



Global Environment Facility

MOHAMED T. EL-ASHRY
CHIEF EXECUTIVE OFFICER
AND CHAIRMAN

January 18, 2000

Dear Council Member:

I am writing to notify you that the World Bank, the Implementing Agency for the project entitled, *Regional: IFC/GEF Efficient Lighting Initiative Tranche II*, has submitted the proposed project document for CEO endorsement prior to final approval of the project in accordance with World Bank procedures. The first tranche, providing \$9.58 million for three countries (Argentina, Peru, South Africa), was approved by the Council in April 1999. This tranche provides the remaining \$5.65 million GEF support for an additional four countries, the Czech Republic, Hungary, Latvia, and the Philippines.

Over the next four weeks, the Secretariat will be reviewing the project document to ascertain that it is consistent with the proposal included in the work program approved by the Council in July 1998, and with GEF policies and procedures. The Secretariat will also ascertain whether the proposed level of GEF financing is appropriate in light of the project's objectives.

If by February 14, 2000, I have not received requests from at least four Council Members to have the proposed project reviewed at a Council meeting because in the Member's view the project is not consistent with the Instrument or GEF policies and procedures, I will complete the Secretariat's assessment with a view to endorsing the proposed project document.

We have today posted the proposed project document on the GEF website at www.gefweb.org for your information. If you do not have access to the Web, you may request the local field office of UNDP or the World Bank to download the document for you. Alternatively, you may request a copy of the document from the Secretariat. If you make such a request, please confirm for us your current mailing address.

Sincerely,


Cc: Alternates, Implementing Agencies, STAP

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: January 10, 2000

TO: Mr. Mohamed El-Ashry, CEO/Chairman, GEF

FROM: Lars O. Vidaeus, GEF Executive Coordinator 

EXTENSION: 34188

SUBJECT: IFC/GEF Efficient Lighting Initiative Second Tranche Project Document

1. Please find attached the Project Document for the above-mentioned project for review by Secretariat staff, prior to circulation to Council and your final endorsement. The Project Document represents the four second tranche countries of the seven country US\$15 million IFC/GEF Efficient Lighting Initiative (ELI), which was initially endorsed by the GEF Council during Summer 1998. The project and budget described therein includes an allocation of US\$5.65 million for program activities in the four Tranche II countries. The Council previously endorsed in April 1999 the initial \$6.6 million for program activities in the three Tranche I countries, as well as the ELI administrative budget of US\$2.75 million. All of these sums are consistent with allocations identified in the Project Concept Document that was endorsed by Council. Since endorsement of the Tranche I Project Document by The Council, IFC has established the program administration infrastructure for the seven-country project, and has begun implementation of the country programs in the three Tranche I countries. Implementation of the four Tranche II countries would commence immediately upon endorsement by Council of the attached Project Document.

2. During the appraisal process of the past three months, IFC has evaluated the conditions in each of the four ELI Tranche II countries of The Czech Republic, Hungary, Latvia, and The Philippines. The Project Document is fully consistent with the objectives and scope of the proposal endorsed by Council as part of the Intersessional Work Program in July 1998. Specifically, the ELI Project Document effectively addresses the objective of supporting the GEF's Operational Program Number 5, building country programs for Tranche II that remove barriers to efficient lighting market development, as identified during project appraisal in each country. The resulting barrier removal strategies are designed to capitalize on local conditions and build upon the existing capacity to accelerate these markets domestically. The attached ELI Tranche II GEF Project Document provides a summary of the results of the appraisal process and requests The Council's final endorsement for US\$5.65 million of GEF funds.

3. The Project Document describes the Tranche II country program designs that have emerged through the appraisal process. While the budget allocations between country programs are consistent with the concept approved by Council, further information developed during appraisal has resulted in several changes in the budget allocations between program elements within each country. In all three countries, the program shifts have resulted, in part, from the GEF Secretariat's direction to minimize the use of product subsidies in the program design. This has resulted in a strategic reordering of the program approaches in each country. Specifically, the Tranche II country programs that emerged from the appraisal process have a strong financial transaction support component. This is in response

to the need to build capacity in these markets to deliver comprehensive energy services and project financing, a need which ELI will address through knowledge transfer of innovative business models, and by establishing specialized energy efficiency financing facilities within the Tranche II country markets. In addition, the country appraisal in Hungary indicated that market conditions will not support a strategy of engaging electric utilities as a delivery mechanism for ELI in that country at this time. Instead, ELI will focus in Hungary on building a comprehensive lighting services business industry which can generate a pipeline of projects to leverage directly the private sector investment capital generated through the existing IFC/GEF Hungary Energy Efficiency Co-Financing Program. In addition, a more substantial consumer education role will characterize the programs in all four countries, and particularly in the Philippines and in Hungary.

