GEF Program Coordination
Sent by: Mary Agnes Evidente

11/04/2005 09:00 AM

Subject Fw: GEF projects - UNDP Response to Questions on three projects

----- Forwarded by Ramesh Ramankutty/Person/World Bank on 11/04/2005 05:43 AM -----

"Frank Pinto" <frank.pinto@undp.org>

11/03/2005 09:11 PM

To <Helen.Walsh@do.treas.gov>, <secretariat@thegef.org>, <sgorman@worldbank.org>, <Ahmed.Djoghlaf@unep.org>, <Pcrivelli@worldbank.org>, <Foyewole@thegef.org>
cc <Dirk.Joldersma@do.treas.gov>, <Mark.Jaskowiak@do.treas.gov>, "Ramesh Ramankutty" <Rramankutty@thegef.org>
Subject RE: GEF projects - UNDP Response to Questions on three projects

Dear Helen,

Ref. your email of 1st Nov., please find attached UNDP's responses to the queries you have raised on three projects in the Nov. 2005 GEF Work Programme, namely:
A. China: Demonstration of Fuel Cell Bus Commercialization: Phase 2
B. Mauritania: Adrar Solar Initiative and Decentralized Electrification
C. Regional West Africa: First Regional Micro-Hydro Capacity Development and Investment in Rural Electricity Access in Sub-Sahara Africa

We remain, as always, ready to provide any further information if needed.
With warm regards. Frank

Frank Pinto
GEF Executive Coordinator, UNDP

-----Original Message-----
From: Helen.Walsh@do.treas.gov [mailto:Helen.Walsh@do.treas.gov]
Sent: Tuesday, November 01, 2005 5:28 PM
To: secretariat@thegef.org; sgorman@worldbank.org; frank.pinto@undp.org; Ahmed.Djoghlaf@unep.org; Pcrivelli@worldbank.org; Foyewole@thegef.org
Cc: Dirk.Joldersma@do.treas.gov; Mark.Jaskowiak@do.treas.gov
Subject: RE: GEF projects

Dear Colleagues:

We are still going through the November 2005 work program, but have a number of questions and concerns about several projects, and would appreciate your reactions and responses to help us develop our position for the Council discussion of these projects.

1. International waters projects: Strategic Partnership for a Sustainable Fisheries Investment Fund in the Large Marine Ecosystems of Sub-Saharan Africa; and Partnership Investment Fund for Pollution Reduction in the Large Marine Ecosystems of East Asia. Clearly, the need is great, and regional collaboration in these areas is essential. However, the model being used (patterned after the Black Sea/Danube Strategic Partnership) is a pilot; its

outcome has not yet been discussed by the Council; and there is not a Council approved policy on the use of this form of project support. In particular, we do not support delegation of authority to the CEO to approve the subprojects, certainly not on the basis of the information provided in the project document.

Moreover, since the initial Black Sea Danube project approval (2001), the Council has approved stronger monitoring and evaluation requirements (effective July 28, 2003) to ensure, among other things, quality at entry of all GEF projects. The two investment fund projects do not appear to meet those standards, which include: "definition of performance indicators and unit of measurement; description of the data source(s) for the indicator; identification of baseline data and methods for data collection and processing; scheduling frequency of data collection and designating officials responsible for ensuring data availability. Performance indicators need to be specific, measurable, achievable, relevant and time bound. The data should be available on a timely basis at intervals consistent with management requirements (at least annually)...." Under the M&E terms of reference, the Secretariat is responsible for ensuring that projects meet the minimum standards BEFORE putting projects into the work program. Therefore, it would appear that these projects should not have been put forward. We would appreciate your response to these concerns.

