

Dominica Geothermal Risk Mitigation II Project: Additional Financing and Guarantee

Review PIF and Make a recommendation

Basic project information

GEF ID

11865

Countries

Dominica

Project Name

Dominica Geothermal Risk Mitigation II Project: Additional Financing and Guarantee

Agencies

World Bank

Date received by PM

3/18/2025

Review completed by PM

4/11/2025

Program Manager

Daichi Tsuchihashi

Focal Area

Climate Change

Project Type

FSP

GEF-8 PROJECT IDENTIFICATION FORM (PIF) REVIEW SHEET

1. General Project Information / Eligibility

a) Does the project meet the criteria for eligibility for GEF funding?

b) Is the General Project Information table correctly populated?

Secretariat's Comments

a) Yes. Please see below our analysis.

Analysis based on the Criteria:

1. There is an alignment, though small scale. However, it can bring the transformational change to the country.
2. The Project will contribute to Dominica's NDC targets and aligns with Paris Agreement.
3. The guaranteed scheme can be replicated if other SOEs will take similar approach. However, there is no visibility on replicable projects.
4. Co-financing ratio seems acceptable at the Project level (see below). However, there are some inconsistencies and issue with respect to STAR allocation.
5. This is a de-risking investment, but the proposed instrument is a replacement of traditional letter of credit with the funded option (which is less efficient). Low financial innovation.
6. No private investment is available due to the challenging credit of the obligor. However, the pricing of the instrument seems to be low.
7. Reflow is not guaranteed.
8. There is no innovation in the use of proceeds.

b) To be revised based on the combined NGI/STAR proposal. Also confirm the amount of co-financing given it can include STAR resource.

4/14 Round 2:

3. Noted.

4. Updated table is noted.

5. Noted.

6. Pricing is updated and cleared.

7./8. N/A

b) Noted the co-financing ratio of 1:10. Please revise the private sector co-financing ratio. The donor funds do not count as Private Sector mobilization.

4/17 Round 3:

b) Cleared.

Agency's Comments

Thank you. No comment required from our side on points 1 and 2

3. The proposal has been updated with the following information: The Dominica geothermal power plant project will be the first in the region in 30 years. Currently, several countries in the region have been actively working for many years to develop their geothermal energy resources, albeit with limited progress. These countries include: (i) St. Kitts and Nevis: Currently at the production drilling stage, supported by the Caribbean Development Bank (CDB); (ii) Saint Lucia: Engaged in exploration drilling, supported by the World Bank; (iii) Saint Vincent and the Grenadines (SVG): At the production drilling stage; (iv) Grenada: Preparing for the exploration drilling stage, with support from the Caribbean Development Bank (CDB). These countries can benefit and learn from Dominica's experiences in geothermal energy development. For instance, Saint Lucia and St. Kitts and Nevis have already sought advice from Dominica regarding their drilling contracts and project execution that can facilitate faster deployment in other countries and scalability beyond the Caribbean, such as the recently approved World Bank Geothermal Project in El Salvador (P506109).

As the region has the same challenge with payment obligations similar to the one supported by the project, this guarantee scheme can be replicated in the region.

4. Co-financing ratio corrected, based on combined STAR+NGI resubmission.

5. This challenge is very specific to the Caribbean region due to the unavailability of ?qualified? commercial banks as per standard banking industry requirement as well as small scales of investment. This challenge has impacted investment in the region broadly, including in several WB financed projects under implementation.

6. Pricing has been updated for your review

7. Noted with thanks.

8. Noted with thanks.

b) The updated co-financing is (1:10) based on the combined STAR & NGI (including government counterpart contribution for land acquisition and local taxes and duties)

Agency Comments 17 April 2025

We adjusted the private sector co-financing ratio to 1:1.5 as requested.

2. Project Summary

Does the project summary concisely describe the problem to be addressed, the project objective and the strategies to deliver the GEBs or adaptation benefits and other key expected results?

Secretariat's Comments

The Project is understandably complex, and it is hard for the reader to understand what has been done so far with respect to the proposed Geothermal Projects and what will be done with GEF proceeds. Suggest using bullet points and timeline chart to make information easier to digest for the reviewers.

4/14 Round 2:

The Project summary section has improved, and the project complexity is well explained.

Agency's Comments

Narrative has been updated in the Project Summary, Project Rationale and Project Description sections. Please note, as per our bilateral discussion, we do not have/cannot see in the Portal sections on Project Rationale or Project Description and hence had to include all this information in the project summary.

Agency Comments 17 April 2025

Thank you.

3 Indicative Project Overview

3.1 a) Is the project objective presented as a concise statement and clear?

b) Are the components, outcomes and outputs sound, appropriate and sufficiently clear to achieve the project objective and the core indicators per the stated Theory of Change?

Secretariat's Comments

a) and b): Understand this will be revised as a combined proposal

About ToC, there is a ToC chart in PID though it is not clear what barriers GEF interventions will solve to reach the impact pathways. Also, the short narrative of ToC will be very much appreciated.

The Theory of Change (ToC) should be strengthened by outlining the existing barriers preventing the development of the project. A more comprehensive understanding of these obstacles will enhance the clarity of the proposed intervention.

Component 1 - Proposed Activities:

Under Component 1, please provide more detailed information on the proposed activities. Specifically, clarify the standards and features of the proposed transmission system, particularly in terms of making it resilient to extreme weather conditions. While GEF funds cannot be used for transmission lines, they could support the modernization of the grid to enhance its resilience and facilitate greater integration of renewable energy. Please elaborate on the types of emergency spare parts and equipment that will be available for rapid response to damage and emergency repairs. Finally, please confirm that GEF funds will not be used for land acquisition.

4/14 Round 2:

ToC still lacks the description of Barriers. There is description of barriers in the other section of PIF (please see reference to ?financial, knowledge, physical? barriers). Please incorporate these elements and show how the proposed interventions help overcome the existing barriers.

4/17 Round 3:

Cleared.

Agency's Comments

Thank you. We have submitted a combined proposal and have adjusted the text accordingly throughout the document. Components and activities have been comprehensively described.

