

CLIMATE INVESTMENT FUNDS

March 14, 2016

**APPROVAL BY MAIL: NEPAL: SOUTH ASIA SUB-REGIONAL ECONOMIC COOPERATION POWER
SYSTEM EXPANSION PROJECT (SREP) (ADB) - XSREN022A**

Comments received from Switzerland

Dear Mafalda,

Thank you for circulating the decision about Nepal South Asia Economic Power System Expansion Project.

We have the following questions and comments before being able to approve it:

1. There are certain inconsistencies with the amount of co-financing the additional SREP contribution is supposed to trigger:
 - a. According to table 1 (p.2) of the cover document, there is no additional financing, just the \$20 million from SREP.
 - b. According to the paragraph on Leveraging (p.6), the new project component is expected to leverage private sector equity and commercial debt estimated around \$70 million. Yet that corresponds also to the estimated total investment for the 25 MW project, at the estimated cost (\$2.79 million for 1 MW according to the footnote 11). In that case (i.e. if the private sector investment covers the total cost), why is a SREP contribution needed at all?
 - c. According to the revised IP, \$70 million co-financing was supposed to include a \$50 million loan from the ADB, with the remainder to be defined. On our querying the difference could have been covered by an EU contribution. What happened to this proposed ADB loan and to the possible EU contribution?
 - d. Please clarify in a precise manner what co-financing from public and private sources the additional SREP contribution is expected to raise.
2. In the answers to our questions on the revised IP, it was stated that:
 - a. The detailed mechanisms of funds flow will be determined during project preparation in accordance to SREP and ADB guidance
 - b. The funds flow will be subject to loan covenants to be agreed between ADB and the Government
 - c. Disbursement conditions and other details will be elucidated during project preparation

Please indicate precisely where the details about these mechanisms, loan covenants and disbursement conditions can be found in the project document.

3. Along with the revision of the IP, Nepal switched from a request of capital/concessional loans to 100% grant contribution for this project. This issue was flagged by SREP contributors including Switzerland, especially given the increasing scarcity of grant resources in the remaining SREP funds which have led to increasing limitations of grant components in the SREP investment plans of the more recent SREP recipient countries. In light of this we would like:
 - a. That Nepal and the ADB consider to what extent capital/concessional loans could also be used for the SREP contribution in this project. We would expect this to be possible given the nature of the proposed attribution process via a competitive bidding by private operators.
 - b. In case, the 100% grant approach is retained, Nepal and the ADB should give a detailed justification why capital/concessional loans could not contribute to the results in their eyes.

Please forward these questions and comments to the Government of Nepal and to ADB so that they could prepare some answers in time for the approval deadline.

Thank you and best regards

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