4. Budget allocations in each country will enable comprehensive market assessments as a first step in program implementation. This approach is a direct result of experience gained during the implementation of the three Tranche I country programs. These assessments will precede program implementation for each country. They will serve dual purposes: first, to enable local country program managers and their in-country partners to further refine the program strategy based upon their experience gained during the assessments; and second, to establish a baseline against which program impacts will be measured through ELI's central monitoring and evaluation function. This latter function reflects the IFC appraisal team's efforts to respond to lessons learned in previous GEF projects. These lessons include the importance of establishing concrete baselines and the need to build a monitoring and evaluation function explicitly within the management structure of the program. The establishment of a highly-developed monitoring and evaluation protocol and global program evaluation plan is a further result of the work undertaken under the Tranche I workplan endorsed by the Council in April 1999. The attached Project Document provides a detailed description of ELI's global program monitoring and evaluation plan (please see Annex D).

5. The economic analysis of the Tranche II country programs is summarized in Section VI, Program Impacts, with greater detail provided in Annex E. The appraisal results project slightly lower cost of avoided emissions for Tranche II countries than was estimated in the PCD. The US\$1.42 per tonne of CO₂ (or \$5.21 per tonne of carbon) estimated in the PCD was inflated by the assumption that energy savings generated by ELI will yield carbon reductions commensurate with the carbon effluent associated with the current Latvian electricity sector fuel mix, which is heavily weighted toward nuclear generation. By contrast, the Tranche II Project Document estimate of \$4.40 per tonne of carbon-avoided as an average for the four ELI countries is based on thermal generation capacity avoided as a more accurate representation of the *avoided marginal* generating source. The revised analysis presented in the attached Project Document estimates a cost of avoided emissions for the country programs of The Czech Republic, Hungary, Latvia, and The Philippines of US\$4.40 per tonne of carbon. The model used in this analysis attempts to simplify the complex market dynamics rather than build a more complex model which would necessarily require multiple assumptions under conditions of imperfect information and incomplete data about the market. The model employed is simple and conservative in its few assumptions. Specifically, high efficiency lighting product prices are assumed to remain at very high levels throughout the analysis period, even though the program is designed to lower market prices substantially, both directly through the program and on a sustained basis through enhanced competition and induced higher volume sales. In adopting this, and a variety

of other conservative assumptions, IFC wishes to establish a robust estimate of the minimum direct and indirect (market acceleration) impacts of the program.

6. The estimates of co-financing contributions from IFC and from private sector partners remain unchanged from those presented in the PCD. The appraisal process identified a variety of opportunities for developing co-financing through private sector investments in efficient lighting transactions and the establishment of new consumer financing mechanisms, which supported the estimates developed in the PCD. While these transactions remain in the early stages of development, pending commencement of ELI transaction support activities, and the subsequent commitment of the partners, the experience gained during early stage Tranche I implementation which has yielded substantial complementary public and private sector investments already, confirms the conservatism of these estimates. As is the nature of the private sector investments ELI seeks to leverage, their eventual size and the development time required to complete them is also subject to change as project development progresses.

7. The Project Document is fully responsive to the comments made during work program endorsement by the GEF Secretariat, STAP, and Council members, each of whose comments are addressed as follows:

- 7.1. As requested by the GEF Secretariat, the incremental cost analysis has been revised to show the sustainability of investments in energy efficient lighting in each Tranche II country, and how the GEF grant will be used to overcome barriers as discussed in GEF's operational policies. In addition to establishing cost-effective investment opportunities, and lowering the barriers to the efficient uptake of that technology through private sector investments, ELI's structured learning facility will also serve to enhance the sustainability and replicability of the initiative by supporting on-going post-program market activity. Please see also Section V: Crosscutting and Multi-Country Activities, Section XIII: Project Sustainability, and Annex A: Incremental Cost Analysis for these revisions.
- 7.2. In response to direction from the GEF Secretariat, the proportion of the ELI budget allocated for direct product subsidies has been substantially reduced. Please see Table VIII-3: ELI Tranche II Implementation Budget, and the country program descriptions, Section IV: Program Activities.
- 7.3. Also in response to a request by the GEF Secretariat, additional incremental cost information has been included in Appendix A.
- 7.4. In response to a request from the GEF Secretariat, we provided in the Tranche I Project Document a detailed breakdown of the project administration and overhead costs, which were endorsed by The Council in April 1999. As detailed in this Tranche II Project Document (Section VII, Program Management and Administration), every effort has been made in the program design to capture efficiencies inherent in administering a multi-country effort. ELI's Regional Implementing Entities provide a vehicle with which to capture these efficiencies, while providing IFC a reliable management mechanism for administering a multi-country program. These efficiencies will be particularly profound in the administration of the three smaller ELI countries of The Czech Republic, Hungary, and Latvia, where the country project

managers will coordinate and collaborate regionally, where appropriate, in the implementation of their programs.

