



Global Environment Facility

April 26, 2000

Mr. Lars Vidaeus
GEF Executive Coordinator
World Bank
Washington, DC 22043

Dear Mr. Vidaeus,

I am pleased to inform you that the request for \$184,250 in PDF resources for the project, *Poland: Krakow Energy Efficiency*, has been approved by the CEO following a bilateral meeting and submission of revised document on April 26, 2000. The proposal has earlier been recommended for entry into the GEF Pipeline in November 1999.

It is understood (i) that during preparation, the comments of Council members, Implementing Agencies, and other organizations will be taken into account to address technical issues and to ensure coordination of activities, and (ii) that when the project is submitted for Work Program inclusion it will be well advanced in preparation and responsive to the general project review criteria as well as to specific comments in the Secretariat's Project Review Sheet.

Please find attached for your information a copy of the Project Tracking Sheet for your records.

Sincerely,

Kenneth King
Assistant Chief Executive Officer

PROPOSAL FOR GEF PDF BLOCK B GRANT

1. COUNTRY	Poland
2. FOCAL AREA	Climate Change
3. OPERATIONAL PROGRAM	Operational Program #5: Removal of Barriers to Energy Efficiency and Energy Conservation
4. PROJECT TITLE	Poland: Krakow Energy Efficiency Project
5. TOTAL COST	US\$ 99.0 million; GEF component US\$11.0 million
6. PDF REQUEST	US\$184,250
7. REQUESTING AGENCY	The World Bank
8. EXECUTING AGENCY	A Financial Intermediary for the GEF Guarantee Facility The Municipal District Heating Company (MPEC) of Krakow for the GEF Grant
	BLOCK PDF Block B
9. DURATION	6 months

10. PROJECT OBJECTIVE

The objective of the GEF project is to remove barriers to market-oriented transactions and increase public and private sector investments in energy efficiency in buildings in the Krakow region of Poland. It will demonstrate the financing of private sector energy efficiency projects suitable for Polish buildings in the long run. It will fully complement a broader associated IBRD financed project to improve energy efficiency of both district heating and end users in the Malopolskie Voivodship (the Krakow region).

Using the IBRD financing, the Municipal District Heating Company of Krakow (MPEC) will modernize the district heating system and operate a subsidiary Energy Service Company (ESCO). The ESCO will deliver energy management services, on a turn-key and performance basis. The ESCO will use its experience in actual achievement of savings to help clients: (i) capitalize on energy saving opportunities within their buildings; (ii) arrange project financing through local banks, cofinanced initially by the Bank; and (iii) repay the investments from the savings which the ESCO guarantees.

The proposed GEF share of the overall project will comprise two modalities. The primary *non-grant modality* addresses credit risks faced by commercial banks in financing building energy efficiency projects. It is intended to enable US\$35 million of private sector end user efficiency projects not otherwise fundable by local banks. The *grant modality* covers direct incremental costs of including high cost window and insulation building renewal measures in complete energy efficiency retrofit projects. It is intended that the grant will enable US\$2 million worth of long payback building retrofits to be acquired at competitive bulk-purchase prices while demonstrating the building renewal value of large scale comprehensive energy retrofit projects.

The *GEF guarantee facility* will augment commercial lending, through risk sharing among project sponsors, host building owners and companies, and equipment and other service providers. The projects would demonstrate real and accountable ownership by private sector actors who have a vested interest in the project's success. In addition, the GEF guarantee

facility is expected to have a market transformation effect by lowering the perceptions of risk on the part of commercial banks and end-users regarding energy performance contracting and end-user financing models.

The *GEF grant modality* will help demonstrate that shorter-paybacks, financial sustainability, and replication while including higher cost efficiency measures can be achieved through the ESCO model and, in particular, that market aggregation for the bulk-purchase of these measures as an integral part of a package of efficiency services will lead to economy and efficiency.

This GEF funding will accelerate the participation of local commercial banks in financing much needed building energy efficiency and renewal. It is expected to yield 244,000 tonnes of incremental carbon emission reduction at a cost of US\$27/tonne, over the project life of ten years.

PDF Grant funding is needed to: i) identify a suitable Polish commercial bank to manage, as a financial intermediary, the GEF guarantee facility funds in a trustee role with commensurate fiduciary responsibilities; ii) establish suitable terms and conditions for the GEF guarantee and grant funding program elements, and iii) prepare a Project Brief and Implementation Plan before GEF appraisal and later endorsement.