2. Support for focal points: We have a number of concerns about the project for support to focal points, mainly because we believe that a substantial portion of the activities funded by the project are administrative in nature and should instead be provided for in the corporate budget. We appreciate that support to Council members, which had been funded through the previous support project, has now been shifted to the corporate budget. However, we believe that the items under under component 1 of the currently proposed project are also administrative expenses for the following reasons: (1) the activities eligible for funding include those related to GEF project processing, such as translating, printing and dissemination of relevant GEF documents and creation of the GEF project database; (2) the funding is provided to entities that are part of the governance structure of the GEF; (3) the direct financial support to focal points is proposed as ongoing annual activity, rather than a one-off amount that is characteristic of capacity building; (4) there is no distinction in the amount of funds provided to the focal point -- all countries receive the same amount each year. Typically, capacity building such as this would be targeted to the least developed countries and small island states. It is hard to believe that emerging market countries and Eastern European countries lack the capacity to build a spreadsheet of GEF projects or to print GEF documents; and (5) and travel to meet Council members and attend GEF familiarization seminars appear to us to be administrative expenses. Aside from these issues, there is no historic data to show whether the amounts proposed represent increases from previous years. We are not opposed in principle to support for the focal points, although we would clearly prefer better targeting of resources to least developed, small island developing states and other countries where the need is great. Our fundamental concern is that GEF administrative expenses should be funded through the corporate budget, and not through projects.

3. China Fuel Cell Buses: Fuel cell buses are not expected to be commercially viable anytime soon -- even in the most advanced economies of the world. The project document indicates fuel cell projects were dropped in three other countries, with the explanation "experience to date has pointed to overoptimism of the original project designed and unrealistic expectation of near-term cost reduction." What is it about this $6 m China project that management believes is different from those that were dropped?

How can we say that this project meets GEF operational principles if it is not cost effective, sustainable or replicable?

4. Mauritania: Andrar Solar Initiative and Decentralized Electrification in the Northern Coastline of Mauritania to Hybrid (Wind/Diesel) Systems: What impact does the August military coup have on the project success (was endorsed by previous government June 2005)? Is there any impact on the cofinancing? What fiduciary controls are in place to combat corruption in the project? Does the misreporting associated with Mauritania's 2003 PRGF program undermine the reliability of any fiduciary controls in place?

5. Fouta Djallon Highlands Integrated Natural Resources Management Program: We have the same questions about the Mauritania portion of the project as in item 4.

6. GEF African Microhydro Initiative: If successful, the microhydro initiative has the potential to boost growth in Mali, Benin, and Togo through increased production resulting from greater rural access to electricity and reductions in the potential impact of negative shocks resulting from high world oil prices. However, it is not clear that the initiative incorporates a viable plan to increase the extremely low capacity levels in rural West Africa, upon which the sustainability of the initiative depends.

* We note that the Benin Agency for Rural Electrification and Energy
Management (ABERME) will require additional staff. We would urge that any new hiring should not contradict the efforts at civil service reform included in Benin's IFI programs, including the need to implement performance-based remuneration for civil servants.

* We are concerned by the program's finding that "the fact that the electricity sector reform process is not yet completed leaves many open ended questions that may not encourage the private sector to venture its own resources immediately." Benin's fiscal resources are limited as a result of low revenue collection and the failure to disengage the state from productive sectors. If the private sector is not encouraged to immediately venture its own resources, the result will be greater state involvement in productive sectors in at least the short-term.

* Given Benin's need to improve revenue collection to enhance poverty-reducing priority expenditures, granting fiscal/tax holiday incentives to private investors promoting renewable energy technology may be counterproductive and may contradict commitments made to enhance revenue collection. We urge the authorities to consider it as carefully as the program advances.

* Togo is in arrears to the AfDB. As the project is dependent on AfDB
co-financing, approval for at least the Togo component of this project should be withheld until Togo takes steps to clear its arrears

* There is a need for a much more rigorous discussion of issues of transparency and control of corruption surrounding the microhydro initiative in all three West African countries, where governance must be improved. One area where this discussion could particularly be strengthened is protecting against the misuse of planned subsidies to the rural electricity agencies.

We may have further comments in the days ahead on other projects and, as

always, we appreciate your help.

