



11 August 2003

Len
Dear Mr. Good,

Subject: Climate Change/OP-6: REVISED PROJECT DOCUMENT “Mexico: Action Plan for Removing Barriers to the Full Scale Implementation of Wind Power in Mexico (Phase 1)” – PIMS no. 2222

Further to our memo of 09 July 2003, I am pleased to attach herewith the revised project document to above-mentioned project, with Response to Council’s comments and co-financing letters. The brief was approved at the GEF Council Meeting in October 2002.

Also attached is the Response to GEF Secretariat comments dated 28 July 2003.

As per paragraph 29 and 30 of the GEF Project Cycle, we are submitting this project document for circulation to the members of the GEF Council and, subsequently, for your final endorsement.

Thank you in advance for expediting the review and approval of this project.

Yours sincerely,

Warm regards.

A handwritten signature in black ink, appearing to read 'Frank Pinto', is written over a horizontal line.

Frank Pinto
Executive Coordinator

Mr. Len Good
Chief Executive Officer and Chairman
Global Environment Facility
Room G6005
1776 G Street
Washington D.C. 20433

Cc: Catherine Vallee, UNDP-GEF Regional Coordinator
Richard Hosier, UNDP-GEF Climate Change Principal Technical Advisor

Mexico: "Action Plan for Removing Barriers to the Full Scale Implementation of Wind Power in Mexico (Phase 1)"

Response and Clarification of GEF Concerns

(1) Private Sector Co-financing:

GEF Sec Comment: The attached letters from the private companies express support for the project, but all basically say some variation of "once the Regional Center for Wind Farm Technology is constructed in Oaxaca, we will analyze/consider/evaluate the possibility of participating." This is not at all \$4.5 million in confirmed co-financing commitment from these companies to install wind turbines at the Center, as stated in the project document: "Wind turbines for the RWTC will be in-kind contributions from project developers or wind turbine manufacturers (\$4.5 million)" (pp. 40-41). And if such commitments await completion of construction of the center, there is no way that these investments will materialize in Phase 1 within the first two years. Thus, my reading leads me to conclude that Phase 1 amounts to \$4.7 m from GEF and \$2.2 m. from the government (which is confirmed by the government's letter), plus possible "associated financing" (i.e., not confirmed) of \$4.5 from private companies sometime in Phase 1 or 2, and that Output 2 (the Regional Center) of Phase 1 will consist of whatever the GEF pays for (more than half of total GEF Phase 1 funds) but possibly nothing else. Either the co-financing commitments need to be strengthened or clarified, or the description and financing amounts for Phase 1 need to change.

We agree with you that some letters annexed to the project document do not articulate a clear commitment. However, it was our understanding that private co-financing was in no need of commitment letters. Therefore, letters of interest attached to the project are for information only.

The very valid point about timing for private sector turbines installation has been identified during our internal review process and discussed at length with the project team. As a consequence, and to avoid waiting for the construction of the center to attract private co-financing, a number of corrective measures have already been taken, some of which are already reflected in the project document:

1. In the project workplan, getting commitment for private co-financing to install additional turbines is starting in the fourth month of the project. This will have a positive impact on timing. What we have discussed with the team is that, ideally, all turbines could be installed at the same time.

2. The project team has already started to liaise with manufacturers to this end and in particular close ties are being developed with the Dutch and the German industry.

3. For your information also, an additional co-financing of 1 million Euros, reported nowadays as associated co-financing, is in negotiations with GTZ. This will provide additional opportunities to get private commitment on the ground through exchange programmes.

As per Council document on co-financing definitions, private contribution in kind and in cash are an integral part of co-financing. Associated financing is described as being not essential for the project. In our view, this co-financing is essential to the project through provision of technology transfer, center's sustainability, and technology adaptation to local conditions, among others.

(2) Complementarity with other GEF Interventions:

GEF Sec Comment: Paragraphs 83-84 on "complementarities with other GEF interventions" (the World Bank SPRE) have not changed since the project brief was submitted to Council in October 2002. They need to be updated in light of the Council's approval of SPRE at the May 2003 meeting, the contents of that approved document, and any discussions UNDP has had with the Bank since then. What can you say now about the complementarity and also possible overlap, and operational means to address those issues?

Reference to the World Bank SP project is reported in various instances in the project document (Paragraphs 42-46, 49, 74, 83-84). In fact, the World Bank initiative has been designed taking into account UNDP's initiative - which was waiting for approval for nearly a full year due to lack of resources. UNDP's comments, mainly related to potential overlaps, have been taken into account in the preparation of the World Bank's Project Brief. Various coordination meetings are taking place in Mexico at the initiative of the GOM. Specific topics for coordination and synergies were discussed and agreed upon such as: output of grid stability studies of the center as input of the World Bank project, exchange of information among teams, etc.

Nevertheless, for clarity, we updated the corresponding paragraphs (83-84) and are pleased to submit a revised version of the project document.