11. GLOBAL SIGNIFICANCE

The global environmental objective of the project is to achieve broader and deeper penetration of commercial energy efficiency project activity on a sustainable basis by removing barriers and lowering transaction costs. Performance indicators with respect to this goal include:

- Measures of market penetration in terms of sales volume of ESCO activity in the buildings sector that demonstrate increase in number of projects funded by commercial banks;
- Recording of real reductions in CO2 emissions at the project level.

Through the GEF participation in the project it is expected that an increment of 244,000 tonnes of carbon will be removed from emissions in the region over ten years, not to mention the other pollutants associated with reduced fossil fuel combustion. This project will demonstrate to many in Poland an appropriate means of global environmental management and therefore be just the beginning of a much larger long term impact. It is estimated that the broader impact of such a program if replicated throughout Poland would be about 3.2 million tonnes of carbon over ten years. The proposed project captures approximately 8% of the estimated total potential for energy efficiency in Poland.

12. BACKGROUND

The need to improve energy efficiency and safeguard the environment has been a cornerstone of Poland's energy and environmental policy since 1990. Although substantial success in supply-side energy efficiency programs has already been achieved nationwide, it is widely recognized that substantial additional improvements in end-use energy efficiency and in air quality can be

achieved. Since the potential for reducing energy consumption in space heating is largely due to the inefficiency of heating devices and the poor state of building insulation, priority has been accorded to residential and commercial sector energy efficiency.

The project supports IBRD's Country Assistance Strategy (CAS) of making the institutional changes and investments necessary for Poland's compliance with the air pollution directives of the European Union (EU). It also meets IBRD's CAS of promoting the needed infrastructure growth, including a greater role for the private sector. The project also supports Poland in reaching its international obligations under the UNFCCC and has been endorsed by the GEF focal point.

Renovations of the municipally owned district heating system in Krakow (MPEC) have been successfully ongoing since 1992 under IBRD loan 3381-POL. The IBRD/GEF-funded Coal-to-Gas Conversion Project (GET TF 028665) and other supply and limited demand side programs in Krakow (such as the Polish-American Low Emission Sources Program) have also helped to improve the ambient air quality in Krakow. However, enormous potential for cost-effective improvements in energy efficiency and air quality remains untapped in the Krakow region. The strategic importance of implementing further energy efficiency measures both on the supply as well as the demand side is well documented in sector work completed by the Bank and in a wide range of other studies completed both in Poland and abroad.

Given the aging infrastructure in most buildings in the Krakow region, owners are more concerned about finding funds to replace tired or outdated equipment, than they are about their environmental impact. Such high priority issues for the energy consumers can usually be coordinated with energy efficiency improvements when replacing old inefficient equipment with new more efficient models of boilers, lights, motors, etc. The need for such infrastructure renewal can help to sell the consumer on related energy efficiency retrofits.

In December 1998, MPEC identified an opportunity to undertake customer energy efficiency projects by forming an ESCO which would arrange commercial bank financing, design and implement the investment, and monitor energy savings until payback from these savings is complete. During 1999 an IBRD project was prepared in order to support MPEC in expanding its district heating renovation program and in starting up a subsidiary ESCO. Pilot ESCO projects were undertaken in 1999, and MPEC's subsidiary ESCO was formed in April 2000, beginning with the hiring of the President and key staff.

The IBRD project is scheduled for Appraisal in June 2000 and World Bank Board Approval in September 2000. Because the IBRD project is in advanced stage of preparation, it will be processed separately from the associated GEF project, but the two projects will be fully linked in terms of design and management. The GEF project is scheduled for Appraisal in October 2000 and World Bank Board Approval in December 2000.

13. PROJECT DESCRIPTION

The IBRD financed portion of the project consist of three components: (i) a district heating modernization IBRD loan; (ii) an ESCO IBRD loan; and (iii) an IBRD technical assistance for the ESCO training and management. The GEF-financed portion of the project consists of three

components: (i) a GEF partial credit risk guarantee for ESCO project barriers; (ii) a GEF grant for specific technologies to be included in comprehensive ESCO projects; and (iii) a GEF technical assistance for monitoring, reporting, and replication. It will be implemented during the period 2000-2005. Each component is discussed below.