It is critical for the project that GEF can support modernization of the grid to enhance its resilience. However, the modernization and resilience have been integrated in the investment of new transmission line (underground cable instead of overhead to avoid extreme hurricane impacts) and substations (improved structure, modernized control and equipment requirements

as listed below). It would be difficult if GEF funds cannot be used for transmission designed with enhanced resilience. It is confirmed that GEF grants will not be utilized for land acquisition.

List of activities to improving resilience of the new transmission network included in the design and technical requirements of transmission lines and substations to be built under the DGRM II:

- The transmission lines (both overhead and underground) and substations are to be built to withstand known natural hazards in the area, such as strong winds, floods, landslides associated with Category 5 hurricanes
- Parallel routes and significant undergrounding of 33 kV and some part of 69 kV lines to introduce redundancy between key power plants including GPP with main substation at Fond Cole.
- Optimum levels of spare parts holdings for rapid restoration included in the contract.
- Update of Emergency Preparedness Plan for the new and existing grid is to be prepared under the project.

Agency Comments 17 April 2025

Thank you. We have updated the Theory of Change Diagram and a short narrative to include the barriers.

3.2 Are gender dimensions, knowledge management, and monitoring and evaluation included within the project components and appropriately funded?

Secretariat's Comments

We suggest integrating gender considerations throughout the project's outcomes and outputs, rather than dedicating a single activity solely to gender. This will ensure that gender dimensions are embedded across all aspects of the project.

4/14 Round 2:

Comment from the Policy Team: We agree with the PM's comment and we would like to add: Please include in section 9.2 Additional Comments to be considered by the Agency at the time of CEO Endorsement/ Approval: Once the gender analysis has been conducted and the Gender Action Plan developed, the Agency is requested to incorporate the findings and identified actions/interventions in the GAP in the project components, outputs and activities. The agency is also requested to provide some indicative budget for the Gender Action Plan and related gender-specific activities/outputs.

4/17 Round 3:

Cleared from PM side.

Agency's Comments

Thank you - we agree. Although gender is described in a single program, it will spread across all the project related activities involving DGDC, DOMLEC and the geothermal company with its plan for internship and work initiatives for women.

Agency Comments 17 April 2025

Thank you. This is noted - we will address the policy requirement on gender, including providing an indicative budget, at the CEO Endorsement Request stage.

A

3.3 a) Are the components adequately funded?

b) Are the GEF Project Financing and Co-Financing contributions to PMC proportional?

c) Is the PMC equal to or below 5% of the total GEF grant for FSPs or 10% for MSPs? If the requested PMC is above the caps, has an exception (e.g. for regional projects) been sufficiently substantiated?

Secretariat's Comments

a. Please confirm US\$5.4mm is the appropriate sizing for the six months payment obligation based on the agreed purchase price. Please see the reference to US\$6mm obligation in PIF NGI Justification of Financial Structure section.

b) To be analyzed in the updated proposal.

4/14 Round 2:

Comment cleared.

Agency's Comments

a) Yes, it is confirmed that US\$ 5.4 million is appropriate with the signed PPA.

b) Noted.

Agency Comments 17 April 2025

Thank you.

4 Project Outline

A. Project Rationale

4.1 SITUATION ANALYSIS

a) is the current situation (including global environmental problems, key contextual drivers of environmental degradation, climate vulnerability) clearly and adequately described from a systems perspective?

b) Are the key barriers and enablers identified?

Secretariat's Comments

- a) There is a good description in PID document.
- b) The description only provided one enabler, which is the geothermal power.

4/14 Round 2:

Cleared but please refer to the comment on ToC above.

4/17 Round 3:

Cleared.

Agency's Comments

Thank you, no comment required.

Agency Comments 17 April 2025

Thank you. We have updated the Theory of Change Diagram and a short narrative to include the barriers.

4.2 JUSTIFICATION FOR PROJECT

a) Is there an indication of why the project approach has been selected over other potential options?

b) Does it ensure resilience to future changes in the drivers?

c) Is there a description of how the GEF alternative will build on ongoing/previous investments (GEF and non-GEF), lessons and experiences in the country/region?

d) are the relevant stakeholders and their roles adequately described?

Secretariat's Comments

- a)/(b)/(c)/ This does not seem to be discussed in the document. With respect to (c), PIF seems to be silent on this point.
- d). There is a detailed description, but it is very confusing. Suggesting using bullet and/or chart to make the information more understandable.

4/14 Round 2:

- a) Comment cleared.
- b) Comment cleared.
- c) Comment cleared.
- d) Comment cleared. Revised PIF has clear list of stakeholders engaged.

Agency's Comments

All sections of the re-submission have been updated.

- a) the rationale for using GEF-8 grant to support the on-going DGRM II has been added.

The GEF-8 grant co-financing to DGRMII was envisaged upfront during the DGRMII preparation and the endorsement letter for US\$ 8 million by the country's GEF Focal Point was sent to the WB and GEF in 2022. The fund was intended to co-finance activities under both components under DGRM II. However, approval of the GEF grant was not obtained before the WB Board approval of the DGRMII due to constraints on coordination of the WB and GEF-8 processing time. With the signing of the contract for the design, supply and installation of the transmission network under DGRM II, it has revealed a financing gap of US\$6 million for the full implementation of the contract and other planned activities under the project. The GEF project is expected to cover this gap and thus a new endorsement letter was sent to the WB in 2024.

The alternative of using WB IDA guarantee to the proposed GEF guarantee was also considered. However, the WB guarantee will require a counter-guarantee by the government which would create an additional burden on the government debt situation and thus, was not supported by the GOCD.

- b) Yes, the financing of the GPP and transmission lines and substations consider resilience factors, especially on the climatic events within the region.

- c) Yes, included in footnote (#10) in the GEF PIF.

- d) The stakeholders are listed in Section D ? Stakeholder Engagement in the GEF proposal.

Agency Comments 17 April 2025

Thank you

5 B. Project Description

5.1 THEORY OF CHANGE

a) Is there a concise theory of change that describes the project logic, including how the project design elements will contribute to the objective, the expected causal pathways, and the key assumptions underlying these?

b) Are the key outputs of each component defined (where possible)?

