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To CIF Admin Unit

cc Lesley Wilson, Haruhisa Ohtsuka, Martin Dasek, Noleen Dube

Subject **Fw: Ang. Turkey: Commercializing Sustainable Energy Finance Program**

Lesley,
Please see responses to the questions below which were put together by our team. We are awaiting further questions from Germany.
Lisa

In order to ensure maximum transformational impact in implementing the project we suggest that the IFC/EBRD might want to consider the following:

- that the banks selected as recipients of the programme are chosen
  a) on the basis of their willingness to lead in the financial sector by being a model to other institutions in the sector;
  b) by their willingness to change their current practices and develop new innovative financial products that will help create a new market for energy efficiencies and renewable energy investments;
  c) are willing to adopt energy efficiencies in their own operations;

- that the programme contributes to the development of skills and practices both within the banks themselves and within the sector that will implement the energy efficiency and renewable energy measures.

We want projects such as this to be both transformational and replicable and therefore we welcome including the development of a best practice manual during the course of the programme.

Given the overall objective of the CTF it will also be important to ensure that there is a robust mechanism for reporting and monitoring project implementation and impact, including its transformational effects.

In future proposals we would like to see more explicit treatment of the extent to which the programme will reduce poverty.

The above mentioned points summarize our strategy in negotiating with FIs and developing the Program. We will be following these suggestions.

• The emphasis by Greg and others on monitoring and evaluation is particularly important. Capturing the best practices and lessons learned is vital and the U.S. views this as an integral part of the CTF process.

We fully agree. In our work with private sector entities, monitoring and evaluation is essential in accessing the impact and appropriateness of our interventions. We have incorporated specific monitoring indicators as described in the Program. In addition, IFC will apply other standard indicators under our Development Outcome Tracking System which will describe the project's development effectiveness including impact on poverty reduction.

• Specifically, we would expect feedback on: why particular commercial banks or financial leasing companies were chosen and whether these were good choices; what the difference in outcomes were, if any, between the banks and the leasing companies; how both the original lending and the on-lending were structured (i.e., as Cyril enquired, how was the concessionality shared?); where was demand created quickly and were did it come more sluggishly (or not at all); and, finally, what worked best, in which institutions, and for which sectors.

Thank you for the summary of the expected feedback. We we will monitor these and the lessons learned will be documented and published.

• Ultimately, of course, we would expect feedback on: (1) whether the focus on incentivizing the lending/leasing institutions to seek new business led to broader demand for these products and, if so, did it extend outside their existing networks and client relationships; and (2) whether, and how quickly, institutions which were not part of the original program developed similar lines of business.

As stated above, we will monitor such experiences closely and will report on them. From our experience in other markets thus far, establishing and marketing EE/RE lending products within FIs led to higher demand from the market and helped FIs enter new market niches and sectors. Also we have seen that other FIs "quickly" follow the market leaders who identified (with IFC help) the market opportunity in the first place. All such experience and lessons learned have been taken into account in developing this Program. It will be a useful exercise to compare the rate of transformation in Turkey with the process of transformation in those countries, and the reasons for any differences.

• Was biogas intentionally excluded?

No, In fact, as mentioned in our separate answer, we envision small renewables, such as biomass boilers, hot water heaters, biogas co-generation, small wind, hydro and PV installations to be supported through this Program, especially if they are developed in SMEs and commercial applications.

· In line with comments from others, we see a focus on the monitoring, quantification and reporting/verification of results over time as an essential element of this activity (potentially including the use of proxy indicators to assess whether this work has, or is likely to, catalyse the development and uptake of similar products beyond the direct scope of the activity). This is particularly important given the relatively short duration of the activity.

We agree. Please refer to our answer provided on monitoring and evaluation above.

· We encourage ongoing communication and exchange of lessons learned, and the consideration of opportunities for any efficiencies, between this program and the already approved CTF/IBRD EE/RE project in Turkey (noting others comments on the desire to target a separate group of financial institutions).

Even though we are targeting different market segments and players, we will coordinate with other CTF projects for efficiency and complementarity. The market awareness component especially can impact all programs, and therefore coordination is essential.

· An AusAID technical assessment of this proposal queried the applicability of the proposed approach to renewable energy technologies, suggesting that the activity might most appropriately focus on energy efficiency (excepting cases where EE and RE are part of a combined solution such as solar water heating and low grade heat applications) rather than renewable energy for electricity generation.

From our experience in other markets, financing small scale renewables such as in fuel switching projects in SMEs and commercial application is often similar to financing EE from the FI's perspective. This is because both are usually under a corporate/SME financing structure. A different situation would be for large scale renewable projects where a project financing structure is used. Our Program deals almost exclusively with corporate/SME financing and companies will typically seek the best technology for their needs, regardless of if it's EE or RE. In earlier projects in other markets, IFC designed programs exclusively for EE projects. What we experienced was a high demand for both EE and small scale RE projects and the FI requested we expand

the eligibility of the program. By including both technologies now, we are trying to prevent missing opportunities for CO2 reducing projects and the need for amending the program later. We will track and report back on what the ultimate portfolio looks like.

· The technical assessment also questioned the applicability of this model to the residential sector, where transaction costs are often too high for gains to be made. The assessment recommended considering targeting the commercial SME space, and removing focus on the residential sector.

IFC has extensive experience in financing housing EE renovations in Central and Eastern Europe. Although the residential sector is not the primary target sector for this Program, we would like to keep options open in order to have available solutions for potential FI's interests in this area. It is fact a that from a pure GHG emissions savings point of view, the residential applications bring smaller volumes than larger industrial projects; however, if aggregated at scale, it can bring large savings. In addition, there are other significant impacts that result out of residential projects such as improved living standards etc. Nevertheless we will take note of this point when we negotiate with FIs about the target sectors.