CLIMATE INVESTMENT FUNDS

SCF/TFC.12/3
December 6, 2017

Meeting of the SCF Trust Fund Committee
Washington D.C.
Monday, December 11, 2017

Comments from Switzerland

Federal Department of Economic Affairs,
Education and Research EAER

State Secretariat for Economic Affairs SECO
Economic Cooperation and Development
Infrastructure Financing

Financial Status of the Strategic Climate Fund (SCF)
Proposed decision to set aside funds for administrative services and country programming

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In preparation of the SCF trust fund committee meeting scheduled on Monday 11 December 2017 and based on the circulated trustee report on the financial status of SCF we have the following questions (Q) and comments (C):

1. SCF Trust fund balances and available resources
   a. (Q) What are the current (i.e. as of 30 September 2017) balances in each of the SCF programs?
   b. We understand that cumulative administrative costs (of CIF AU, MDBs and trustee) amount to USD 132.8 million up to end of June 2018 and that cumulative investment income up to end of September 2017 was USD 77.3 million. But additional information is needed for us to be better able to assess the situation, namely:
      i. (Q) What is the expected investment income on SCF trust fund balances up to end of June 2018 and thus the expected gap by then?
      ii. (Q) What is the split of cumulated administrative costs on CIF-AU, MDBs and trustee?
   c. It is mentioned that previous trustee reports already included a reserve for administrative expenses (for three years until end of FY21), amounting to USD 46.2 million as at 31 March 2017):
      i. (Q) Does that mean that USD 46.2 million were available as of 31 March 2017 to fill the expected gap in administrative costs from that date (i.e. 30 March 2017) until 30 June 2021? If not, what does it mean?
      ii. (C/Q) The problem with the reported figures is that they all refer to different dates. Can it be assumed that the mentioned reserve of USD 46.2 million is constant by e.g. 30 September 2017 or 31 December 2017 or has part of this reserve already been consumed and/or is being consumed as we move forward?
      iii. (Q) By what TFC decision was this reserve set up and when?
      iv. (Q) Is the understanding of the present report and proposed decision that this reserve needs to be increased from USD 46.2 million to USD 53.1 million or that an additional reserve of USD 53.1 million needs to be made to cover the costs until 30 June 2023 (i.e. five years instead of three)?
      v. (Q) What is the proposed budget for country programming of USD 7.7 million about – investments in country projects or programs or another form of administration costs? If the latter, what kind of costs?

2. Alternatives to address the issue:
   (C) As a grant contributor to the SCF supporting the SREP program only, Switzerland is interested to get the largest possible impact with regards to the SREP objectives out of the program. In that respect we have a clear preference for SCF/SREP funds to be used for project implementation (investments) and technical assistance contributing to the improvement of enabling environment and the strengthening of the local project implementation agencies. We also understand the needs for a proper project preparation and implementation support

although we consider that the participating MDBs, who are involved in SCF/SREP projects with usually larger loan components, should also be ready to address these issues which are key to an effective and efficient project implementation in view to provide sustainable results. We of course also acknowledge the needs for a good program administration (by the CIF AU, the MDBs and the trustee) and the good work that was always provided in this respect. The present or rather anticipated situation of significant underfunding of the administrative needs, in particular in relation to the longer than expected duration of the program and the perspective of managing reflows from capital contributions (a category to which Switzerland has not contributed), however created a major surprise and distress. Also with regards to the pressing needs of SCF/SREP beneficiary countries, which are/were counting on these funds for project implementation, we see it as our duty as committee members to explore all possible alternatives before taking the proposed steps which would seriously curtail available funding for SCF/SREP projects or programs. In that sense we urge the CIF AU, the MDBs and other committee members and CIF contributors to explore the following alternatives and/or propose additional ideas that could help address the issue:

a. An adjustment of the initial rules that were devised during the funds' design but seem inappropriate in the present situation, including:
    i. The principle that only grant contributions may be used to fund administrative expenses.
        (C) It seems inadequate that grant contributions should be blocked to pay for future administrative expenses essentially related to reflows from capital contributions. Administrative expenses should be charged to all components of a fund's balances.
    ii. The introduction of a fee to be charged to balances of contributions held as promissory notes - from now on but possibly also retroactively.
        (C) A sizeable part of the CIF (or SCF) administrative costs incurred until now is related to programming, the magnitude of which is determined by the overall contributions to the trust fund, regardless of whether it was paid in or only promised. Since only the paid in contributions are/were available to generate income from which the administrative expenses are to be covered, a fee equivalent to missing investment income should be charged on the balances of promissory notes. We are unsure whether such provisions are in place, [CIF-AU] please clarify.
b. A cost reduction at all administrative levels (CIF-AU, trustee, MDBs).
        (C) Under the scenario of a phase out of SCF activities, the administrative resources should be adapted and the corresponding costs reduced. We expect an input to this discussion from the scenarios developed by the CIF-AU in view of the Joint CTF-SCF committee meeting scheduled on 15 December 2017.
c. Contributions from the MDBs who benefit from the CIFs to greatly enhance their climate change portfolio, namely:
    i. Investment income on funds transferred to the MDBs but not yet disbursed to projects.
        (C/Q) We understand that corresponding provisions were made in the agreements between the CIFs and the MDBs for restitution of such income. To what extent has this been done until now? What amount could be expected from that source?
    ii. Voluntary waiver or reduction by the MDBs of administrative expenses which were so far covered by the SCF with regards to general programming or projects.

iii. Partial (or full) restitution by the MDBs of administrative expenses paid until now in relation to SCF programs, e.g. in the sense that a possibly decided reduction of administration rates could be made retroactive.

d. Contributions from the CTF
(C) As a sister fund to the SCF, the CTF, which we understand has excess investment income on the fund balances, could contribute to the gap in SCF in various manners, including:
    i. By absorbing a larger share of the administrative costs that are common to both funds. To launch that discussion, the Committee should be informed about the ways these costs are presently attributed to the two funds and on what basis such cost sharing has been done until now.
    ii. By simply covering the SCF deficit from its accumulated balance of past investment income until the CIF programs are finalized or the balance entirely consumed.

e. A replenishment of the SCF or its transfer under the umbrella of another fund (e.g. CTF or GCF)
(C) In relation to the discussions regarding the CIF sun-setting, which have been deferred to not before December 2018, the issue of administrative cost gap which is related to the (expected) temporary nature of the CIFs (particularly the SCF) could also be addressed by removing this peculiarity (i.e. the temporary nature) and putting the fund on a permanent level. This could happen under different scenarios, e.g.:
    i. A replenishment of the SCF
    ii. A transfer of the SCF programs under the CTF, under the assumption that the CTF2.0 scenario will materialize
    iii. A transfer of the SCF programs (or all CIFs) under the umbrella of the GCF

We understand from the discussions during the briefing call that a decision is unlikely to happen during the upcoming SCF trust fund committee meeting. The alternatives outlined above are thus just thought as an input of ideas to be further explored. We believe and hope that other committee members, the MDBs, the trustee and the CIF-AU will have additional ideas and we trust that together we can find solutions that are better than using over USD 50 million from the programs' investment resources.

Thank you and best regards

7 December 2017