Secretariat's Comments

There is a detailed ToC which lacks the description of barriers with respect to the impact pathways.

The relationship between each activity (I understand these are ?Components?) and output is not clear from the chart. Suggest clarifying the relationships between activities and outputs.

4/14 Round 2:

ToC still lacks the description of the barriers and incorporation of these barriers in the chart. Strongly suggest revising the chart and description considering the barriers to the long-term outcomes.

4/17 Round 3:

Cleared.

Agency's Comments

Narrative on the ToC has been added in the PIF and more detailed descriptions added throughout the document.

Agency Comments 17 April 2025

Thank you. We have updated the Theory of Change Diagram and a short narrative to include the barriers.

5.2 INCREMENTAL/ADDITIONAL COST REASONING

Is the incremental/additional cost reasoning properly described as per the Guidelines provided in GEF/C.31/12?

Secretariat's Comments

World Bank team to please indicate where this is explained. If not, please add description.

4/14 Round 2:

Comment cleared.

Agency's Comments

A section on GEF additionality has been added in the narrative, under Theory of Change narrative description.

The GEF-8 grant co-financing to DGRMII was already envisaged upfront during the DGRMII preparation and the endorsement letter for US\$ 8 million by the country's GEF Focal Point was sent to the WB and GEF in 2022. Along with WB loan, the proposed GEF co-financing was considered sufficient to cover all activities under both components under DGRM II. However, approval of the GEF grant was not obtained before the WB Board approval of the DGRMII due to constraints on coordination of the WB and GEF processing time. With the signing of the contract for the design, supply and installation of the transmission network under DGRM II, it has revealed a financing gap of US\$6 million for the full implementation of the contract and other planned activities under the project. In addition, the GOCD is committed to increasing its counterpart contribution to cover taxes, VAT and duties under the contract.

Agency Comments 17 April 2025

Thank you.

5.3 IMPLEMENTATION FRAMEWORK

a) Is the institutional setting, including potential executing partners, outlined and a rationale provided?

b) Comments to proposed agency execution support (if agency expects to request exception).

c) is there a description of potential coordination and cooperation with ongoing GEF-financed projects/programs and other bilateral/multilateral initiatives in the project area

d) are the proposed elements to capture and disseminate knowledge and learning outputs and strategic communication adequately described?

Secretariat's Comments

a) Yes.

b) N/A

c) and d) seem to be missing from the document. Otherwise, please indicate where these are discussed.

4/14 Round 2:

Cleared. Explained in PIF.

Cleared. Explained in the PIF.

Agency's Comments

The proposal has been updated on these aspects.

Under DGRM II project, there has been already on-going collaboration between donors (WB, CDB, CFD, IDB) on the geothermal development, including with the Dominica GPP.

Discussion on cooperation with GEF activity in SKN on distributed RE, and with Belize utility on resilience of power network (under Belize GEF ERCAP project).

Component 2 includes an activity to disseminate and learn on geothermal development and resilience enhancement in the region.

Agency Comments 17 April 2025

Thank you.

5.4 a) Are the identified core indicators calculated using the methodology included in the corresponding Guidelines (GEF/C.54/11/Rev.01)?

b) Are the project's indicative targeted contributions to GEBs (measured through core indicators)/adaptation benefits reasonable and achievable?

Secretariat's Comments

GHG Emissions Reduction:

The project aims to reduce approximately 1 million tCO₂eq in GHG emissions over its lifetime, which seems reasonable given the scope. However, we kindly request that a detailed GHG spreadsheet be provided so that the GEF Secretariat can track the GHG calculations effectively.

Timeline for Commercial Operation Date (COD):

Please provide an estimated timeline for the Commercial Operational Date (COD) of both the geothermal power plant and the associated transmission lines.

Savings from Diesel Substitution:

The proposal would benefit from an estimation of the savings associated with replacing 60% of imported diesel. This will help clarify the transformational impact of the project. Additionally, could you confirm whether the government currently subsidizes any portion of fossil fuel imports, or if the full cost is borne by the end users?

4/14 Round 2:

Can you please provide us with the economic analysis excel calculation sheet (excel format) so we can verify the validity of the CHG calculation?

Confirm commercial operation date of the plant.

4/17 Round 3:

Cleared. At CEO Endorsement, GEFSEC will review further details on the calculations.

Agency's Comments

GHG calculation is included in the Economic Analysis of the DGRMII project which is attached to the Portal separately.

The Commercial Operation Date for GPP as per signed PPA is January 4 2025. (24 months after effectiveness date of the PPA). The planned commissioning date for the underground 33 kV line and 33 kV Fond Cole substation financed under DGRM II is November 31, 2025.

Savings from Diesel Substitution: It is confirmed that 60% of imported diesel for power generation will be replaced. In addition, the avoided capital costs of new diesel genset (estimated at 12.5 million between 2024-2026 will also be avoided due to the status of the existing diesel gensets in DOMLEC (from Economic analysis).

No subsidies on fuel cost except during 2020-2023. By regulation, the Fuel Cost is passed through to electricity tariff. However, in recent years (during COVID time) a portion of fuel tariff (averaging 14%) was not passed following the government decision to reduce impacts of high fuel costs. The pass-through mechanism was resumed from October 2023.

Agency Comments 17 April 2025

The requested documents were shared bilaterally and confidentially with the PM.

The Commercial operation date of the plant is January 2026. We apologize for the earlier error stating the wrong year (2025).

5.5 NGI Only: Is there a justification of financial structure and use of financial instrument with concessionality levels?

Secretariat's Comments

Justification of NGI instrument is clear.

Concessionally seems to be too high. Our guarantee fee should be in line (or even higher) with the interest rate of the other concessional financing, considering that this is the unsecured obligation for 20 years.

NGI instrument will be provided only for 20 years. In year 20, GEF needs to have the clear exit from the Project. Please ensure that this is consistent in other section of the package.

Please describe the other obligation of the obligor and how the proposed GEF NGI guarantee fund will be positioned vis-à-vis other obligations.

Please describe in more detail the obligor's financial performance.

4/14 Round 2:

Please confirm that the pricing is in line with the concessionality provided with the the IDA loan (concessional loan to Government of Dominica) Please also provide us the scale/magnitude of the cost reduction that can be passed on to the utility's client.