Regards,

Helen

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UNDP Response to US Comments.3Nov05.doc

To: Gef Program Coordination/Ou=Service

UNDP Responses to Queries Raised by the US Council Member on three projects in the Nov. 2005 GEF Work Programme

A. China: Demonstration of Fuel Cell Bus Commercialization: Phase 2
B. Mauritania: Adrar Solar Initiative and Decentralized Electrification
C. Regional West Africa: First Regional Micro-Hydro Capacity Development and Investment in Rural Electricity Access in Sub-Sahara Africa

A. China: Demonstration of Fuel Cell Bus (FCB) Commercialization: Phase 2

QUESTION: *Fuel cell buses are not expected to be commercially viable anytime soon -- even in the most advanced economies of the world. The project document indicates fuel cell projects were dropped in three other countries, with the explanation "experience to date has pointed to over optimism of the original project designed and unrealistic expectation of near-term cost reduction."*

a) What is it about this $6 m China project that management believes is different from those that were dropped?

b) How can we say that this project meets GEF operational principles if it is not cost effective, sustainable or replicable?

RESPONSE

The China Fuel-Cell Bus Project to date has achieved results not seen in the three other countries that have recently cancelled their FCB projects. As outlined below, the most significant reasons for this success are the continued commitment from the Government at national and provincial level and the positive response from the private sector. Due to the interconnectedness of the issues raised, one consolidated response is presented.

China attaches great importance to hydrogen development. Both stationary and transport sector applications of hydrogen fuel were tried out in dispersed units and sectors until the decision was taken to develop a Chinese Hydrogen Development Roadmap which predates the initiation of the GEF FCB Phase 1 project. The process of designing a roadmap benefited from FCB Phase 1 implementation and includes China's vision, goals and timeframe for using hydrogen in transportation, power and infrastructure. This long-term vision has three phases: technology development to establish the business case for a commercialization decision; market penetration; and then a fully developed market with infrastructure. In its 9th Five-Year Plan (1996-2000), China started supporting relevant research and development under the direction of the State Science and Technology Commission (MOST).

The China FCB Phase 2 proposal is the second of a four-phase long-term program comprising preparation, initial demonstration, expanded demonstration, and then mass production of cost competitive FCBs. Both temporary and permanent hydrogen refueling stations are under construction supported by government resources to facilitate FC buse operations. Phase 3 is intended to increase China's demand for, and production of, FCBs to the point where the costs become competitive with that of conventional buses. GEF support for Phase 3 will depend largely on the degree to which the FCB demonstrations have been successful; and the GEF's continued interest in this technology

The private sector has shown great interest in supporting China in developing FCBs and hydrogen refueling systems. During FCB Phase I, DaimlerChrysler, Hyundai, UTC, Ballard and GM all contacted the project team. Shanghai Automotive Industry Corporation, Dongfeng Automobile Company, and Tsinghua Coway participated in the bidding process. BP provided approximately $3.5 million of

technical assistance to build the hydrogen refueling station. During Phase 2, UNDP will continue to assist project authorities in mobilizing interest from the private sector in supporting the project.

Co-financing for Phase 2 has been secured from the central government (MOST) and the municipal governments of Shanghai and Beijing, both cash and in-kind contributions. Private sector contributions are expected for parts supplied, training provided, R&D allocated, and related costs. UNDP/China will support policy-related activities.

To ensure replication, this project includes dissemination of lessons learned including on data collection, strategy development, information exchange, and public awareness. Partner companies are already imparting on-the-job training and technical backstopping.. The timing of the Olympics in China in 2008 has added commitment and determination to meet the market challenges in an unprecedented show of support.

On the rationale for GEF's involvement in FCBs, GEF initially supported FCBs in 1995 under OP-7 "Reducing Long-Term Costs of Low GHG-emitting Energy Technologies". More recently, FCBs have been eligible under OP-11, "Promoting Environmentally Sustainable Transport". The long-term objective is to reduce transport sector GHG emissions by supporting the commercialization of FCBs. In near term, there are enough triggers in the system to keep the effort successfully afloat and long-term sustainability is the Government's objective.

Overall, the GEF's interest in FCBs is justified on the basis of the reduced GHG emissions that FCBs offer over conventional diesel buses. Although fuel cells are technically proven, they are not yet commercialized, and the sooner it happens, the greater can be its impact on the stabilization of GHGs by the year 2100, as intended in IPCC scenarios. By encouraging the early adoption of these buses in a process of "technological leapfrogging", GEF is helping China gain experience with the FCB early in its product cycle so it can then develop partnerships with technology developers, thereby increasing technological competence and adapting the technology to local needs.

