; i.e. Nepal will still be “in compliance” even with the switch.
5. Does the CIF Administration Unit have a proposal as to how the scarcity of grant funding (if determined) should be handled with regards to IP endorsements and project approvals.
 - ➔ We have been monitoring the situation closely together with the MDBs. With the current proposal for grant allocation for the new pilot countries, we aim to match the availability of grant resources with the potential demand. There are still uncertainties due to changes in the pipeline (e.g., Nepal) and over-programming (i.e., which projects will actually be submitted for funding approval). We have also been working with the MDBs regarding countries in “non-compliance” of the existing guidelines. The Sub-Committee’s decision in endorsing the Liberia investment plan left the door open to make an exception for Liberia (i.e., to receive 100% funding in grant) vis-à-vis the existing guidelines. One potential question for the Sub-Committee is: would it make similar exceptions for other countries or would it insist on following the existing guidelines regarding allocation of grant resources? Further guidance from the Sub-Committee would be helpful.

We thank you for giving us some additional guidance related to the above questions as soon as possible, to enable us to respond by the proposed deadline of April 27.

Thank you and best regards

Daniel

Daniel Menebhi

Program Manager

Federal Department of Economic Affairs, Education and Research EAER

State Secretariat for Economic Affairs SECO

Infrastructure Financing

Holzikofenweg 36, 3003 Berne

Tel. +41 58 46 22207

Fax +41 58 46 40962

daniel.menebhi@seco.admin.ch

www.seco.admin.ch