Please clarify what is the "Financing Agreement with GoCD" refers to. If this forms part of the financing document of the Component 3, please reflect it in the TS.

Please address the comment "Please describe the other obligation of the obligor and how the proposed GEF NGI guarantee fund will be positioned vis-à-vis other obligations."

Exit strategy is clear. Comment cleared.

4/15 Round 3:

Comments cleared. GEFSEC will confirm the further details on the financial obligations of DOMLEC and confirm the pricing at CEO endorsement stage.

Agency's Comments

- Proposed the revised rate of 30 bps given the small size of the utility and SIDS of Dominica, with justification provided in the PIF for your consideration.
- The PIF has been updated on this as follows:

Exit strategy: After 20th year, DOMLEC will reimburse any outstanding guarantee draw to the World Bank which will reflow the funds back to the GEF. To maintain the functionality of the PPA after the GEF exit, three approaches can be used by DOMLEC to ensure its obligations under the PPA after GEF Guarantee expired. First, by maintaining its payment duties rigorously throughout the guarantee period, the utility can demonstrate its creditworthiness with the seller and negotiate to remove the payment security requirement altogether. Secondly, it can also negotiate with the seller to lower the requirement on qualification of commercial banks and to accept LOC issued by a reputable local or regional bank. Finally, DOMLEC can start putting aside cash annually into an escrow account to build adequate cash collateral as required while also negotiating to reduce the amount of cash required for this purpose.

- Apart from paying the guarantee fees timely, the obligor is subject to other standard requirements by the WB for such guarantee such as maintaining healthy financing status, ensuring E&S requirements of the transmission assets O&M, ensure cooperation and M&E with the WB etc. which will be included in the Cooperation and Reimbursement

Agreement (CRA). The Financing Agreement with GoCD will also be revised to include obligation of the government to ensure the obligor obligations under the CRA.

- DOMLEC as the obligor achieved the healthy level of DSCR of 2.2 in 2024 after the GoCD stopped its partial subsidy of fuel costs in electricity tariff during 2020-2023. It is expected that the utility will maintain a healthy level of DSCR above 1.5 in the coming years (2025-2028 which is tariff period). The WB will have annual assessment on DOMLEC financial status as its normal supervision practice for utilities.

Agency Comments 17 April 2025

Regarding the concessionality provided with the IDA loan: The IDA financing from WB (under DGRMII) project to GoCD has terms of 0.75% per year for 40 years with 10 years of grace period (loan currency is SDR). The lease fee from GOCD to DOMLEC is XDR 1 million per year (US\$369,000 equivalent). The reason we asked for a lower fee rate for the guarantee is that DOMLEC suffered substantial damage caused by Hurricane Maria in 2017 especially to its T&D network (85% was damaged). Total value of damage was estimated at US\$ 33.2 million of which US\$30 million related to T&D network. Although the system was restored since, the utility is working toward paying their debt and no investment was made to the network as necessary. With the majority of generation coming from private IPP, the company will rely mainly on its limited margin in T&D assets. This was one of the key reasons why the GoCD had to buy the major share of the utility from its private owner in 2022 and decided to take the loan from WB rather than pass it to DOMLEC.

Clarification on what the ?Financing Agreement with GoCD? refers to: Currently there is a financial agreement (FA) between WB and GOCD governing the loan for DGRM II project. For AF financing, the FA will be revised to include reference to the GEF grant and GEF guarantee.

Other obligations of the obligor: As a new project implementation agency, DOMLEC may subject to typical requirements to utilities by the WB such as E&S, financial performance (healthy debt service coverage etc), etc., on top of requirements related to the guarantee. These requirements will be elaborated and agreed before appraisal.

5.6 RISKS

a) Is there a well-articulated assessment of risk and identification of mitigation measures under each relevant risk category?

b) Is the rating provided reflecting the residual risk to the likely achievement of intended outcomes after accounting for the expected implementation of mitigation measures?

c) Are environmental and social risks, impacts and management measures adequately screened and rated at this stage and consistent with requirements set out in SD/PL/03?

Secretariat's Comments

Climate risk seems to be severe (especially in relation to SOE's performance in relation to past hurricane impact) though can be mitigated. Please review if 'moderate' is appropriate. Insurance for the project is not described and should be an important part of the risk analysis. Financial and Business model risk seems to be high (especially given the off-taker's financial situation). Also, the lack of SOE in terms Geothermal generation poses high risk though can be mitigated with the TA. The DSCR of the obligor is below 1, indicating financial instability and the obligor's inability to take additional debt/obligation. Please address how the financial sustainability of the project will be ensured.

Policy and Regulatory Risks:

There is a mismatch between the reduced cost to consumers (subsidized by GEF) and the regulator's intention to raise energy prices. Please make sure that the price benefits are passed to the final consumers.

4/14 Round 2:

Comment from the Policy Team: The rating under the Environmental and Social risk category (currently Substantial) must be the same as the rating under the Environmental and Social Safeguards (ESS) risk, as per the GEF risk appetite GEF/C.66/13.

4/17 Round 3:

Cleared from PM side.

Agency's Comments

The risk part in the proposal has been updated.

The DSCR of the obligor achieved 2.2 in 2024 after the partial subsidy of imported fuel costs was dropped by the GoCD. WB updated assessment indicates that the DSCR will exceed 1.5 in the review period of 2025-2028.

DOMLEC's financial performance has been slowly recovered after Hurricane Maria in 2017, destroying 75% of its assets. It took longer due to the government decision to subsidy partially the fuel cost in the electricity tariff during COVID period (2020-2023) which was normally passed through in line with the current national regulation. Total revenue returned to pre-Maria levels in 2022, but operating income and net income have not recovered due to increased financing costs and fuel subsidies. Its Debt to Equity (D/E) ratio is well below the typical range for an electric utility of 1.5 ? 2.5, but the Debt Service Coverage Ratio (DSCR) was at 0.96-0.97 through 2022. However, the DSCR increased to 2.2 in 2024 after the subsidy of fuel costs was dropped. On the other hand, the non-fuel tariff- the main source of income for the utility has not increased for many years. The IRC (regulator) is expected to increase the non-fuel tariff to 5-6% in FY2025.

