June 4, 2014

World Bank Response to the TFC – Approval by mail:

Egypt: Wind Power Development Project

Comments from United Kingdom	Responses from World Bank team
Renewable energy fund: We are being asked to approve $10m for a renewable energy fund, yet the PAD contains very little information about this fund. Before we can approve this component we would like more information about the fund, for example, what it is, who will administer it, what results are expected and how does the fund fit with the CTF investment criteria?	The restructuring paper is not seeking approval by the CTF Trust Fund Committee of the $10 million balance for the RE fund. Such approval will be sought once detailed information about the RE fund is fully determined and the Government decides on the use of that balance for the RE fund.
Results: There is an inconsistency in the results framework. While GHG savings are claimed on the basis of facilitating the deployment of 790 MW by the closing the date of the project, the total investment cost only includes the cost of the transmission investments and the financial leverage only one 250 MW wind farm.	As the project objective aims at developing business models to scale up wind projects by private sector, the focus on the financial leverage calculation was mainly on privately developed wind projects to be connected to the national grid by the revised closing date of this project. This means only the 250MW that is part of this project as the rest of the 790MW are donor funded as described in Annex 5. Thus, financial leverage was calculated a the project level only (i.e. 250MW to financed by private sector) while the GHG savings was done for all wind capacity (i.e. 790MW) that will be evacuated to the national grid through the transmission infrastructure supported by CTF financing by the closing date of the project. It is important to highlight that at the program level, CTF resources of US$ 150 million enabled total investments of US$4.5 billion considering investments for the additional 2,500 MW of capacity and the transmission infrastructure by the completion of the scale-up phase two years after the closing date of the project (please

	see summary table in annex 7 for details). If we were to consider investments leveraged by the remaining 540MW of installed wind capacity, the total financing leveraged by the project would increase by $540-972 million (assuming $1.0-1.8 million per MW of installed wind power capacity).
Results (continued). Will the 790 MW of wind capacity be only built as a result of the investment into energy infrastructure or would some of these installations have gone ahead anyway? This will help us to establish the business as usual scenario.	Yes, the 790MW would not be connected to the main national grid without the investment into this project. In particular, all projects planned for private financing will not happen without this project. Some of the donor funded wind projects (e.g. those planned for operation before the 500kV is operational) may use the local 220kV networks to serve nearby load centers but eventually will need the 500kV transmission line to ensure stable operation of the grid. Projects pipeline is shown in annex-5 of which the 790MW are envisaged for commercial operation by the new closing date of this project.
Results (continued). The total investment cost per tonne should include both the cost of the transmission investment and the investment cost associated with the wind farms, otherwise the figure is deceptively low.	Footnote 2 of annex 7 describes the basis used by the team for not including the cost associated with the wind farms, quote "Calculation of Total project cost effectiveness only includes costs associated with transmission infrastructure (CTF-funded component). Therefore, it excludes US$450 million private financing for the development of 250MW BOO wind power project." The team considers the aforementioned approach the most appropriate as it pertains to the actual cost associated with investments in the proposed transmission infrastructure. The inclusion of cost associated with the wind farms would extend the boundaries of analysis beyond those under control by the project.
Results (continued). If the construction of the wind farms will only involve private finance – as the implementation based on BOO or IPP basis seems to suggest - then their investment financing should be included in the CTF financial leverage. If it	The revised breakdown between public and private wind farms is described in annex 2, and annex 5 shows the sponsor for each wind farm project 5. No climate financing is expected to be used for financing of wind farms and hence no risk of double counting

will involve additional public finance in the forms of subsidies there is a potential issue with double counting GHG and financial results in the future.	exists.
Previous results: In the original results framework the GHG savings from the entire 2500MW scale up potential were attributed to the intervention at 120 Mt CO2eq, whereas this proposal includes a target of 28.5 Mt CO2eq. Please could a rationale for this change be provided?	As explained in Annex 2 in the revised GHG emission reductions from the 2500MW, it will be achieved in two stages of which reductions from 1,600MW will be deferred by two years and a reduction from 790MW will be achieved by the revised closing date of the project. With respect to the 120Mt CO2eq from the original, it was based on the 50% capacity factor for 2,500MW of installed capacity while the 28.5Mt CO2eq is based on the revised value of 37.5% for 790MW of installed wind capacity by the revised closing date of the project (see paragraph 13 of Annex 7 for details). The revised CF is based on revised figures that were used in recent generation planning projections which reviewed the actual CF in Zafarana site that will be connected to the transmission infrastructure in the Gulf of Suez. As this is a project restructuring, we updated the original figures based on most recent data for more accurate indicators.
Carbon credits: Please could you confirm that any credits sold to the market will be reported to the CTF?	The team confirms that credits associated with the 250MW wind BOO will be reported to the CTF once provided by EETC.
Development: The Development Impact section does not mention poverty at all, would it be possible to expand on this and to indicate how the project / savings from the original project will benefit the poorest, as well expand a bit more on the gender elements; the reference to 49% of recipients being women is not the strongest case for an approach of targeted measures that would specifically focus on gender benefits for women and girls.	Recently, electricity consumers in Egypt have been experiencing frequent load shedding and interruption in electricity supply which became a critical service delivery issue for households-- including the poor and women-- potentially feeding into citizen dissatisfaction on the one hand and further affecting economic growth on the other. As Egypt is well electrified country (99%) and all sectors will benefit evacuated wind energy from the Gulf of Suez through, including rural areas, as well as new and existing cities. For existing consumers, the connection of additional power generation could mean increasing their consumption for better quality of life, expanding business

	activity (e.g. SMEs), modernizing industry, improving school buildings, or installing healthcare equipment. For rural consumers, such source of electricity supply could alleviate poverty by increasing electrification of villages, illuminating roads to support economic and social activities, the development of education and health care (two of the critical sectors for Egypt), and meeting the basic needs for low-income families. For the reference to 49% of recipients being female, the percentage of female beneficiaries is used as an indicator but not targeted. The percentage is based on the level of electrification because wind generation will be connected to the national grid.
Comments from Canada	**Responses from World Bank team**
Regarding the request to reallocate the remaining $10M to support the establishment of the Renewable Energy Fund (REF), the proposal indicates that the funds could be used to "support the establishment of the REF and/or other eligible activities". We request that this aspect of the proposal be resubmitted to the Committee for decision once the proposed use of these funds has been determined, accordingly.	An approval will be sought from the CTF Committee, once detailed information about the REF and/or other eligible activities is fully determined and the Government decides on the use of that balance for the RE fund.
We welcome the steps IBRD has taken to expedite Component C's implementation through the use of credit enhancement instruments. In this regard, we would appreciate an update from the IBRD on the Government of Egypt's decision to use IBRD credit enhancement instruments, as the use of these instruments is an important risk mitigant for this project, as well improving the private sector's participation and risk perception.	The team will be delighted to provide an update on the Government of Egypt's decision to use IBRD credit enhancement instruments