- 7.5. As requested by the GEF Secretariat, we have better defined the nature of NGO participation in program implementation, particularly in terms of NGOs' capacity to increase consumer awareness. In fact, local NGOs will play a substantial role in the implementation of the consumer education and lighting professional education initiatives in all four Tranche II countries. The International Institute for Energy Conservation (IIEC), will administer the seven-country ELI Crosscutting Activities. IIEC will work through its network of local NGO partners in each ELI country to facilitate the structured learning facility, in particular, and magnify the impact of ELI's lessons-learned and capacity building exercises both within the ELI countries and beyond them. In addition, NGO involvement was substantial in the appraisal process for all four Tranche II countries, and key NGOs will play central roles in the project implementation plans for each country, as well. (Please see, Section X, Stakeholder Participation and Implementation Arrangements.)
- 7.6. As requested by the GEF Council Member from Switzerland, we have described how the consumer market and the commercial, industrial and institutional (C/I/I) market are treated respectively. For Tranche II appraisal, the country market analysis was built around this disaggregation of the market, and the resulting country programs are presented accordingly. (Please see Sections III and IV, respectively).
- 7.7. As also requested by the Swiss Council representative, the program approaches presented in the ELI Project Document recognize that in the C/I/I sectors, lighting efficiency does not depend solely on efficient components, but also on the overall design of lighting systems. In fact, appropriate design is important for any lighting application. In recognition of this factor, the core of the ELI strategy for this sector will be a focus on establishing good lighting systems design practices among lighting design professionals through curriculum development and support in the engineering and architectural schools and professional lighting design associations in each Tranche II country. Further, ELI will promote a comprehensive lighting services company business model, and support the development of such lighting services companies in an effort to build capacity in these markets for comprehensive systems-oriented design and project implementation approaches.
- 7.8. As further requested by the Swiss representative, the ELI Tranche II Project Document reflects a deliberate effort during appraisal to develop synergies available through cooperation with other existing and emerging energy efficiency programs. The opportunities for such complementary efforts in each country have been described in Section III, Project Background (*Energy Efficiency Experience*) for each Tranche II country. The ELI country programs which emerge (Section IV, Country Programs) are clearly built to maximize the leverage opportunities identified during appraisal. The result is country strategies which respond to existing market barriers and which build on the range of existing activities in each country sponsored by NGOs, national and local governments, and by the international community.
- 7.9. In answer to the concerns of the GEF Council Member from Germany, we have limited the technical detail included in the ELI Project Documents. However, the

promotion of efficient lighting product quality, as implemented through the ELI product quality standards and labelling effort, is an important market development strategy under ELI. The technical specifications that ELI has developed during the initial stages of implementation in the Tranche I countries, as well as the Monitoring and Evaluation Plan, and other documents developed in support of program implementation, contain the bulk of the technical details essential to such a technology-oriented project.

- 7.10. Also relating to the comments from the German representative, as well as from the Council Member from France, the projected impacts of ELI have been recalculated based on more fully evolved information developed during appraisal. Further, the new estimates provided are based on conservative models and estimation methodology (see Section VI, Program Impacts, and Appendix E, Economic and Environmental Analysis) paragraph 8). Given the experience to date in the implementation of Tranche I country programs, IFC is confident of the success projected in this Tranche II Project Document.
- 7.11. In response to a request by the Council Member from the U.S., we have undertaken a very deliberate monitoring and evaluation (M&E) process as a fundamental component of the ELI implementation plan. The Scope of Work for this plan is attached as Annex D of the Project Document, and the mechanism for integrating the monitoring and evaluation function in the project implementation workplan is described in Section IX, Program Monitoring and Evaluation. Please also see Figure VII-1: ELI Program Management Structure, to see how the global program management supports this plan.
8. Please send us a copy of your outgoing letter to Council for our records. Many thanks.

Attachments

cc: Messrs./Mmes. A. Raczynski, M. Riddle, L. Boorstin, D. Younger, C. Breslin, G. Schramm, R. Sturm, S. Keller, C. Granda, J. MacLean, T. Flanigan, L. Velasco, S. Birner, S. Sethi