IBRD Components

a. District heating modernization (US\$ 60 million with a Bank loan of US\$16 million)

MPEC plans to invest about US\$12 million per year to continue rehabilitating the district heating system in Krakow, mainly the consumer substations and heat network. The investment program is consistent with the recommendations of the Master Plan and is a continuation of the Bank-financed optimization program under the Heat Supply Restructuring and Conservation Project (Loan 3381-POL). Given its financial performance, MPEC could finance up to 70% of its annual investment program from internal cash generation. MPEC's investment program during the period 2000 to 2005 consists of the following four sub-components: (i) strategic investments to connect new customers in high density areas where district heating is competitive and to create loops within the heating network for reliability of supply; (ii) environmental investments to support the replacement of coal fired heat-only-boilers and stoves, both not owned by MPEC, either through connection to the district heating network or through gas/oil-fired conversion; (iii) modernization investments to retrofit 10 to 15 km of district heating pipelines per year and to equip consumer substations with weather regulators; and (iv) heat efficiency improvement investments to improve the communication and control systems, to replace the remaining 770 hydroelevators with compact substations, and to adequately operate and maintain the facilities.

b. ESCO (US\$17-\$27 million with a Bank loan of US\$8 million)

Based on a market assessment, about 120 individual ESCO projects with cost estimates ranging from US\$50,000 to US\$500,000 could be implemented over the next 6-8 years. The extent of the ESCO program as well as the amount of financing from the Bank and from MPEC's equity will depend on getting commercial banks lending directly to the ESCO's clients. The base case assumes that the ESCO carries on its balance sheet the cost of 100% of the ESCO projects in years 1 and 2, then declining to a lower limit of 40% by year 5 and thereafter. Under this assumption, the cost of the ESCO program over the first 5-8 years could be US\$17-27 million, depending on the market penetration. In light of the uncertainty about off-balance sheet financing from commercial banks, it has been assumed that Polish banks would finance up to US\$10-17 million and MPEC would provide an equity contribution of about US\$2.0 million (excluding retained earnings). The Bank loan would finance the remainder of up to a maximum of US\$8 million.

c. IBRD Technical Assistance (a Bank loan of US\$1.0 million)

Technical assistance would involve support to MPEC and ESCO staff in the areas of ESCO management, energy auditing, measurement and verifications of savings, legal aspects of performance contracting, and marketing.

GEF Component

- d. **Building retrofit energy efficiency project financing demonstration** (a GEF partial credit risk guarantee of US\$8 million)

A partial credit risk guarantee facility will be established with GEF funds to demonstrate the viability of energy efficiency retrofits in buildings, based on a utility owned ESCO model. The initial projects will be drawn from the ESCO's 'pipeline' and based on its experience in energy efficiency project design and implementation. Perceived significant incremental risks now deter commercial banks from financing building energy efficiency retrofits of any kind which depend on energy savings for loan payback. The credit risk guarantee facility will ensure that the structures for assessing risk and assigning risk mitigation are proved viable among project participants (MPEC, ESCO, commercial banks, and end-users). In particular, the credit risk guarantee facility will establish how performance and technical risk (ESCO risk) can be distinguished from end-user credit-worthiness (client-credit risk) in project financings.

For the first three years of implementation, the GEF guarantee facility will guarantee the participation of commercial banks in the MPEC-ESCO project activity. This period will establish the credibility of energy savings and differentiate technical risks from client credit-worthiness risks. Thereafter, the guarantee facility will become available to commercial banks lending directly to other utilities, ESCOs and end-users, as well as guaranteeing the exposure of commercial banks' lending directly to clients on the basis of clients' credit-worthiness. The rate and timing of this transition from MPEC projects to other entities engaging in energy performance contracting will be determined by project monitoring in the second and third year of implementation. Success of the model depends on the cooperation of ESCOs and commercial banks in the finance structure.

- e. **Reduction of long-term costs of energy efficiency technology** (a GEF grant of US\$2.0 million)

Many building upgrade measures would benefit from adding wall insulation and replacing windows. However, these measures typically result in paybacks as long as 17 to 20 years. The proposed GEF grant will enable the ESCO to offer these materials in the context of a package of services with acceptable levels of technical and financial risks. By looking at all energy saving opportunities with varying payback periods, including higher cost options: (i) ESCO clients can decide on the attractiveness of the package, the specific measures to implement, and how much to co-invest for building retrofits; and (ii) the project becomes economically and financially viable and self sustaining and would realize all economic opportunities that can benefit the environment. To ensure that the benefits of the grant are passed on to end-users and to minimize any potential market distorting effects, specific restrictions on eligibility will apply. During implementation, the market transformation effect of the grant will also be assessed, in particular the impact of lower costs through bulk purchases.

