



GEF

Global Environment Facility

August 18, 2000

Dear Council Member:

I am writing to notify you that the World Bank, the Implementing Agency for the project entitled, *Global: Solar Development Group (SDG)*, has submitted the proposed project document for CEO endorsement prior to final approval of the project in accordance with World Bank procedures.

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 October 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 September 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. 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,

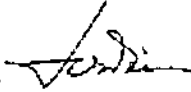
Mohamed T. El-Ashry
Chief Executive Officer
and Chairman

Cc: Alternates, Implementing Agencies, STAP

OFFICE MEMORANDUM

DATE: July 18, 2000

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

FROM: Lars Vidaeus, GEF Executive Coordinator 

EXTENSION: 34188

SUBJECT: **Global: World Bank Group's Solar Development Group (SDG)
Final Council Review/CEO Endorsement**

1. Please find the electronic attachment of the Project Document for the above-mentioned project for review by Secretariat staff, prior to your final endorsement. The initial project concept document was endorsed by the GEF Council in October 1998. This final GEF project document fully reflects the further development and appraisal of this pioneering intervention developed by the World Bank Group, in collaboration with several charitable foundations. SDG builds on the experiences gained with a large number of off-grid solar PV financing programs including several sponsored by the World Bank and IFC with GEF funding. Important lessons learned in these prior GEF projects have been fully incorporated into the design of SDG. Final endorsement of SDG's GEF funding will further solidify SDG's fund-raising process which is ongoing. SDG's founding investors have made or are in the process of making their financial commitments and the Managers are now well-advanced in the process of fund-raising with other foundations, bilateral investment and aid agencies, and private sector entities. SDG's not-for-profit foundation is now operational and the investment fund is expected to be in operation before the end of the year. Hence, the final endorsement of the proposed GEF funding is timely.

2. The project document is fully consistent with the objectives and scope of the proposal endorsed by Council as part of the October 1998 work program and reflects comments made during work program endorsement by GEFSEC, STAP, and Council members as follows:

In response to comments on risk sharing by GEFSEC, it is noted that the total expected Bank Group contribution of \$13.5 million is greater than the proposed total GEF contribution of \$10 million. Additionally, as noted in paragraph 47 and as approved by IFC's Board of Directors on May 20, 1999, IFC intends to put up to \$2 million of its contribution to the Investment Fund into Series C Shares, alongside the GEF funds, in order to share risks with the GEF. In response to the comment about identification of target countries, please see page 4, Exhibit I, of this cover memorandum.

It is noted that the comments of the STAP Reviewer were responded to in Annex IV of the Proposal for Review, and are attached for your review as page 5, Exhibit II, of this cover memorandum.

In response to comments on risk analysis by the GEF Council member representing Australia, New Zealand, and the Republic of Korea, it is noted that there are indeed other well-recognized

risks which were not discussed in the proposal but which have been analyzed and taken into account by the Fund Managers. Some of these risks are detailed in the IFC SDG Board paper (IFC/R99-66) and further documentation is available from SDG's Managers upon request. It is also noted that the Managers were selected due to their track record and experience in managing and mitigating such risks. In response to this same Member's comment on gender issues, the Bank Group agrees that gender issues are important and notes that they will be taken into account in SDG's operations. Indeed, there is a growing body of evidence from research being undertaken by the Bank through ESMAP and other efforts that document specific benefits to women from rural electrification and specifically PV-based SHS. It is also noted that the Chief Operating Officer and a Managing Director of the SDG Management team are women with a strong interest in these issues.

In response to comments from the German Council member and French Council member regarding investment fund procedures and guidelines, these issues are summarized in paragraph 30 and are covered in more detail in the IFC Board paper (IFC/R99-66). It was not deemed necessary to repeat these details in the GEF Project Document. It is also noted that in terms of target areas, the Fund Managers and founding investors are committed to seeing a suitable percentage of funds directed toward Africa, as is evidenced by early work already underway by SDG's Foundation in Gambia, Namibia, and South Africa. The French Council member also raised the issue of complementarity, which is addressed in paragraphs 39-41 of the Project Document.

In response to further comments from the French Council Member regarding SDG's place vis-a-vis local rural electrification policies, it is noted that market evidence suggests that vibrant private PV markets can and do exist even in countries (e.g., Kenya) where the government has announced rural electrification initiatives but cannot fully deliver on such promises due to financial constraints. In addition, in other countries (e.g., South Africa and Argentina) where the regulatory framework is in place and rural energy supply concessions are being awarded, there is likewise a role for private sector companies and investment in the supply chain. In addition, in response to the comment about mechanisms for regulating public/private financing, it is noted that a number of different models are being demonstrated currently, and in certain cases ESCO and other financial intermediary models do appear to be self-sustaining and capable of providing a base level of net return to potential investors. That being said, subsidies may still be required in some cases for some defined time period. By virtue of its roots in the Bank Group, SDG's managers will have access to the ongoing work of the World Bank in designing and implementing appropriate regulatory structures for rural electrification so that SDG's efforts can be properly targeted in those countries undergoing reform. Finally, in response to the comment about local distribution of centrally organized funding, it is noted that the SDG's Managers have considerable experience in a wide variety of markets, and already have, or will establish, a local presence in key markets they intend to operate in. SDG's Managers will also make use of a network of other institutions with whom they will cooperate and collaborate, that have a considerable field presence in key countries likely to be the target of SDG's efforts.

