

# CLIMATE INVESTMENT FUNDS

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**SREP INVESTMENT PLAN FOR MADAGASCAR**  
**RESPONSES FROM AfDB TO COMMENTS FROM SWITZERLAND**

**[Switzerland]: Regarding the Project Preparation Grant (PPG) requested by AfDB for Project 2 Hybridization of existing JIRAMA centers, the requested PPG of USD 1.4 million appears too large in relation to the size of the project (USD 39-44 million) in particular as this is in addition of a requested USD 2 million grant for technical assistance.**

[AfDB]: When compared to an estimated total cost of USD 44 million, the requested PPG represents only 3.1%, a figure that is comparable to the size of other PPGs previously approved by the SREP Sub-Committee. The technical assistance component of the project is of paramount importance to enhance the enabling environment associated with renewables in Madagascar and it is, in our view, a reasonable activity in the context of a project of this nature in such a challenging context. The sector authorities as well as JIRAMA, the national power utility, have not demonstrated capacity to run such a process. Current attempts substantiate this thesis. The technical assistance aims at not only addressing this gap/risk but also at paving the way for sustainability by making the sector autonomous to run subsequent rounds.

Finally, Madagascar, as a Low-Income Country, is continuously monitored by the International Monetary Fund under its Debt Sustainability Framework and any non-grant financing extended to the country (or a state-owned company) needs to be carefully considered as to not increase the debt burden at the sovereign level. Therefore, it is important to highlight that the only reason why part of the SREP allocation was requested in the form of non-grant is simply due to the lack of grant resources in the SREP.

**Switzerland]: In the answers to our questions 2c and 3a, the AfDB and GoM stated that the PPG would be used to “develop the framework under which JIRAMA will prepare, launch and finalize the tendering processes that will competitively select the private-sector partners to invest and operate the selected sub-projects” and the technical assistance grant will be used to “undertake the additional feasibility studies required to select the sub-projects”. Comparing these answers we also had the impression that the sequencing is wrong: the sub-projects should be selected (i.e. the feasibility studies conducted) before the tendering process can be prepared and launched.**

[AfDB]: Switzerland’s assessment is correct. This was an oversight on our side.

**[Switzerland]: Finally our understanding is that PPGs should be used to bring the information about a project to a level where the financiers are able to decide about their contributions. This notably includes the preparation of a precise budget and results framework. But activities which are foreseen under the project, should not be financed through the PPGs. In that sense we would like a precise description of the activities and corresponding costs that are proposed to be financed through the requested PPG.**

[AfDB]: Switzerland's understanding is correct. Below you will find a table with all envisaged activities as well as indicative amounts for both the PPG and the investment grant.

<b>PROJECT PREPARATION GRANT</b>	<b>AMOUNT (in USD)</b>
Additional Feasibility Studies (up to 59 sites)	980,000
Economic & Financial Analysis	75,000
Viability Analysis for Grouping of Project in Viable Packages	75,000
Preparation of Tendering Document plus Draft Contract and Agreements	120,000
Design of Guarantee Mechanism plus Stakeholder Consultations	75,000
Financial Structuring and Assessment of Adequate Funding Vehicles	75,000
<b>Sub-Total</b>	<b>1,400,000</b>
<b>TECHNICAL ASSISTANCE COMPONENT</b>	
Advisory for Evaluation of Bids & Selection of Preferred Bidders	60,000
Set-up and Implementation of Guarantee Mechanism for PPA Bankability	220,000
Set-up of Funding Vehicle	75,000
Negotiation with Bidders plus Contracting	75,000
Assistance to Financiers Due Diligence (Legal, Technical and Financial)	180,000
Supervision	450,000
Power Plant Commissioning	300,000
Training, Workshops and Tools	300,000
Follow-up Activities (12 months from COD)	240,000
Contingencies	100,000
<b>Sub-Total</b>	<b>2,000,000</b>
<b>TOTAL</b>	<b>3,400,000</b>