- f. **GEF Technical Assistance** (a GEF grant of US\$1.0 million)
GEF technical assistance will be available for the following purposes:

1. To the executing agency of the GEF guarantee facility (the Financial Intermediary) for;
 - i. developing the project financing mechanism which requires no recourse to the ESCO or owner. Foreign banks and financing specialists with experience in this field will be retained during the early years of this program to ensure that a long term sustainable financing mechanism is in place for energy efficiency projects suited to the Polish marketplace.
 - ii. promoting the new financing modality to the rest of the Polish financial community
 - iii. promoting to other energy efficiency agents able to undertake the technical performance risk, the benefits of using energy savings to co-fund building renewal projects.
 - iv. monitoring, evaluation and reporting on GEF benefits under the guarantee facility (baseline establishment, savings monitoring, leakage, et al).
 - v. monitoring, evaluation and reporting on replication of an off-balance sheet financing structure;
 - vi. investigating market creation effect of the grant financing of windows and insulation retrofit packages, e.g. replicable financing models in the absence of the grant;
 - vii. assessing a suitable exit strategy for the GEF guarantee facility, in light of experience during the first three to four years of implementation;
2. To MPEC's ESCO in applying for GEF grant funds for bulk purchase of windows and insulation. This work will primarily consist of engineering analyses of proposed building retrofits to verify the cost effectiveness of weatherization options vis-à-vis windows/insulation.
3. To an appropriate Polish non-profit or consumer group: (i) to promote the concept and benefits of building retrofit activities and studies on the ESCO or other "best practices" in Poland for replication in other regions; and (ii) to implement information sharing and ESCO training during the initial stages of the GEF project, in light of implementation experience with the MPEC ESCO.

Table 1: Total Project Costs (in US\$ million)

Component	Category/Sector	Indicative Costs		Financing Plan				
		Amount	% of Total	IBRD	GEF	MPEC	Commercial Bank	Total
1. District Heating Modernization	Other Power and Energy Conversion	60	61%	16	0	44	0	60
2. IBRD Technical Assistance	Institutional Development	1	1%	1	0	0	0	1
3. Utility ESCO Company Financing	Capacity Building	27	27%	8	0	2	17	27
4. Partial Credit Risk Guarantee	Barrier Removal (client credit risk)	8	8%	0	8	0	0	8
5. Capital Cost Grant	Barrier Removal (costs of windows & insulation)	2	2%	0	2	0	0	2
6. GEF Technical Assistance	Institutional Development	1	1%	0	1	0	0	1
Total Costs		99	100%	25	11	2	17	99

Implementation Arrangements. MPEC will be the recipient of the IBRD loan. MPEC will be responsible for coordinating the implementation of the overall project and will directly implement the district heating modernization component. MPEC's new ESCO subsidiary will be responsible for coordinating the implementation of the ESCO component and will be assisted by domestic and international consultants. A project agreement will be developed between MPEC and the ESCO and will specify the various tasks: (i) for the ESCO to implement the ESCO component; and (ii) for MPEC to monitor the ESCO's performance, to disburse project funds for eligible expenditures under the ESCO component and to receive reimbursements for these expenditures from the ESCO's revenues.

Under PDF-B financed activities a local bank will be selected to manage, as a financial intermediary, the GEF funds in a trustee role with commensurate fiduciary responsibilities. The GEF credit guarantee facility will be dedicated to the MPEC ESCO project activities during the first three years of project implementation. Thereafter the guarantee facility will be available to other ESCOs, utilities and/or commercial banks throughout Poland, that are able to share risks and create and deliver turnkey energy efficiency projects. MPEC's ESCO will channel the GEF capital cost grant to eligible client projects.

14. DESCRIPTION OF PROPOSED PDF ACTIVITIES

Prior to GEF appraisal and endorsement, the following issues must be addressed:

- (a) establish terms for selecting an appropriate Financial Intermediary (FI).
- (b) select a proposed FI.
- (c) assess the financing needs of each market segment through discussions with the FI and sector focus groups.