UNDP recently cancelled its FCB programmes in three countries where the infrastructure bottleneck in the transport sector - and road transport in particular – had not improved and all three countries were faced with indaequate investment possibilities. In each of these three cases it was determined that longer-term sustainability could no longer be assured, which is why they were cancelled. On the other hand, we expect the China FCB project to not only succeed but also provide valuable operational experience in the use of FCBs in highly dense urban transport markets.

B. Mauritania: Adrar Solar Initiative and Decentralized Electrification

QUESTION*: What impact does the August military coup have on the project success (was endorsed by previous government June 2005)? Is there any impact on the co-financing?*

RESPONSE:
To the extent that a heightened focus has been placed on good governance and transparency in public expenditure management since the new government took over, the success of the proposed project is not undermined in any way. In fact, a positive signal by the Government towards the project has been to maintain the management of ADER - the National Rural Electrification Agency – despite the cabinet and agency reconstitutions that have taken place. There is thus a sense of continuity and encouragement which should facilitate project implementation.

The Government has assured UNDP that its co-financing will materialize and has liaised with UNDP/Mauritania to coordinate with the October 2005 AfDB portfolio/sector review field mission in

Mauritania. The October 2005 working meetings comprising the AfDB mission, UNDP/Mauritania, ADER and the Government have confirmed the AfDB's preparedness to proceed with its own co-financing appraisal mission by the 2nd quarter of 2006. Likewise, UNDP's own co-financing is maintained.

QUESTION*: What fiduciary controls are in place to combat corruption in the project?*

RESPONSE
The rural electricity service delivery model proposed in the project requires full private ownership and the technical assistance package covers recruitment of the required international expertise to supervise and contribute to tender preparation and the bid evaluation process. Additionally, the provision of an independent auditing of ADER has been agreed to. UNDP/Mauritania will ensure that the independent auditor of ADER will verify whether the institution's financial control system has been adhered to. Moreover, the collaboration matrix among ADER and APAUS will include clauses of full disclosure of project accounts to the National Project Steering Committee.

QUESTION*: Does the misreporting associated with Mauritania's 2003 PRGF program undermine the reliability of any fiduciary controls in place?*

RESPONSE
The answer is no. The increasing emphasis on good governance and transparency in public expenditure management will require greater disclosure. This, in turn, will facilitate the implementation of all national coordination and independent audit measures in this project as agreed with the government and as spelled out in the collaboration matrix between ADER and APAUS prior to GEF CEO Endorsement.

C. Regional West Africa: First Regional Micro-Hydro Capacity Development and Investment in Rural Electricity Access in Sub-Sahara Africa

QUESTION *If successful, the microhydro initiative has the potential to boost growth in Mali, Benin, and Togo through increased production resulting from greater rural access to electricity and reductions in the potential impact of negative shocks resulting from high world oil prices. However, it is not clear that the initiative incorporates a viable plan to increase the extremely low capacity levels in rural West Africa, upon which the sustainability of the initiative depends.*

RESPONSE
The clarification sought is presented in the Executive Summary (outcome 3, output 3.5, page 9). Outcome 3/(Component 3) referred to above is a dedicated set of activities intended to provide the necessary service for lighting applications, cooling and audio-visual equipment, lighting of health centers and accompanying medical services and literacy training applications, with a focus on productive uses (carpentry, metal shops, cooling systems to conserve fish and agricultural produce, welding and craftsmanship, etc…). More specifically, the project document indicates that Output 3.5 will focus on the promotion of productive end-uses: as these are particularly well suited as a means of improving the load curves while enhancing the overall financial viability of the investment, this output will be initiated with the formulation of a strategy that will contain a detailed work plan indicating what will be done and where, and will indicate implementation responsibilities. The strategies should be finalized before the mid-term evaluation, at which point a review will take place before moving on to their implementation in the second half of the project.

