

January 18, 2013

**Comments from Denmark on Proposal Related to the Use of Local Currency
Loans Under the SCF Trust Fund**

Dear Patricia,

With the understanding that only capital contributions will cover a potential loss when the SCF TF is liquidated, I am pleased to confirm Denmark's approval of the proposal regarding Nepal and the Maldives as presented.

br

Christoffer

January 30, 2013

**Comments from Norway on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

Dear Patricia ,

Norway fully endorses UK's request.

Bente

Bente Weisser

Ministry of Foreign Affairs,

Norway

January 30, 2013

**Comments from UK on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

Dear Patricia,

I would be grateful for an extension to the deadline on this decision until the statement below by Christoffer/Denmark has been clarified.

Many thanks,

Ben

Ben Green | Deputy Team Leader - Low Carbon Development Team|Climate and Environment Department |Department for International Development

January 30, 2013

**Comments from Switzerland on Proposal Related to the Use of Local Currency
Loans Under the SCF Trust Fund**

Dear Patricia,

We have no objection to a) and b) of the proposed decision for funds which will be committed until May 2013.

However, we do not quite understand the statement under c) why no resources shall be set aside to cover financial risks related to local currency lending.

Thus we cannot endorse this statement.

Also, with regards to future such requests, we would suggest that the costs/risks related to local currency lending shall be borne directly by the concerned projects, i.e. integrated into the therefore foreseen financing allowances to concerned countries and not covered from a general fund.

Or at least this option should be addressed and discussed in the committee, when the final decision regarding local currency lending is made.

Thank you and best regards

Daniel Menebhi

Daniel Menebhi
Program Manager

Federal Department of Economic Affairs, Education and Research EAER

State Secretariat for Economic Affairs SECO

Infrastructure Financing

January 30, 2013

**Comments from Brazil on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

Dear Patricia,

We are pleased to endorse the proposal, which will facilitate greatly the implementation of projects in Nepal and the Maldives.

Considering that this is as an interim measure pending the development of the Enterprise Risk Management Framework, we understand that the Joint Committee will have an opportunity to discuss further the proper ways to address the financial risks associated with local currency lending. In this case, as the Trustee has indicated, no foreign exchange reserve was deemed necessary, an assessment we consider adequate.

Best regards,

Marco Aurélio S. Araújo
Secretariat for International Affairs
Ministry of Finance of Brazil

January 30, 2013

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Under the SCF Trust Fund**

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Best regards,

Marco Aurélio S. Araújo
Secretariat for International Affairs
Ministry of Finance of Brazil

January 31, 2013

**Comments from Germany on Proposal Related to the Use of Local Currency
Loans Under the SCF Trust Fund**

Dear Patricia,

thank you very much for the proposal. Germany agrees with NOR, UK and CAN that clarification as to the meaning of the Danish comment should be helpful.

I would like to underline the importance of IV, g of the proposal which states

"g) Losses or gains incurred due to the use of local currency lending will be taken into account for the final balance of the SCF Trust Fund. When the SCF Trust Fund is liquidated, the balance of funds remaining in the Fund will be returned to Contributors based on the type and amount of contribution as provided in the Standard Provisions Applicable to the Strategic Climate Fund, attached to the Contribution Agreements between the Trustee and the SCF contributors."

In our reading of para 13.1 ("contributor's share") in conjunction with 3. ("contributions") of the standard provisions annexed to the contributors' agreements, reflows and/or return of other funds will be calculated pro-rata regardless of the type of contribution. I assume that the last sentence

"[...], provided, however, to the extent Contributors provide funds to the Trust Fund that are used to fund grants rather than loans or other financial products, such Contributors will not share in Reflows, Return of Other Funds, defaults, SCF net income or any unused balance of funding to the extent of such grant funding. "

does not refer to the fact that grants are not usually returned to their contributors (s. 13.4 and 13.5.), but rather seems to describe as specific case. If the exact purpose could be explained, I guess this might be helpful.

Kind regards
Annette

Dr. Annette Windmeisser
Klimapolitik und Klimafinanzierung
Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung

January 30, 2013

**Comments from Brazil on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

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Best regards,

Marco Aurélio S. Araújo
Secretariat for International Affairs
Ministry of Finance of Brazil

February 12, 2013

**Comments from UK on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

Dear Patricia

The UK welcomes this proposal on local currency lending. We would also like to thank the Trustee for their assistance in clarifying the implications for grant and capital contributors.

Thanks

Ben

Ben Green | Deputy Team Leader - Low Carbon Development Team|Climate and Environment Department |Department for International Development

February 12, 2013

**Comments from Norway on Proposal Related to the Use of Local Currency Loans
Under the SCF Trust Fund**

Dear Patricia,

Norway also supports and welcomes the proposal.

Thanks and best regards,

Bente

Bente Weisser

Ministry of Foreign Affairs, Norway

February 12, 2013

**Comments from the United States on Proposal Related to the Use of Local
Currency Loans Under the SCF Trust Fund**

Patricia,

The United States is also to support this interim proposal. However, we look forward to a fuller and more detailed discussion how risks associated with local currency financing will be managed at the sub-fund and fund level later this year.

