



Rural Electrification Project

Country / Region: **Vanuatu** | Project Id: **XSREVU040A** | Fund Name: **SREP** |

MDB : **International Bank for Reconstruction and Development**

Comment Type	Commenter Name	Commenter Profile	Comment	Date
Comment 1	Daniel Menebhi	Switzerland	<p>Questions (Q) and comments (C) (1st part):</p> <p>1. Consistency with the endorsed SREP Investment Plan for Vanuatu</p> <p>a. (Q/C) Where is the endorsed IP for Vanuatu (it is not available on the SREP website - the link does not lead to the IP)? Please provide us a copy including the SREP decision.</p> <p>b. (Q) What was the grant vs non-grant allocation in the endorsed SREP IP for Vanuatu? What was the allocation for this project?</p>	Feb 08, 2017
Response 1	Rafael Ben	CIF AU	<p>Responses from CIF AU:</p> <p>1. Consistency with the endorsed SREP Investment Plan for Vanuatu</p> <p>a. (Q/C) Where is the endorsed IP for Vanuatu (it is not available on the SREP website - the link does not lead to the IP)? Please provide us a copy including the SREP decision.</p> <p>The IP is available online through this link, including the decision: [https://www-cif.climateinvestmentfunds.org/sites/default/files/Vanuatu%20SREP%20Investment%20Plan_final_revised.pdf]</p> <p>b. (Q) What was the grant vs non-grant allocation in the endorsed SREP IP for Vanuatu? What was the allocation for this project?</p> <p>At the time of submitting the IP, the GoV requested a 100 percent grant allocation. However, the Sub-Committee's decision to endorse the IP did not specifically address this request. When the ADB project for Vanuatu was submitted in October 2015, the GoV again requested 100 percent grant funding (totaling USD 14.0 million) for the projects under its endorsed investment plan, including USD 7.0 million for the Energy Access Project (ADB). The justification for grant funding included the need to rebuild the economy after the devastating cyclone that hit Vanuatu and the recent shift of Vanuatu's debt distress from low to moderate risk. According to the guidelines of distributing resources approved by the Sub-Committee in November 2011 (applicable for Vanuatu), for pilot countries with low risk of debt distress, the share of grant funding should not exceed 70 percent of the total indicative funding; for pilot countries with moderate or high risks of debt distress, all indicative funding can be grant. At the time of the endorsement of the SREP Investment Plan for Vanuatu in November 2014, it had low risk of debt distress. However, Vanuatu's risk debt distress shifted from low to moderate according to the Debt Sustainability Analysis by IMF (dated May 2015) and remains moderate, according to the latest IMF analysis (dated October 2016). Please also take note of the Sub-Committee's decision when approving the ADB project: "The Sub-Committee takes note of the request from the Government of Vanuatu for 100 percent grant funding for the projects under its endorsed investment plan, and approves on an exceptional basis USD 7.0 million in grant funding for the proposal entitled, Vanuatu: Energy Access Project, submitted by the Government of Vanuatu and the Asian Development Bank (ADB)"</p> <p>Regarding the World Bank project, according to Annex B of Vanuatu's IP, page 119, table 7, the Rural Electrification Project will request USD 7 million in grant funding from SREP</p>	Feb 13, 2017
Response 2	Daniel Menebhi	Switzerland	<p>OK.</p> <p>It is understood why all-grant financing from SREP should be approved in this (exceptional) case, where (most likely climate change related) exceptional events put the country under extreme pressure, including financially.</p>	Feb 20, 2017
Comment 2	Daniel Menebhi	Switzerland	<p>Questions (Q) and comments (C) (part 2)</p> <p>2. Focus on results for VREP II</p> <p>a. (Q) Why are the results from VREP I included in the Results Framework, given that the SREP contribution is only allocated to VREP II and VREP I is al-ready under way?</p>	Feb 08, 2017



b. (C) In our opinion this is misleading and the results attributable to SREP intervention should be limited to VREP II. Please prepare an alternative Results Framework in that sense for information of the SREP Subcommittee.
 c. (Q) How much is the expected reduction/avoidance of CO2 emissions for VREP II only?
 d. (C) Please single out the SREP contribution in the VREP financing plan and indicate from what other trust funds the co-financing is?

Response 1 Monyl Nefer IBRD
 Toga Makang

Feb 15, 2017

Focus on results for VREP II
 a. (Q) Why are the results from VREP I included in the Results Framework, given that the SREP contribution is only allocated to VREP II and VREP I is already under way?
 The rural electrification project under the SREP IP, supported by the World Bank, had four components as set out in the extract below (refer to page 113 of the SREP IP). The Bank was able to mobilize funds for component 1 (plug and play systems) as set out under the SREP IP early and launched that component as Vanuatu Rural Electrification Project Stage I (VREP). VREP I includes the enabling aspects of components 3 and 4. After undertaking the necessary consultations, analysis and design work, the Bank is now taking component 2 (SHS and micro/mini grids) together with the enabling elements of components 3 and 4 through approvals with the remainder of the funds available for the project. VREP I and VREP II combined form the rural electrification project as set out in the SREP IP and this is the reason the results framework (and investments) include contribution from both.
 b. (C) In our opinion this is misleading and the results attributable to SREP intervention should be limited to VREP II. Please prepare an alternative Results Framework in that sense for information of the SREP Subcommittee.
 The reasons for why the results and investments are set out in the manner it is, is set out above. The rural electrification project and the results framework of the approved SREP IP (page 115) includes all four components of the rural electrification project as set out above, but are being implemented as two projects. Please see attached PAD with SREP I Annex results matrix separated between VREP II, VREP I, and cumulative.
 c. (Q) How much is the expected reduction/avoidance of CO2 emissions for VREP II only?
 5,300 tonnes per annum reported in the results framework is from VREP II. This does not include contribution from the plug and play systems under VREP I which is relatively small.
 d. (C) Please single out the SREP contribution in the VREP financing plan and indicate from what other trust funds the co-financing is?
 Noting that this will be different to the financing structure set out in SREP IP, the contributions (US\$) to VREP II only are as follows:
 SREP 6.77 million
 IDA 4 million
 NZMFAT 3.4 million
 GoV 1.5 million in kind
 Consumers 11.2 million
 Total 26.87 million
 Co-financing for VREP I only is as follows:
 NZMFAT 4.7 million
 Consumers 3.1 million
 Total 7.8 million
 Overall total 34.67 million.
 This is set out separately in Table 2 (page 57) of the Project Appraisal Document.