- (d) establish the project level measurement and verification procedures needed for global performance reporting.
- (e) establish terms and conditions and eligibility criteria for the GEF guarantee, along with criteria for assessing the long-term impacts.
- (f) establish suitable FI fees for setting up each guarantee and for managing the program. Establish means of accounting for and paying these fees.
- (g) determine typical local window and insulation retrofit costs and payback periods, as well as other plausible building renewal measures with long payback periods from energy savings. Review the payback and market potential for representative sets of energy efficiency measures based on the initial 'pipeline' of ESCO projects. Consider the impact for both MPEC's ESCO sales and for future broader market potential. Estimate the global environmental benefits resulting from the application of these technologies.
- (h) establish terms and conditions and eligibility criteria for the GEF grant and for co-investment in windows/insulation or other long payback measures, along with criteria for assessing their long-term impacts.
- (i) define program reporting requirements and monitoring procedures. Establish acceptable performance measures for the program.
- (j) define formats for reporting the energy and financial performance of individual projects and potential projects. Establish performance indicators and target values for monitoring performance of the ESCO and of projects under development and implementation.
- (k) develop specific measures to encourage learning and replication beyond the target region, including training programs and information sharing vehicles, to be agreed with project stakeholders for implementation.
- (l) identify suitable existing Polish funds or agencies which might be candidates to take over management of the GEF residual funds at the end of the program to continue pursuit of national objectives that also realize global environmental benefits.
- (m) Assess and coordinate with the experiences with similar programs and activities in Latvia, Lithuania and Estonia and obtain guidance from the GEF about what is relevant in terms of AIJ programs and projects^{1/} in these and other regions.

These issues will be resolved by the six PDF-B funded activities described below.

1) Selection of Financial Intermediary (Issues a, b)

This work will involve:

1. Develop a draft outline of the partial credit guarantee program, with estimated project size and size of the facility
2. Carry out a market sounding of local banks to assess their appetite to finance building energy efficiency projects and to participate in the GEF guarantee program
3. Develop a profile of the ideal FI and the minimum requirements for participation.
4. Develop a Request For Proposal which engenders real competition amongst potential FIs, using specific items to be quoted such as the fraction of credit risk to be borne by the FI for each of several defined sectors.
5. Solicit proposals from eligible local banks.
6. Meet one or more proposing banks and select a proposed FI.

^{1/} Activities Implemented Jointly (AIJ)

Expected outputs: This work will produce a Request for Proposal which will be distributed through the local Polish financial community. From proposals received a proposed Financial Intermediary will be chosen.

2) **Establish Terms of GEF Partial Credit Guarantee and Assess Long-term Impact**
(Issues c, e, f, i, j, k, l, and m)

With the proposed FI's assistance,

1. Examine the financing needs of each sector.
2. Establish proposed terms and conditions and eligibility criteria for the GEF guarantee.
3. Establish a method for paying and accounting for FI fees.
4. Establish means of expanding the program beyond MPEC's ESCO
5. Establish proposed means of sharing partial guarantee program results in other parts of Poland, including training and awareness programs.
6. Establish monitoring and reporting requirements for proponents and the FI. Establish performance targets.
7. Identify potential Polish agencies to take over the residual funds upon expiry of the program.

Expected outputs: This work will produce draft terms and conditions for the GEF guarantee, including payment of fees and a mechanism for applying it both to MPEC's ESCO and beyond. The report will include proposed methods of encouraging others in Poland to undertake similar activities, and estimate the long term impact of programs that might be inspired by this demonstration. It will also identify logical entities to support options for an exit strategy to be assessed later in the life of the program. Monitoring and reporting methods will be defined and performance targets established.

3) **Establish Terms of GEF Grant and Assess Long-term Impact** (Issues g, h, i, j and k)

With the assistance of a local engineering firm,

1. Establish typical costs and savings of longer payback building renewal measures which might be part of comprehensive retrofit projects. Use MPEC's preliminary investigations of buildings as well as wider data available for analysis.
2. Consider the market penetration possibilities of each technology under the GEF grant for ESCO projects and beyond.
3. Assess the role of related low cost alternatives (such as weatherization) which might achieve substantial savings of a less permanent nature.
4. Establish realistic procurement procedures for MPEC's ESCO to undertake in order to maximise the cost advantage gained by bulk tendering.
5. Define GEF grant terms and conditions, eligibility criteria and M&V requirements.
8. Establish proposed means of sharing partial guarantee program results in other parts of Poland, including training and awareness programs.
6. Establish monitoring and reporting requirements of MPEC. Establish performance targets

Expected outputs: This work will produce draft terms and conditions for the GEF grant, including target markets, renewal measures, and procedures to be used for bulk tendering. The report will include proposed methods of encouraging others in Poland to undertake similar activities, and estimate the long term impact of programs that might be inspired by this demonstration. Monitoring and reporting methods will be defined and performance targets established.

