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Subject

Re: Ang. Turkey: Private Sector Renewable Energy and Energy Efficiency ProjectLink

Answer to CTF-TFC Member from Sweden

Dear Carly,

Many thanks for your e-mail regarding the Turkey Private Sector and Energy Efficiency Project.

We appreciate Sweden's support for the project. With respect to the two concerns for which you have sought clarification, we would like to re-assure you that (i) the capacity building program indeed does focus on banks in general, and not just the two borrowers; and (ii) international bidding will still be used, following acceptable Turkish commercial practices.

Status of TA for energy efficiency: A combination of IBRD-CTF financing and TA support is critical for the energy efficiency (EE) market to develop in Turkey. Therefore, the proposed IBRD CTF co-financed project will be complemented by technical assistance (TA) in parallel. KfW and UNDP have agreed to utilize ongoing and planned TA programs to support capacity building for energy efficiency investments. Furthermore, KfW and UNDP have agreed in principle to seek additional funds in future as may be necessary. In addition, other donors such as JICA and AfD have also expressed an interest in providing additional support going forward.

The current KfW and UNDP programs will focus on the following three priorities:

1. Support for financial intermediaries: In order to enable a sustainable investment framework, a capacity building effort is necessary (for the two banks - TSKB and TKB – involved in the proposed Project, as well as for other banks and financial intermediaries) in creating sustainable financing mechanisms and in enhancing the ability of banks to identify and assess energy efficiency projects, loan origination, technical issues, financial appraisal techniques and loan product development;

2. Support for private industry: The private sector needs assistance with capacity building to help it identify and exploit energy efficiency investments. This capacity building would include assisting with improving energy audits and helping with the training of Energy Service Companies (ESCOs); and,

3. Support for the regulatory institutions responsible for energy efficiency: The new EE law and the recent slew of regulations place enhanced responsibility and authority on various government institutions, in particular on EIEI (the agency under Ministry of Energy responsible for overseeing EE), which will have to play a critical role in research, market facilitation as well as monitoring of various initiatives.

The status of the KfW and UNDP programs is as follows: KfW has a EUR 200,000 facility available for TA, and has begun discussions with the banks involved in the proposed Project on their TA needs. These TA needs are also summarized in Annex 4 of the PAD. Shortly, KfW will identify an EE expert who will begin working with TSKB initially, to help put together their loan origination and marketing effort for EE. UNDP has also obtained funding from GEF, and is in the process of preparing various training programs for banks and industry. The UNDP/GEF program will target a large number of banks in addition to the two involved with the proposed Project, thereby supporting broader market transformation objectives. So both agencies have commenced the implementation of their respective efforts.

Procurement arrangements for the Project: The Bank has agreed to allow the use of acceptable Turkish private sector commercial practices for procurement under the Project.

Turkish private commercial practices are well-established, and particularly in renewable energy, result in efficient, economic and market-driven procurement. Under Turkish commercial practices, international competitive bidding is also allowed, and indeed this is the main form of procurement of power equipment for renewable projects. Under the ongoing Renewable Energy Project, the Bank allowed commercial practice upto pre-defined thresholds, which however were found to be too low for renewable energy projects. Project developers reported having difficulty obtaining a wide range of quotations because of the high level of demand for energy equipment worldwide. Under the proposed Project, the two banks will be required to carry out annual procurement audits to determine that procurement and contracting is being conducted using acceptable commercial practices defined in the Operations Manuals. The audits will also aim to determine if procurement is being carried out efficiently and economically, and that the resulting prices are market-based. As under the ongoing Renewable Energy Project, our expectation is that most of the power equipment will be sourced from foreign suppliers. We will edit the Project Appraisal Document to better explain this approach.

Please let me know if you need further information.

Best regards.

Rohit