Response 2 Daniel Menebhi Switzerland

Feb 20, 2017

The presentation of results in the PAD is consistent with the IP.
 The more restrictive view on VREP II would be more relevant though, as SREP funding was not needed for VREP I.
 If only taking into account VREP II results, the SREP grant per beneficiary (\$151.30) is acceptable, if not low. The (SREP grant cost) of avoiding CO2 emissions is high (at 64\$/ton).
 As to the leverage factor, the co-financing related to VREP II is wrongly stated in the updated SREP Results Framework (Annex 1) – the co-financing from beneficiaries is not included.
 Adding those \$11.2 million (answer online), the resulting total co-financing of \$20.1 million is almost 1:3, not impressive but acceptable.
 Overall, we have no objection to the project approval.

Comment 3 Simon Foster United Kingdom

Feb 17, 2017

Dear Mafalda,
 The UK has some additional questions for this proposal, which we like clarification on before approving please.



-As the proposal states, the key element that success hinges in is affordability. The proposal rightly goes into some depth in assessing the affordability as part of the economic analysis. However, we have two questions that would enable us to put our minds at rest regarding this issue. These are:

- How are the retail prices determined?
- Is there a risk that vendors, knowing that a third of the retail price will be subsidised, hike up their prices?
- Other than competition, what mitigates against this happening?
- Have the proposed prices of Solar Home Systems been tested with potential end users during the consultation process? If so what were the responses?

Sorry for the delay in providing these, we've had some IT issues this week and some absences during the half-term holidays.

I also attempted to access the comments link provided at the bottom of the email below, but am getting an Access Denied page come up, (I also tried on my home PC - not linked to the DFID network to see if that was the cause, but get the same message). So apologies for providing the questions by email.

Response 1 Monyl Nefer IBRD
 Toga Makang

Q1: How are the retail prices determined?

Feb 21, 2017

A1: The vendors will set the retail prices for SHS and micro grids. The retail prices will be disclosed in a product catalogue published by the Department of Energy, the Implementing Agency and benchmarked against retail costs for similar products in Vanuatu, Australia and other countries – refer to the third question below. The products will also need to comply with minimum performance standards (international standards) and include an acceptable level of minimum warranty period.

The retail tariffs in the concession areas (for grids and proposed mini grids) are determined by the Vanuatu Utilities Regulatory Authority in accordance with the principles of economic regulation for electricity services.

Q2: Is there a risk that vendors, knowing that a third of the retail price will be subsidised, hike up their prices?

A2: The type of products available and their prices will be published in a product catalogue distributed to project beneficiaries and will include the prices of products from other vendors. Project beneficiaries will be able to compare products and prices for each vendor and select the most suitable products for the price they can afford.

Q3: Other than competition, what mitigates against this happening?

A3: Each Vendor will submit to the Department of Energy (DoE) the products and the wholesale costs of the products they propose to be included in the product catalogue. The DoE will review the wholesale cost for each product and the proposed retail price. Some retail mark-up will be acceptable but any "abnormal" mark-up will be questioned before the products are approved for sale under the project. The Department of Energy will also review the product prices against other markets such as, Australia, New Zealand and other Pacific Islands. Suppliers of such products publish prices on their websites. This approach has been adopted for stage 1 of the rural electrification project.

Q4: Have the proposed prices of Solar Home Systems been tested with potential end users during the consultation process? If so what were the responses?

A4: The SHS and the micro grids component of the project has been designed using evidence (specifications and prices) from similar products in other Pacific Island countries and in Australia and lessons from stage 1 (plug and play systems) of the rural electrification project. The supply of the products will be demand-driven and will provide a range of products of different capability and prices to suit individual end users (i.e. be affordable). The level of subsidy has then been determined based on end-users' incomes and willingness to pay from consumer surveys (as set out in the PAD). The approach and subsidy levels have been discussed and validated with the retailers who currently supply similar products in Vanuatu. Further consultations will be undertaken during the preparation of the product catalogue and as indicated in the PAD, micro-finance opportunities will be investigated during project implementation to bring higher capacity products within the reach of the end-users. The Department of Energy will engage a technical consultant to develop technical standards, warranty requirements and the range of products for inclusion in the



product catalogue for Vanuatu. The consultant will consult with the energy retailers and project beneficiaries to finalise product qualification requirements and product registration process and prepare an initial product catalogue.