4) Global Environmental Reporting (Issues d and g)

1. Establish the project savings measurement and verification requirements for global environmental reporting.
2. Estimate the global environmental impact of the guarantee and grant programs.

Expected outputs: This work will produce a draft report which include specifications for the method of measuring energy savings and computing their global environmental impact, as well as estimates of the global environmental impact of the programs

5) Regional Coordination (Issue m)

1. Examine any related financing activities in neighbouring areas.
2. Report this project's learning to date in other areas showing interest

Expected outputs: This work will gather and report information on related financing activities in neighbouring countries and by other financial institutions. It will provide information to the sponsors of these programs on this intended program and solicit feedback on this program.

6) Write GEF Project Brief and Implementation Plan

1. Compile all the results of the above tasks in a GEF Project Brief and Implementation Plan report.

Expected outputs: This work will produce a report which will be the basis for preparing the Project Appraisal Document for GEF appraisal and later endorsement.

16. PDF BLOCK B OUTPUTS

The main output of the PDF Block B Grant will be the GEF Project Brief and Implementation Plan. In the process of preparing this document, a financial intermediary will have been selected and prepared for implementation. The process of selection will also sensitize the financial community to the program to encourage its interest in downstream or parallel funding.

The Brief and Plan will detail draft terms and conditions and eligibility requirements for both the guarantee and grant elements of the program. It will establish monitoring and reporting methods and set performance targets. Methods will be proposed for maximising the transfer of this program's methods to others beyond the immediate area of this project. Estimates will be made of the likely global environmental impact of the program and similar programs that it could inspire. Similarities and differences between the proposed program and related programs in neighbouring countries will be examined and used to guide this activity and inform sponsors

of these other programs. The Plan will identify feasible exit strategies to be chosen near the end of the program.

17. ELIGIBILITY

Poland has commitments to the European Union for air pollution abatements and to the international community for greenhouse gas management. The heating sector presents a large potential for Poland to comply with these commitments in timely and cost-effective manners. Since private ownership and control is still a new phenomenon in Poland, new approaches to project management and financing must be learned if Poland is to meet these commitments. This is a considerable challenge on top of the above noted commitments. The proposed GEF funding program will support Poland in meeting these commitments by demonstrating the private market participation in funding of energy efficiency and building renewal projects.

The project directly supports the GEF OP5, Removal of Barriers to Energy Efficiency and Energy Conservation. The GEF funding will create directly about 244,000 tonnes of carbon emission reduction (corresponding to about 8% of the total potential in Poland), at an estimated GEF's incremental cost of \$27US/tonne over ten years project life. However the real target is to inspire further unsupported energy efficiency activities, after this project is complete.

18. NATIONAL LEVEL SUPPORT

The proposed associated IBRD project is included in the IBRD's Country Assistance Strategy for Poland which has been agreed with the Government of Poland and discussed by the World Bank Executive Directors in September 16, 1999. The GEF Focal Point in Poland has endorsed the proposed GEF project on February 18, 2000 (see attachment).

19. JUSTIFICATION

The proposed GEF project is the first GEF partial risk guarantee facility to be established in association with an IBRD-funded project. The lessons learned from preparation and implementation of this project will provide a learning ground for others that may want to design and implement similar IBRD/GEF-funded projects. Since the proposed program is innovative for the IBRD and the GEF, and involves private sector financing of building energy efficiency projects that is not well developed in Poland, there are numerous aspects of project design which must be considered to reasonably satisfy both the IBRD and the GEF that the stated objectives can be met and that project implementation will be trouble-free. The issues (a) through (m) listed in Section 15 are specific to the GEF-financed project and were identified by the IBRD team, the GEF Secretariat and the STAP and other reviewers during the preparation and review of the project concept document. The PDF-B funded activities are needed to resolve these key issues so that this project is ready for GEF project appraisal and final endorsement.

