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Subject RE: GEF projects

Dear Colleagues:

We are still going through the November 2005 work program, but have a number of questions and concerns about several projects, and would appreciate your reactions and responses to help us develop our position for the Council discussion of these projects.

1. International waters projects: Strategic Partnership for a Sustainable Fisheries Investment Fund in the Large Marine Ecosystems of Sub-Saharan Africa; and Partnership Investment Fund for Pollution Reduction in the Large Marine Ecosystems of East Asia. Clearly, the need is great, and regional collaboration in these areas is essential. However, the model being used (patterned after the Black Sea/Danube Strategic Partnership) is a pilot; its outcome has not yet been discussed by the Council; and there is not a Council approved policy on the use of this form of project support. In particular, we do not support delegation of authority to the CEO to approve the subprojects, certainly not on the basis of the information provided in the project document.

Moreover, since the initial Black Sea Danube project approval (2001), the Council has approved stronger monitoring and evaluation requirements (effective July 28, 2003) to ensure, among other things, quality at entry of all GEF projects. The two investment fund projects do not appear to meet those standards, which include: "definition of performance indicators and unit of measurement; description of the data source(s) for the indicator; identification of baseline data and methods for data collection and processing; scheduling frequency of data collection and designating officials responsible for ensuring data availability. Performance indicators need to be specific, measurable, achievable, relevant and time bound. The data should be available on a timely basis at intervals consistent with management requirements (at least annually)...." Under the M&E terms of reference, the Secretariat is responsible for ensuring that projects meet the minimum standards BEFORE putting projects into the work program. Therefore, it would appear that these projects should not have been put forward. We would appreciate your response to these concerns.

2. Support for focal points: We have a number of concerns about the project for support to focal points, mainly because we believe that a substantial portion of the activities funded by the project are administrative in nature and should instead be provided for in the corporate budget. We appreciate that support to Council members, which had been funded through the previous support project, has now been shifted to the corporate budget. However, we believe that the items under component 1 of the currently proposed project are also administrative expenses for the following reasons: (1) the activities eligible for funding include those related to GEF project processing, such as translating, printing and dissemination of relevant GEF documents and creation of the GEF project database; (2) the funding is provided to entities that are part of the governance structure of the GEF; (3) the direct financial support to focal points is proposed as ongoing annual activity, rather than a one-off amount that is characteristic of capacity building; (4) there is no distinction in the amount of funds provided to the focal point -- all countries receive the same amount each year. Typically, capacity building such as this would be targeted to the least developed countries and small island states. It is hard to believe

that emerging market countries and Eastern European countries lack the capacity to build a spreadsheet of GEF projects or to print GEF documents; and (5) and travel to meet Council members and attend GEF familiarization seminars appear to us to be administrative expenses. Aside from these issues, there is no historic data to show whether the amounts proposed represent increases from previous years. We are not opposed in principle to support for the focal points, although we would clearly prefer better targeting of resources to least developed, small island developing states and other countries where the need is great. Our fundamental concern is that GEF administrative expenses should be funded through the corporate budget, and not through projects.

3. China Fuel Cell Buses: Fuel cell buses are not expected to be commercially viable anytime soon -- even in the most advanced economies of the world. The project document indicates fuel cell projects were dropped in three other countries, with the explanation "experience to date has pointed to overoptimism of the original project designed and unrealistic expectation of near-term cost reduction." What is it about this \$6 m China project that management believes is different from those that were dropped? How can we say that this project meets GEF operational principles if it is not cost effective, sustainable or replicable?

4. Mauritania: Andrar Solar Initiative and Decentralized Electrification in the Northern Coastline of Mauritania to Hybrid (Wind/Diesel) Systems: What impact does the August military coup have on the project success (was endorsed by previous government June 2005)? Is there any impact on the cofinancing? What fiduciary controls are in place to combat corruption in the project? Does the misreporting associated with Mauritania's 2003 PRGF program undermine the reliability of any fiduciary controls in place?

5. Fouta Djallon Highlands Integrated Natural Resources Management Program: We have the same questions about the Mauritania portion of the project as in item 4.

6. GEF African Microhydro Initiative: If successful, the microhydro initiative has the potential to boost growth in Mali, Benin, and Togo through increased production resulting from greater rural access to electricity and reductions in the potential impact of negative shocks resulting from high world oil prices. However, it is not clear that the initiative incorporates a viable plan to increase the extremely low capacity levels in rural West Africa, upon which the sustainability of the initiative depends.

\* We note that the Benin Agency for Rural Electrification and Energy Management (ABERME) will require additional staff. We would urge that any new hiring should not contradict the efforts at civil service reform included in Benin's IFI programs, including the need to implement performance-based remuneration for civil servants.

\* We are concerned by the program's finding that "the fact that the electricity sector reform process is not yet completed leaves many open ended questions that may not encourage the private sector to venture its own resources immediately." Benin's fiscal resources are limited as a result of low revenue collection and the failure to disengage the state from productive sectors. If the private sector is not encouraged to immediately venture its own resources, the result will be greater state involvement in productive sectors in at least the short-term.

\* Given Benin's need to improve revenue collection to enhance poverty-reducing priority expenditures, granting fiscal/tax holiday

incentives to private investors promoting renewable energy technology may be counterproductive and may contradict commitments made to enhance revenue collection. We urge the authorities to consider it as carefully as the program advances.

\* Togo is in arrears to the AfDB. As the project is dependent on AfDB co-financing, approval for at least the Togo component of this project should be withheld until Togo takes steps to clear its arrears

\* There is a need for a much more rigorous discussion of issues of transparency and control of corruption surrounding the microhydro initiative in all three West African countries, where governance must be improved. One area where this discussion could particularly be strengthened is protecting against the misuse of planned subsidies to the rural electricity agencies.

We may have further comments in the days ahead on other projects and, as always, we appreciate your help.

Regards,

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