Abigail Demopoulos
Office of Energy & Environment
U.S. Treasury

February 8, 2013

Response from CIF Administrative Unit on Proposal Related to the Use of Local Currency Loans Under the SCF Trust Fund

Dear CTF and SCF Trust Fund Committee Members:

We are writing regarding the proposal seeking approval of local currency lending in the SCF on an interim basis that was circulated for review and approval on January 16, 2013.

In response to the initial proposal, the Committee Member from Denmark raised an issue concerning the impact of a potential loss from local currency lending and how that impact would affect the SCF contributors if and when the SCF Trust Fund was liquidated.

The Trustee responded to the issue raised by the Member from Denmark (see below), after which the Member from Denmark informed us that he can approve the proposal for the use of local currency lending in the SCF on an interim basis.

The Member from Switzerland also raised a question regarding this proposal, and the response of the Trustee to that question has today been posted on our website.

With the circulation of this email, we would like to extend by an additional forty-eight hours from the circulation of this e-mail the period for providing comments and expressing any objection to the proposed decision . If we do not receive an objection to the proposed decision by close of business on **February 12, 2013**, the decision will be approved.

For your reference, the full text of the proposed decision is as follows:

The joint meeting of the CTF and SCF Trust Fund Committees, recalling its request to the Trustee made in November 2012 to prepare a proposal as to resources that should be set aside to allow the CTF and SCF Trust Funds, as an interim measure pending the development of the Enterprise Risk Management Framework, to bear the currency risks related to the use of local currencies in private sector projects up to May 2013, welcomes the proposal related to the use of local currency loans under the SCF Trust Fund that was prepared by the Trustee and circulated to the members of the joint meeting of the CTF and SCF Trust Fund Committees and:

- a) takes note of the request from the MDBs that they be authorized to issue local currency loans for the following two SREP**

projects for which funds are expected to be committed by the Trustee in the period up to May 2013:

- i. ***Nepal Small Hydropower Finance Program, USD 19 million, jointly implemented by ADB and IFC (approved by the SREP Sub-Committee on November 1, 2012); and***
 - ii. ***Maldives Waste to Energy Program, USD 5 million, jointly implemented by ADB and IFC.***
- b) **agrees that up to USD 24 million in SCF resources may be utilized to provide local currency lending to the two programs listed in (a); and**
- c) **endorses the Trustee's proposal that it is not necessary to set aside resources to address the financial risks associated with local currency lending to these two programs as there are no liabilities to loan contributors under the SCF Trust Fund.**

The joint meeting of the CTF and SCF Trust Fund Committees further agrees to review the local currency needs for all three SCF targeted programs in May 2013 as part of the risk assessment to be carried out under the Enterprise Risk Management Framework approved at the joint meeting of the CTF and SCF Trust Fund Committees in November 2012.

Sincerely,

Patricia Bliss-Guest
CIF Administrative Unit
1818 H Street NW
Washington, D.C. 20433
www.climateinvestmentfunds.org

Communication from the Trustee to the Council Member from Denmark (February 5, 2013)

Thank you for your email regarding Denmark's approval of the use of local currency lending for both the Nepal and Maldives programs under SREP.

With regard to Denmark's understanding that only capital contributions will cover a potential loss when the SCF Trust Fund is liquidated, we consulted the Trustee to elaborate on whether the arrangement you describe reflects the current understanding among the contributors as set forth in the SCF legal agreements.

The Trustee informed us that pursuant to the Standard Provisions Applicable to the SCF, as attached to the SCF Contribution Agreement, Paragraph 3.1, grant and capital contributions to the SCF TF may be used for any purposes under the Contribution Agreement, except that not more than 10% of the capital contribution may be used for financing grants. Contributions made to the SCF TF are commingled and are administered by the trustee in accordance with the terms of the Contribution Agreement.

In addition, also in accordance with Paragraphs 13.1 and 13.4 of the Standard Provisions Applicable to the SCF, at liquidation of the SCF Trust Fund, all contributors would share in all losses (e.g., defaults on outgoing loans as well as losses due to foreign exchange movements on local currency loans) on a pro rata basis, after deducting any pro rata portion of a contributor's share that was used for outgoing grant funding. Correspondingly, any gains (e.g., gains due to foreign exchange movements on local currency lending, net income, fees and charges earned on outgoing loans or other financial products) would also be shared on a pro rata basis. As in the case of losses, the pro rata share is calculated after deducting any portion of a contributor's share that was used for outgoing grant funding.

Response from Member from Denmark (February 8, 2013):

Thank you for the explanation. I acknowledge that the standard provisions for the SCF do allow for grant contributions to be used as loans. I must admit that I was not aware of that because we initially allocated loans and grants according to the amounts available from capital respective grant contributions. While there is thus a legally basis for using grants to cover potential loss of loans in local currency, my concern is the amounts of the SCF to be set aside to cover the exchange rate risk – an amount that will remain passive and unused in the respective programmes. I am therefore looking forward to a further discussion of the issue at the next CIF meeting.

Meanwhile Denmark can approve the proposals regarding Nepal and the Maldives where no set aside of resources have been requested to cover the exchange rate risks.