20. TIMETABLE

The activities to prepare the GEF Project Brief and Implementation Plan will begin upon approval of this funding application, expected to be May/June 2000. In Poland, activities will

be conducted in parallel with the appraisal activities for the IBRD financed project during June, and subsequently in August. The June activities will include a preliminary market sounding of local banks to determine their appetite to finance building energy efficiency projects, the preparation for the FI tender call, and the establishment of working relations with a suitable engineering firm Activity 3 consultations. The August visit will select a proposed FI, review the engineer's guidance on technologies and paybacks, and draft terms and conditions of the guarantee and grant. Draft Project Brief and Implementation Plan is expected to be completed prior to Appraisal of the GEF Project and finalized before GEF Approval.

The costs of the six PDF-B funded activities are summarised in Table 2. All costs will be borne by the PDF-B grant since these are specific to the GEF project and incremental to the IBRD-funded project preparation activities. However, indirect parallel funding and in-kind contribution will be provided by local banks covering their own costs to prepare and present proposals, and for the selected FI to assist in establishment of terms and conditions of the partial credit guarantee.

Table 2 PDF-B Activity Budget

Activity No.	Activity	Time Frame	Category of Expenditures	Consultants (firms or individuals)		Number (consultant, trip and field days)	Rate (US\$/day or US/trip)	Duration per Consultant (days)	Cost (US\$)
				Origin	Expertise				
1.	Selection of Financial Intermediary	June - August 2000	Fees	International	Banking	1	1,000	15	15,000
			Fees	International	EE Financing / ESCO Management	1	850	15	12,750
			International Travel			2	2,200		4,400
			Subsistences Within Poland			20	250		5,000
			Sub-total Task 1						
2.	Establish Terms of GEF Partial Credit Guarantee	August 2000	Fees	International	Banking	1	1,000	12	12,000
			Fees	International	EE Financing / ESCO Management	1	850	12	10,200
			Fees	Local	Legal	1	500	20	10,000
			Fees	Local	Financial Auditing	1	500	20	10,000
			International Travel			2	2,200		4,400
	Subsistences Within Poland			20	250		5,000		
	Sub-total Task 2							51,600	
3.	Establish Terms of GEF Grant	September 2000	Fees	International	EE Financing / ESCO Management	1	850	12	10,200
			Fees	Local	EE Engineering	1	300	40	12,000
			International Travel			1	2,200		2,200
			Subsistences Within Poland			10	250		2,500
			Sub-total Task 3						
4 & 5	Global Environmental Reporting / Regional Coordination (incl. long-term impact assessment of GEF grant and non-grant modalities)	June-August 2000	Fees	International	Energy Economist	1	850	20	17,000
			Fees	International	EE Financing / ESCO Management	1	850	5	4,250
			International Travel			1	2,200		2,200
			Subsistences Within Poland			20	250		5,000
			Sub-total Tasks 4 & 5						
6.	Project Brief and Implementation Plan	September October 2000	Fees	International	Energy Economist	1	850	25	21,250
			Fees	International	EE Financing / ESCO Management	1	850	10	8,500
			International Travel			2	2,200		4,400
			Subsistences Within Poland			24	250		6,000
			Sub-total Task 6						
TOTAL COSTS								184,250	



**Ministry of Foreign Affairs
of the Republic of Poland**

Department for United Nations
Economic and Social Affairs

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Warsaw, 18 February 2000

Dear Mr. El-Ashry,

In my capacity as GEF Political Focal Point I would like to endorse project proposal entitled "GEF Cracow Energy Efficiency Project". The project will contribute to wider undertaking of energy efficiency projects in the municipal sector in Cracow through reducing credit risks for ESCO clients and reducing the payback period of measures that have at present payback periods extending beyond the ESCO financing terms. In this way the project is in accordance with governmental policy of energy efficiency in municipal sector adopted by the Parliament in 1996. By implementing energy efficiency measures the project will provide reduction of greenhouse gas emissions, what constitutes one of the priorities of Poland's environmental policy. Therefore, the project enjoys the support from the Polish authorities.

Moreover I would like to suggest considering the possibility of extension of the project to other cities in Poland and, at least at the initial phase of the project, using part of GEF resources for softening loans destined for energy efficiency measures in residential and public buildings in the area where project will be implemented. Poland is of the opinion that remaining part of the grant which was not used for the risk guarantee for the projects be allocated to one of the specialised Polish funds for the same purposes.

Yours sincerely,

Wojciech Ponikiewski
Director of the Department
GEF Political Focal Point

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