With the commissioning of GPP in early 2026, the overall tariff to consumers will be reduced substantially thanks to reduced cost of electricity from geothermal. DOMLEC will also get

benefits Non-Fuel Generation costs will be reduced substantively as there will be less overage diesel units to maintain and the ones still in use (medium speed more than high speed) will have lower maintenance costs). Both end user and DOMLEC will benefit from the GEF concessional guarantee (reduced fuel cost and non-fuel costs of tariff).

Agency Comments 17 April 2025

Thank you. For DGRMII, the E&S risk assessment was rated as Moderate given the fact that it covers the investment in T&D in Dominica. However, for DGRM Project, the E&S risk is rated as Substantial as it covers the geothermal drilling and the investment in the geothermal power plant. Given the fact that the combined GEF grant and guarantee proposal cover the guarantee for the geothermal power plant, we increased the E&S risk for the Additional Financing for DGRM II from Moderate to Substantial in line with the guarantee. Currently the draft PCN for the AF have the risk rating as substantial. The entry in the GEF Portal has been adjusted accordingly.

5.7 Qualitative assessment

a) Does the project intend to be well integrated, durable, and transformative?

b) Is there potential for innovation and scaling-up?

c) Will the project contribute to an improved alignment of national policies (policy coherence)?

Secretariat's Comments

- A) It can bring the transformational impact to the Country.
- B) The potential for scaling up especially for other jurisdictions needs to be elaborated.
- C) Yes.

Although the project is small in size, its potential for transformation is substantial. To better highlight its significance, we recommend adding a section that clearly outlines the expected transformational impacts. Here is a non-exhaustive list:

- o The first geothermal power plant in the region in the last 30 years
- o Strong private sector participation
- o A more than 60% increase in the share of renewable energy
- o Significant GHG emission reductions
- o A 60% reduction in fossil fuel consumption
- o The development of 10MW of firm renewable energy
- o Increased resilience of Dominica's energy system
- o A more than 50% decrease in the final price of electricity for end users
- o Modernization of the electricity grid
- o Capacity building for the local utility

4/14 Round 2:

Comment Cleared.

Agency's Comments

The proposal has been updated to better reflect the potential for transformational change and in addition the following text was added:

The Dominica geothermal power plant project will be the first in the region in 30 years. Currently, several countries in the region have been actively working for many years to develop their geothermal energy resources, albeit with limited progress. These countries include: (i) St. Kitts and Nevis: Currently at the production drilling stage, supported by the Caribbean Development Bank (CDB); (ii) Saint Lucia: Engaged in exploration drilling, supported by the World Bank; (iii) Saint Vincent and the Grenadines (SVG): At the production drilling stage; (iv) Grenada: Preparing for the exploration drilling stage, with support from the Caribbean Development Bank (CDB). These countries can benefit and learn from Dominica's experiences in geothermal energy development. For instance, Saint Lucia and St. Kitts and Nevis have already sought advice from Dominica regarding their drilling contracts and project execution that can facilitate faster deployment in other countries and scalability beyond the Caribbean, such as the recently approved World Bank Geothermal Project in El Salvador (P506109).

Agency Comments 17 April 2025

Thank you.

6 C. Alignment with GEF-8 Programming Strategies and Country/Regional Priorities

6.1 Is the project adequately aligned with focal area and integrated program strategies and objectives, and/or adaptation priorities?

Secretariat's Comments

To be confirmed.

4/14 Round 2: N/A

Agency's Comments

Thank you. We have received the following technical comments from the CCM colleagues: "The proposal aligns with CCM "Objective 1.2: Enable the transition to decarbonized power systems" and is therefore eligible for funding under the CCM FA. While the project is modest in scale, it holds the potential for significant transformational impact on the island of Dominica". Based on those, no comment/action required at our end.

Agency Comments 17 April 2025

Thank you.

6.2 Is the project alignment/coherent with country and regional priorities, policies, strategies and plans (including those related to the MEAs and to relevant sectors)

Secretariat's Comments

To be confirmed.

4/14 Round 2: Cleared.

Agency's Comments

Noted, thank you.

Agency Comments 17 April 2025

Thank you.

6.3 For projects aiming to generate biodiversity benefits (regardless of what the source of the resources is - i.e. BD, CC or LD), does the project clearly identify which of the 23 targets of the Kunming-Montreal Global Biodiversity Framework the project contributes to and how it contributes to the identified target(s)?

Secretariat's CommentsN/A

Agency's Comments

7 D. Policy Requirements

7.1 Is the Policy Requirements section completed?

Secretariat's Comments

Yes, but note the lack of engagement of CSOs.

Please ensure consistency with ESS risk classification in PIF (?moderate?).

4/14 Round 2: Cleared. Please see comment about the consistency of ESS risk classification.

Agency's Comments

The DGRM project (covering geothermal power plant) has Cat A but the DGRM II project (covering transmission infrastructure) has Cat B

Updated to reflect substantial rating.

Agency Comments 17 April 2025

Thank you. Addressed. The entry in the GEF Portal has been adjusted.

7.2 Is a list of stakeholders consulted during PIF development, including dates of these consultations, provided?

Secretariat's Comments

There is a list in PIF, but the list is for the past project.

4/14 Round 2: Cleared

Agency's Comments

Clarification: the list of stakeholder consultation included both consultations under DGRM and DGRM II projects. The DGRM supported all issues related to development and construction of GPP along with the drilling of geothermal wells, so the stakeholders consulted are still relevant. The consultations for DGRM II are to support the new investment in transmission infrastructure to connect GPP to the grid. Thus, both are relevant. Please note that the overall project started before 2019 when the WB approved DGRM

Agency Comments 17 April 2025

Thank you

8 Annexes

Annex A: Financing Tables

8.1 Is the proposed GEF financing (including the Agency fee) in line with GEF policies and guidelines? Are they within the resources available from (mark all that apply):

STAR allocation?

Secretariat's Comments

To be revised with STAR Allocation.

