

February 15, 2017

CLIMATE INVESTMENT FUNDS

**[APPROVAL BY MAIL] RWANDA: RENEWABLE ENERGY FUND PROJECT (WORLD BANK) (SREP)--
XSRERW058A-
COMMENTS FROM SWITZERLAND**

1. We noticed significant changes in the financial structure of the project compared to what was proposed in the investment plan with overall co-financing being massively reduced, notably:
 - a. MDB co-financing reduced from \$30 million to \$7 million and that is IDA18 committed “to further scale-up rural electrification once the initial learning phase of the REF has been completed” i.e. only after the SREP financing is consumed. Please explain this shortfall of MDB co-financing. Why was AfDB left out?
 - b. Co-financing from development partners reduced from \$23.6 million to \$3.5 million. Please explain this shortfall.
 - c. Co-financing from Government of Rwanda reduced from \$5.3 million to \$0.5million. Please explain.
 - d. Co-financing from private sector reduced from \$74.3 million to \$40 million. This corresponds to the entire private sector co-financing initially foreseen for mini-grids. Please explain this shortfall.
 - e. The leverage factor of SREP funds is reduced from 1:2.66 to 1:1
This is far from the SREP target of 1:4.0 and unacceptably low.

2. We also noticed significant changes in the expected results, notably:
 - a. The reduction of installed mini-grid generating capacity by RE from 9.5 MW to 1 MW. This is despite Switzerland’s expressed recommendation to stronger focus on mini-grids during the IP endorsement, to foster more productive use of electricity. How can such a drastic reduction of this important sub-component be justified?
 - b. The increase on the other hands of off-grid connections from 250’000 in the IP to 415’000 in the project proposal. How is this increase motivated?
 - c. The reduction of expected savings in CO2 emissions from an already low 20’000 tons/y to an even lower 14’500 tons/y, obviously as a result of the smaller mini-grid component.
 - d. The even more massive reduction of annual electricity output from RE resulting from SREP intervention (a core SREP indicator) from 42 GWh to 14.5 GWh (i.e. 66% less than initially proposed).
 - e. A reduction of number of people benefitting from improved access to electricity resulting from SREP intervention from 1.49 million to 1.32 million.
 - f. As already mentioned above (financial structure of the project), a reduction of the SREP leverage factor of co-financing from 2.66 to 1.
Please explain why the project should be approved as is, despite such a substantial deterioration in expected results.

3. An SREP contribution of \$44.0 million is requested to fund component 1 (Line of credit and direct financing for off-grid electrification), thereof \$27.5 million is non-grant and \$16.5 million is requested as grant.
 - a. In the project description (p.18, para.34) it is stated that REF will provide local-currency financing by on-lending through SACCOs, banks or direct financing (bridge loans) to mini-grid developers or locally registered off-grid so-lar companies. Please explain for what the SREP grant portion will specifically be used in this context of on-lending.
 - b. Please summarize the case as to why SREP concessional lending and grants are necessary to develop the financial markets for off-grid and mini-grid electrification in Rwanda and show that no market distortions are being introduced by this funding.

4. An SREP grant contribution of \$4.94 million is proposed for component 2 (Technical assistance, capacity building and project implementation support). This is an increase of 76% over the request in the IP. At the same time, the substantial co-financing from other development partners for this component has apparently not materialized. This raises questions:
 - a. Why is it necessary to increase the SREP funding for this component?
 - b. What contributions from development partners did not materialize and why?
 - c. In our comments ahead of the IP endorsement, we requested a detailed de-scription of TA and capacity building activities under component 2 to be developed with the project proposal. Please indicate where we can find such a detailed description with an equally detailed budget.