



ASIAN DEVELOPMENT BANK

28 August 2002

Mr. Mohammed T. El-Ashry
Chief Executive Officer
And Chairman
Global Environment Facility
1818 H Street, NW
Washington DC 20433
United States of America

Dear Mr. El-Ashry:

Subject: CEO Endorsement of ADB/GEF Windpower Development Project in People's Republic of China (PRC)

The GEF Council approved the inclusion of the Wind Power Development Project (the Project) in the November 2000 Work Program with a GEF grant of \$6 million and a GEF contingent loan of \$6 million. ADB subsequently approved a loan of \$58 million for the Project on 20 December 2000. The Report and Recommendation of the President (RRP) to the Board of Directors of ADB on the loan is in Attachment 1 of the Final Project Brief.

The Main Changes in Final Project Brief Project (including RRP) in comparison with Project Brief Approved by GEF Council in November 2000 are as follows:

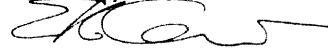
- Written comments submitted by the Governments of France and Switzerland after the Project was approved at the GEF Council meeting of 1-3 November 2000 have been addressed (see paragraph 29 of the Final Project Brief).
- GEF Secretariat's comments on the original Project Brief that a section would need to be added to the Final Project Brief to underline that GEF's contingent loan does not constitute a capital cost subsidy has been addressed (see paragraph 27 of the Final Project Brief).
- GEF contributions as approved by GEF Council have remained unchanged, i.e., a GEF grant of \$6 million for barrier removal and institutional strengthening activities and a GEF contingent loan of \$6 million. However, the incremental cost matrix has been somewhat adjusted to reflect the latest cost estimate of the consulting services and to incorporate under activity 4 the required assistance for construction of the wind farms as requested by the Government. This will ensure that they will be built according to international standards and the most cost efficient design (see paragraph 8 and Appendix 1 of Final Project Brief).
- GEF Secretariat's conditions for GEF CEO endorsement, i.e., (i) demonstrate relationship of the Project with the Government's renewable energy partnership; (ii)

define risks that will be addressed by proposed contingent financing modalities, risk sharing arrangements, and related repayment and time frames; and (iii) include performance indicators and monitoring arrangements required to guide the repayment of the contingent loan in a comprehensive M&E plan have also been addressed (see paragraph 28 of the Final Project Brief). As a condition for CEO endorsement, the GEF Operational Focal Point and the GEF Secretariat jointly convened a meeting on 1 December 2000 at which a common understanding on the guiding principles for GEF supported renewable energy projects in PRC was reached among Ministry of Finance (MOF), World Bank, United Nations Development Program, and ADB.

- Conditions for effectiveness of ADB loan have changed. This is mainly due to the difficulty experienced by the Dabancheng wind farm in the Xinjiang Uygur Autonomous Region and the Xiwaizi wind farm in Liaoning Province to arrange the financial guarantees for repayment of the loan proceeds to the Ministry of Finance (MOF), which is a condition for MOF to sign the Loan Agreement and its proceeding with making the loan effective. However, the Fujin wind farm in Heilongjiang has provided MOF with an acceptable guarantee and has completed its other requirements for making the loan effective. Therefore, MOF has requested ADB to make the loan effective based on satisfaction of the conditions for effectiveness relating to the Fujin wind farm only and make the conditions for effectiveness relating to the Dabancheng and Xiwaizi wind farms conditions for contract award and disbursement of loan proceeds for these wind farms. ADB has agreed to this request as reflected in the amended Loan Agreement (attachment 2 of the Final Project Brief). It is expected that the amended Loan Agreement will be signed shortly and that the loan will become effective as soon as GEF CEO endorsement is obtained. This would enable commencement of construction of the Fujin wind farm by end 2002 which would be followed by commencement of construction of the Dabancheng and Xiwaizi wind farms during 2003.
- As agreed with the GEF Secretariat, \$2 million of the GEF contingent loan as well as \$400,000 of the GEF grant (for consulting services for construction of the wind farm in Heilongjiang Province) will be made available when ADB has declared its loan effective. As each successive wind farm meets the conditions for loan disbursement, an additional \$2 million of the GEF contingent loan and the corresponding \$400,000 of the GEF grant will be made available. The remainder of the GEF grant of \$4.8 million for barrier removal will be made available only when both the wind farms in the Xinjiang Uygur Autonomous Region and Liaoning Province have met the conditions for disbursement under the ADB loan.

We look forward to receiving your final endorsement of the GEF grant of \$6 million and the GEF contingent loan of \$6 million, so that ADB can proceed to declare the Project effective.

Sincerely yours,



E. A. R. Ouano
Officer-in-Charge
Environment and Social Safeguard Division