4/14 Round 2: Cleared

Agency's Comments

We have made the needed revisions to unify both the STAR and NGI proposal under this joint revision. GEF Agency fee has been reduced in accordance with the total project funding, which now exceeds \$10 million, and hence different fee applies. An updated LOE to reflect the new figures has been requested and will be attached separately.

Agency Comments 17 April 2025

Thank you

Focal Area allocation?

Secretariat's CommentsN/A

Agency's Comments

LDCF under the principle of equitable access?

Secretariat's CommentsN/A

Agency's Comments

SCCF A (SIDS)?

Secretariat's CommentsN/A

Agency's Comments

SCCF B (Tech Transfer, Innovation, Private Sector)?

Secretariat's CommentsN/A

Agency's Comments

Focal Area Set Aside?

Secretariat's CommentsN/A

Agency's Comments

8.2 Is the PPG requested within the allowable cap (per size of project)? If requested, has an exception (e.g. for regional projects) been sufficiently substantiated?

Secretariat's Comments N/A

Agency's Comments

8.3 Are the indicative expected amounts, sources and types of co-financing adequately documented and consistent with the requirements of the Co-Financing Policy and Guidelines?

Secretariat's Comments

Yes, but need clarity on the Grant from Government of Dominica. Please make sure this is not STAR.

4/14 Round 2:

Please confirm the consistency between PIF and Concept. The IDA amount in PIF is US\$38.5mm while the net commitment in Concept is US\$37.9mm.

4/17 Round 3:

Cleared.

Agency's Comments

The funding from the Government of Dominica is to finance land acquisition and taxes, duties associated with the Transmission Network for Design, Supply, and Installation contract. This counterpart fund is included in the co-financing ratio.

Agency Comments 17 April 2025

Thank you. The IDA loan was borrowed not on US\$ but on SDR rate which is the reason of the difference mentioned above. The IDA commitment in the WB PCN was calculated automatically with the current SDR/US\$ rate of the day when the PCN for the AF was created. The IDA commitment in the PIF is the amount at the approval date of the DGRMII project (January 2024)- which is called original IDA amount.

Annex B: Endorsements

8.4 Has the project been endorsed by the country? (ies) GEF OFP and has the OFP at the time of PIF submission name and position been checked against the GEF database?

Secretariat's Comments

Yes

4/14 Round 2:

Revised LOE received after the portal submission. Please attach the latest executed letter to the next submission.

4/17 Round 3:

Cleared from PM side.

Agency's Comments

Agency Comments 17 April 2025

Thank you. The revised LOE has been updated in the GEF Portal.

Are the OFP endorsement letters uploaded to the GEF Portal (compiled as a single document, if applicable)?

Secretariat's Comments

Yes

4/14 Round 2:

Revised LOE received after the portal submission. Please attach the latest executed letter to the next submission.

4/17 Round 3:

Cleared from PM side.

Agency's Comments

Please note that in the Portal, the LOE for the original NGI proposal only is still uploaded. We have requested an updated LOE and will share it separately before April 18.

Agency Comments 17 April 2025

Thank you. The revised LOE has been updated in the GEF Portal.

Do the letters follow the correct format and are the endorsed amounts consistent with the amounts included in the Portal?

Secretariat's Comments

Yes

4/14 Round 2:

Revised LOE received after the portal submission. Please attach the latest executed letter to the next submission.

Agency's Comments

Agency Comments 17 April 2025

Thank you. The revised LOE has been updated in the GEF Portal.

8.5 For NGI projects (which may not require LoEs), has the Agency informed the OFP(s) of the project to be submitted?

Secretariat's CommentsYes

Agency's Comments

Annex C: Project Location

8.6 Is there preliminary georeferenced information and a map of the project's intended location?

Secretariat's CommentsYes

Agency's Comments

Annex D: Safeguards Screen and Rating

8.7 If there are safeguard screening documents or other ESS documents prepared, have these been uploaded to the GEF Portal?

Secretariat's Comments

Yes, but note the Category and discrepancy in the Policy section.

4/14 Round 2: Comment from Policy Team:

1. We note that WB attached the Environmental and Social Safeguards Screen and Rating at Country Level. The project is classified the ESS risk as Substantial risk, and the Project Concept Memorandum also states environmental and social risk as Substantial. The Appraisal Environmental and Social Review Summary (ESRS) Appraisal Stage also states that environmental and social risk as Substantial. However, the environmental and social risks in the portal is classified as Moderate.

- Please make the environmental and social risk in the Portal consistent with the ESRS Appraisal Stage.

- 4/17 Round 3:

Cleared from PM side.

Agency's Comments

Agency Comments 17 April 2025

Thank you. Please see our comment above.

Annex E: Rio Markers

8.8 Are the Rio Markers for CCM, CCA, BD and LD correctly selected, if applicable?

Secretariat's Comments

Considering the strong resilience component of the project, we recommend updating the Rio Marker for Climate Change Adaptation to CCMA2 to better reflect the project's adaptation objectives.

4/14 Round 2: Cleared

Agency's Comments

Thank you. We have updated the CCMA Rio Marker

Agency Comments 17 April 2025

Thank you.

Annex F: Taxonomy Worksheet

8.9 Is the project properly tagged with the appropriate keywords?

Secretariat's Comments Yes

Agency's Comments

Annex G: NGI Relevant Annexes

8.10 Does the project provide sufficient detail (indicative term sheet) to take a decision on the following selection criteria: co-financing ratios, financial terms and conditions, and financial additionality? If not, please provide comments. Does the project provide a detailed reflow table to assess the project capacity of generating reflows? If not, please provide comments. Is the Partner Agency eligible to administer concessional finance? If not, please provide comments.

Secretariat's Comments

There are inconsistencies in the project documents regarding total project cost and mobilization figures. Please ensure consistency across the documents.

The concession is for 25 years, while GEF support is for 20 years, necessitating a clear exit strategy. Please also note that the Power Seller have exclusive right to withdraw guarantee if no replacement of guarantee is found at the end of the term, high risk for GEF to stay beyond 20-year tenor.

It is not clear how the retirement of the existing generation facilities will be done and if the cost of these retirements is provisioned. Please address.

The exact mechanism for this needs to be defined.