For the 85 sites included in the project, not all villages could be surveyed with the required level of detailed analysis to select the specific productive end-uses that need to be promoted for each participating village. However, the technical assistance package built into the project will allow the intended economic activities to be elicited and will in turn strengthen project sustainability. The technical design did ascertain that for various load profiles or power requirements (carpentry, metal shops, cooling systems to conserve fish and agricultural produce, welding and craftsmanship, etc…), the sizing of the microhydro plants was appropriate to supply the power needed as economic activities picks up overtime with the promotional activities envisaged.

QUESTION *We note that the Benin Agency for Rural Electrification and Energy Management (ABERME) will require additional staff. We would urge that any new hiring should not contradict the efforts at civil service reform included in Benin's IFI programs, including the need to implement performance-based remuneration for civil servants.*

RESPONSE
Understood and agreed.

QUESTION *We are concerned by the program's finding that "the fact that the electricity sector reform process is not yet completed leaves many open ended questions that may not encourage the private sector to venture its own resources immediately." Benin's fiscal resources are limited as a result of low revenue collection and the failure to disengage the state from productive sectors. If the private sector is not encouraged to immediately venture its own resources, the result will be greater state involvement in productive sectors in at least the short-term.*

RESPONSE
The concern is clear and understood. The private sector will be encouraged to venture its own resources and every effort will be made to reduce public sector involvement. The more appropriate wording should be "the fact that the electricity sector reform process is on-going may (or may not) be perceived by the private sector as a disincentive to venture its own resources immediately." Because of the above possibility, the project took note of the West-African governments' suggestion to include a GOCO (Government Owned, Contractor Operated) approach in the delivery models and ownership structures for the investment component in West Africa. This is not exclusive of full private ownership where local circumstances suggest a high likelihood of success.

QUESTION ***G****iven Benin's need to improve revenue collection to enhance poverty-reducing priority expenditures, granting fiscal/tax holiday incentives to private investors promoting renewable energy technology may be counterproductive and may contradict commitments made to enhance revenue collection. We urge the authorities to consider it as carefully as the program advances.*

RESPONSE
Understood and agreed. The sub-regional/cluster detailed plans to be submitted for CEO endorsement will present the Benin's government's approach to address this specific concern.

QUESTION *Togo is in arrears to the AfDB. As the project is dependent on AfDB co-financing, approval for at least the Togo component of this project should be withheld until Togo takes steps to clear its arrears.*

RESPONSE
During project preparation, UNDP/GEF was informed that the arrears situation of Togo could in principle constrain the country from AfDB financed operations. Given the regional character of this project and the specific government request addressed to the AfDB in connection with Togo's participation, the AfDB is

expected to select the appropriate loan or grant instrument that would apply to Togo. We will await the AfDB appraisal/negotiation and approval of the investment operation. Clarification of the AfDB position will be a pre-requisite to GEF CEO Endorsement of the activities to be executed in Togo.

QUESTION *There is a need for a much more rigorous discussion of issues of transparency and control of corruption surrounding the microhydro initiative in all three West African countries, where governance must be improved. One area where this discussion could particularly be strengthened is protecting against the misuse of planned subsidies to the rural electricity agencies.*

RESPONSE
Understood and agreed. We have started discussions with the AfDB and the participating Governments on the detailed country implementation work plans. It has been agreed that a GEF grant disbursement/CEO Endorsement pre-condition will be the presentation by the National Executing Agencies/Units of a satisfactory list of commercial banks acting as transfer agents for the disbursement of the proceeds of the PBSS (Production-based Smart Subsidies) trust. As all participating governments will solely bear the cost of these subsidies, they will be required by the time of GEF CEO endorsement to submit written commitments inviting local commercial banks to bid for:

(i) Administering the subsidy trust at the best available terms and conditions (to be negotiated with Rural Electrification Agencies or project national counterparts);

(ii) To effect, on behalf of the National Execution Agency, the transfer of subsidy payments to the intended microhydro plants owners/managers upon verification of all required technical and financial information;

(iii) To make their own independent process/project appraisal and, on the basis of such evaluation, and submit to the Executing Agency and UNDP/GEF their assessment of the Project.

In the event that the above safeguards may already exist in countries where established Rural Electrification Funds are beginning to be functional under World Bank/IDA supported technical assistance (e.g. Mali through HEURA and AMADER), the World Bank approved disbursement channel for Rural Electrification Funds will be used.

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