In response to the Swiss Council member's comment on multi-country risk, it is noted that the multi-country approach allows the SDG's managers to remain flexible and diversify the Fund's exposure; thus IFC regards this approach to be a risk mitigant. In response to this same

Member's comment on country ownership, it is noted that SDG was designed as a response to financing needs which have originated at a grassroots level from companies in developing countries. The Bank Group sees this as evidence of country ownership. In response to the comment on monitoring and evaluation, it is noted that the design of SDG was based on lessons learned from other WBG projects [see Annex III, D. The Evolution of World Bank Group/GEF Financing of Off-Grid Applications of Solar Photovoltaic Technology prepared by Damian Miller and Bank Group staff (1998)]. In addition, it is expected that an outcome of the upcoming GEF workshop on Solar PV to be held in Morocco in September will further validate the SDG concept and provide an additional body of evidence that supports the SDG approach.

3. Please let me know if you require any additional information to complete your review of the project document. We look forward to receiving your endorsement of the project for Bank Board approval. Many thanks.

Attachments

cc: Messrs./Mmes. K. King, A. Miller, F. Rittner, M. Sanio, E. Martinot, GEF PROGRAM COORDINATION (GEFSEC); A. Raczynski, M. Riddle, L. Boorstin, D. Younger, C. Breslin, V. Widge, V. Talvadkar, D. Koromzay, S. Sethi, P. Cook, D. Clark, R. Spencer, K. Reiche, C. Feinstein, A. Cabraal; M. Sharma, R. Khanna, D. Aryal (ENV); ENVGC ISC, Regional Files

Exhibit I

Below is a list of regions and countries where SDG is likely to focus its activities, based on optimal conditions for solar energy and the fact that finance is a major remaining barrier. Note that SDG may chose to operate in any World Bank / GEF eligible country, and this list is based on the Manager' current assessment of SDG's potential market. Thus, it is subject to change as conditions in individual country markets change.

First Tier Target Countries:

| <u>Africa:</u> | <u>Asia:</u> | <u>Middle East:</u> | <u>Latin America:</u> |
|----------------|--------------|---------------------|-----------------------|
| Botswana | Bangladesh | Morocco | Bolivia |
| Gambia | Indonesia | | Brazil |
| Ghana | Nepal | | Dominican Republic |
| Kenya | Sri Lanka | | Guatemala |
| Tanzania | Vietnam | | Honduras |
| Uganda | | | Nicaragua |
| | | | Peru |

Second Tier Target Countries:

| <u>Africa:</u> | <u>Asia:</u> | <u>Middle East:</u> | <u>Latin America:</u> |
|----------------|--------------|---------------------|-----------------------|
| Swaziland | China | Egypt | Columbia |
| South Africa | India | | Costa Rica |
| Namibia | | | Ecuador |
| | | | El Salvador |
| | | | Mexico |

Exhibit II

MODIFICATIONS IN RESPONSE TO STAP TECHNICAL REVIEW

This project proposal was subject to an Independent Technical Review by a qualified expert from the STAP roster, whose summary comments are attached. In sum, the STAP reviewer found the proposal to be technically sound and deserving of high priority by the GEF. The reviewer also noted that the timing of the initiative is appropriate given developments in the PV markets and the lessons learned from other GEF and non-GEF funded PV projects. Note that the project proposal has been expanded and modified in response to the Technical Review, as described below.

1. Incorporation of Experience / Lessons Learned.

The project proposal was expanded to include a description of past World Bank / GEF and IFC / GEF photovoltaic projects, and the lessons learned from these projects and incorporated into the design of SDC.

2. Policy Linkage.

The STAP reviewer requested that the project document clarify the policy linkage SDC will maintain with the Bank, which will help rationalize PV markets in countries with existing distortions. The project proposal has thus been expanded to describe this aspect of SDC more fully.

3. Barrier Removal Activities.

The STAP reviewer requested that the project proposal include more specific details on the barrier removal activities to be undertaken by the BAS function. Thus, more specific information was included to describe the specific activities proposed for BAS.

4. Project Funding Targets.

The STAP reviewer recognized that a detailed budget was not appropriate at this stage, for this type of project. However, the reviewer requested that specific projections for the number of business to be assisted and number of businesses to be financed were included. The project proposal was thus amended to include these projections.

5. Complementarity.

The STAP reviewer requested that the section describing SDC's unique features and complementarity to on-going PV projects be expanded. Thus the project proposal now includes more details on SDC's complementarity to World Bank and other GEF-funded projects, as well as its unique features and prospects for replicability.