The reimbursement agreement should be signed between the World Bank and DOMLEC, not with GEF. All restriction of WB should apply to this project.

Please provide further color on the potential trigger events under the guarantee.

The term sheet needs to be revised to reflect that the World Bank will manage the guarantee mechanism, not GEF.

The justification for the 10bps guarantee fee needs to be provided, considering the IDA lending rate. Also the narrative of offering lower tariffs to the consumer contradicts with the regulator's intention to raise energy price. Please also see the reference in CfP of "For public sector beneficiaries, terms and conditions are negotiated by the GEF Agency consistent with conditions applicable for agency financing in a given country at the time of project proposal."

Please confirm how GEF funding can be only used for the short-fall of payment to off-taker.

Please elaborate on the collection mechanism in case the short fall is not supplemented or paid at maturity.

The supplement mechanism can work but it can become the administrative burden for the World Bank.

4/14 Round 2:

1) comment cleared. Please only revise the Private Sector co-financing ratio. Donor fund cannot be counted as Private Sector co-financing.

2) Comment cleared. Specific mechanism to be agreed at CEO Endorsement.

3) This can have an impact in the cash flow. Please indicate whether this is reflected in the Economic Analysis.

4)Comment cleared.

6) Please see comment in the NGI section.

7) Please reflect this point in Term Sheet.

8) comment cleared under Reimbursement Agreement.

9) Will be clarified and finalized at CEO Endorsement.

4/17 Round 3:

Cleared for PIF. GEFSEC will clarify further detailed at CEO Endorsement.

Agency's Comments

1) Proposal has been updated for consistency.

2) Exit strategy has been added:

After the 20th year, DOMLEC will reimburse any outstanding guarantee draw to the World Bank which will reflow the funds back to the GEF. To maintain the functionality of the PPA after the GEF exit, DOMLEC can apply different approaches. First, by maintaining its payment duties rigorously throughout the guarantee period, the utility can demonstrate its creditworthiness with the seller and negotiate to remove the payment security requirement altogether. Secondly, it can also negotiate with the seller to lower the requirement on qualification of commercial banks and to accept LOC issued by a reputable local or regional bank. Finally, DOMLEC can start putting aside cash annually into an escrow account to build adequate cash collateral as required while also negotiating to reduce the amount of cash required for this purpose.

3) The retirement of the existing generation will be carried out by DOMLEC, but the cost is outside the scope of the project. However, the procedure is subject to the E&S procedures by the WB for similar actions which will be included in the legal agreement

4) Corrected to reflect WB in the proposal.

5) The potential trigger events under the guarantee will be discussed further with clients and included in the legal agreements

6) Corrected to reflect WB

7) For your consideration, we are proposing to use the rate of 30 bps considering the small size of the utility and its business which is relatively healthy but very small in size and with regulated (limited) margin.

8) It is confirmed and the requirements will be incorporated in the legal agreement with the utility.

9) The mechanism will be included in the legal agreement which will be standard for similar guarantee by the WB.

Agency Comments 17 April 2025

1) Private sector co-financing ratio has been adjusted accordingly. Thank you

3) Several overaged diesel gensets will be retired but the utility plans to keep the diesel facilities for remaining demand (not covered by RE), and importantly voltage and frequency control. The EA includes the avoided diesel CAPEX but not explicitly cover costs of diesel retirement. It can be updated to make it explicit

7) Thank you - we have added this point in the Term Sheet

9 GEFSEC Decision

9.1 Is the PIF and PPG (if requested) recommended for technical clearance?

Secretariat's Comments

Not at this stage. Agency to please continue revise and submit combined STAR/Blended Finance(NGI) proposal.

4/14 Round 2: Please review the remaining comments and resubmit.

Agency's Comments

Agency Comments 17 April 2025

Thank you. We have addressed the comments in the revised resubmission.

9.2 Additional Comments to be considered by the Agency at the time of CEO Endorsement/ Approval

Secretariat's Comments

Please also consider the following comments.

-Hard to understand the project budget (what has already been done/what is to be done). Please make clear the investment that has already been made and the investment to be made.

-Please make clear the sources and uses table for the project, which is typical for the project finance transaction.

-Please comment on the sovereign debt situation of Dominica and elaborate how the proposed additional debt by the State Owned Entity fit into the Country's debt strategy.

-Please comment on the possibility of the demonstration effect for other SIDS or Caribbean counties that have the geothermal energy source.

-Please elaborate further on how the utility company can pay its debt obligation.

-Please elaborate further on the project's sponsor's (ORMAT Technologies Inc.) interest in the Project. Does the company see it as pure profit opportunity or is there any other project that can potentially compensate the company?

4/14 Round 2:

1)/2) We suggest the WB prepare the standard sources and use table for Project Finance which is below.

3) Please explain what CBI is. Also please clarify that debt are owned by ?domestic? official creditors. Please clarify the potential impact of US\$6mm debt.

4) Cleared.

5) Cleared but please address comments in 5.5 and 8.10.

6) Cleared.

4/17 Round 3:

Cleared for PIF. GEFSEC will clarify further detailed at CEO Endorsement.

Agency's Comments

1) Please note that most activities under DGRM II are under implementation but not completed. Likewise, construction of the GPP is underway. Thus, it is not clear how to define which investment has already made and which is to be made. We would appreciate more guidance on what information to provide to address this comment unless this has been addressed via this updated resubmission.

2) All financing tables have been updated.

3) Dominica's macroeconomic framework is stable, despite significant risks. Real GDP surged following the pandemic, with an impressive growth of 5.6 percent in 2022 and 4.7 percent in 2023. It is estimated at around 4.6 percent in 2024 and projected to be 4.3 percent in 2025. The construction of the new geothermal energy plant will support growth in the medium term and contribute significantly to tourism, production, and employment when they become operational. The government has approved several fiscal consolidation measures aimed at achieving primary surpluses over the medium term and a declining debt trajectory, with debt expected to decrease gradually from 103 percent of GDP in 2024 to 88.1 percent of GDP by 2028. To offset the anticipated decline in CBI, projected to reach about 16 percent of GDP in the medium term, the government is implementing revenue mobilization measures and is committed to reforms to enhance the efficiency of tax administration through digitization, supported by this DPC. The debt service to revenue ratio remains below the Debt Sustainability Analysis (DSA) threshold over this period, since over 90 percent of Dominica's debt is held by official creditors. Sound monetary policy implemented by the ECCB will help maintain low and stable inflation. Foreign direct investment (FDI) flows and concessional funding are projected to remain significant sources of external financing for Dominica,

estimated at 4.5 percent and approximately 5 percent of GDP annually during 2024-2027, respectively. The banking system is expected to remain stable.

Dominica's economic growth is projected to remain strong. GDP is expected to rise by 4.3 percent in 2025, driven by investments in geothermal energy and converge to its long-time trend of about 2.8 percent by 2027. Inflation is forecasted to gradually decline to 2.1 percent by 2026. The current account deficit is expected to converge to 14.3 percent of GDP by 2028, while the fiscal deficit is anticipated to decrease to 1.5 percent of GDP by the same year. Revenues from the Citizenship by Investment (CBI) program were over 30 percent of GDP between 2021 and 2023 but are projected to fall to 15.7 percent by 2026.

The country economic status is provided below.

The June 2024 Joint International Monetary Fund (IMF)-World Bank DSA assesses Dominica's public debt to be sustainable yet remaining at high risk of debt distress with elevated levels of public and external debt. Public debt, significantly impacted by the COVID-19 pandemic and natural disasters, stood at 108.3 percent of GDP in 2022 and is projected to decline to 88.1 percent by 2028. The government aims to meet the regional debt target of 60 percent of GDP by 2035 through fiscal consolidation and structural reforms, including raising excise taxes and investing in eco-tourism. About 90 percent of Dominica's debt is concessional, which helps maintain debt service-to-export and revenue ratios below critical thresholds.

The macroeconomic framework is subject to downside risks. Food and fuel price volatility and a global economic slowdown can impact the recovery in tourism and negatively affect FDI inflows. Tighter global financial conditions can raise sovereign borrowing costs and constrain liquidity in Dominica's financial system. Natural disaster events and a deterioration in CUs' asset quality can cause significant disruptions in economic growth. Meanwhile, lower-than-expected CBI revenues can lead to larger fiscal imbalances and generate debt sustainability concerns.

It should be noted that DOMLEC, the national utility is not fully publicly owned. Its majority shares are indeed owned by GOCD and other public entity (74%) and the remaining stakes (21%) are owned by private shareholders. Next, the GoCD keep the loans under WB DGRM II instead of passing it to DOMLEC. The government leases the assets to DOMLEC for O&M and with reasonable leasing fees. Thus, the loan under DGRM II will not affect the utility's debt situation or financial situation.

4) Currently, several countries in the region have been actively working for many years to develop their geothermal energy resources, albeit with limited progress. These countries include: (i) St. Kitts and Nevis: Currently at the production drilling stage, supported by the Caribbean Development Bank (CDB); (ii) Saint Lucia: Engaged in exploration drilling, supported by the World Bank; (iii) Saint Vincent and the Grenadines (SVG): At the production drilling stage; (iv) Grenada: Preparing for the exploration drilling stage, with support from the Caribbean Development Bank (CDB). These countries can benefit from and be inspired by

Dominica's experiences in geothermal energy development. For instance, Saint Lucia and St. Kitts and Nevis have already sought advice from Dominica regarding their drilling contracts and project execution.

5) Regarding DGRM II project: the borrower is the GoCD, which will also own the transmission asset. This asset will be transferred to the DOMLEC for operation and maintenance under an Operation, Maintenance, and Lease Agreement. The intention is to minimize the impact of the investment on the tariff. It should be noted that the lease costs for the new transmission associated with the DGRM II project are low, amounting to just ECD 1 million per annum (US\$370,370 equivalent), starting in the fifth-year post-commercial operations date. Thus, the financial impacts of the loan to DOMLEC are not significant.

As normal practice, in Dominica, fuel costs were not subsidized by the government and passed directly through to consumers as the fuel- tariff in accordance with the energy sector regulation. However, during FY 2020- 2023 period the GoCD subsidized partially the high fuel costs in electricity tariff and in average 14% of fuel costs was not passed through. This subsidy was removed in 2023.

Further the Independent Regulatory Commission (energy sector regulator) is expected to approve the non-fuel tariff increase of around 5-6% which will come into effect in Q2 2025. With the commissioning of the geothermal power plant, the financing situation of DOMLEC is expected to be substantially improved further as non-fuel generation costs will be substantially reduced due to fewer diesel genset units (most of them being very old exceeding their maximum operational hours) requiring maintenance and the remaining units (medium speed more than high speed) will have lower maintenance costs.

Recent assessment indicated that although DOMLEC Debt to Service Coverage Ratio (DSCRs) fell from 1.43 in 2021 to 0.86 in 2023 due to tariff subsidies during the period but increased to 2.2 in 2024 and were forecast to recover in 2025 to 2.6, driven by higher-than-expected sales growth.

The WB assessment concludes that the Debt Service Coverage Ratio (DSCR) is expected to be in excess of 1.5 (the required healthy standard for electricity utilities) can be expected at least through the next tariff period of Q2 2025 ? Q2 2028.

6) This is a pure profit opportunity for ORMAT aligning with the company strategy to increase geothermal assets in the region. In parallel with Dominica project, in March 2024, Ormat signed PPA for development of 10 MW new geothermal plant in addition to the existing 15 MW geothermal power plant in Guadeloupe the majority stake owned by the company.

Agency Comments 17 April 2025

1/2) the Sources and Uses table prepared and shared bilaterally and confidently with the PM. Please note that the resources from DGRM project are not included in co-financing for the GEF submission.

3) CBI refers to 'Citizenship By Investment' (income by selling citizenship to foreigners). \$6 million debt (from Guarantee) will be borne by DOMLEC not GoCD.

Review Dates

	PIF Review	Agency Response
First Review	3/31/2025	4/10/2025
Additional Review (as necessary)	4/14/2025	4/17/2025
Additional Review (as necessary)	4/17/2025	
Additional Review (as necessary)		
Additional Review (as necessary)		