August 30, 2010

Comments from Germany

Dear Patricia,

thank you very much for your flexibility. We appreciate the opportunity to review the proposed project in detail.

We would like to express our support for the proposal and attach a summary analysis.

Kind regards
Annette

Comments on CTF Public Sector Proposal
'Mexico – Efficient Lightning and Appliances Project'

Financial Volume	50 million USD CTF Loan, 320 million USD IBRD Loan 7.12 million USD GEF grant 127 million USD NAFIN local contribution 33.2 million Government of Mexico local contribution
Purpose of the project	Financing parts of the Mexican Government's national programmes on replacing light bulbs (lightning component) as well as refrigerators and air conditioners (appliances component).

A General Comments on the Project – Relation to the Sectoral and Regional Context

In the last years climate change as well as investments in renewable energies and energy efficiency became more important in Mexico's generally oil-driven economy. To respond to the huge potential in energy efficiency and as part of the energy sector reform in 2008, the Mexican government prepared a significant initiative to increase energy efficiency in various sectors and designed different investment components as well as new standards and regulations.

The proposed CTF/WB financing will finance some components of the 'Energy Efficiency Programme' of the Mexican Government. The 'appliance component' is based on an existing and proved mechanism to implement investments via the energy efficiency funds FIDE. The WB/CTF funds will extend the existing mechanism and allow a much bigger outreach of this component. The credit line to the national development bank NAFIN to finance part of the appliance component will be co-financed by CTF funds and a loan of the German Financial Contribution via KfW.

Due to the high-volume initiative and the availability of concessional funds, the project will allow the implementation of additional investments, that would not have been implemented otherwise. Additionally, the engagement of donor funds contributes to higher awareness for energy efficiency that should persist over the duration of the programme.

In combination with the credible support by the Mexican government and the involved Mexican institutions this initiative does seem a useful application of CTF funds.

B General Comments on the Financing Terms

The CTF terms are

- Financing: 0,75 %
- Maturity: 20 years
- Grace: 10 years

These terms offer a very attractive financing to the project and allow the leverage of additional external funds. If pooled together, CTF and additional external funds lead to a still attractive and justifiable average interest rate for the end consumers.

C Investment Criteria

Potential for GHG Emissions Savings
The replacement of 1.7 million appliances under the Project would generate about 3,600 GWh of electricity savings, thus yielding around 1.85 $MtCO_2e$ of reductions from these savings during the implementation period (until 6/2014) . Further emission savings should come from replication of the programme and the proper disposal of old appliances which contained the old CFC-12 as a refrigerant.

The project does not involve the development of new technologies. It will implement technologies that are already available in Mexico today, but face significant barriers. Through the project, that outreach of the existing technologies and standards would be significantly extended.

Cost-Effectiveness
The direct emission reduction of about 7.4 $MtCO_{2e}$ over the useful life of appliances will be achieved with USD 50 million of CTF funding combined with USD 553 million of non-CTF resources. This corresponds to USD 6.77/ tCO_{2e} considering the use of CTF funds alone and roughly 80 USD/tCO2e considering the whole financial support.

Demonstration Potential at Scale
A (large scale) replication of this approach is part of the programme and can further be expected: the penetration of residential energy-efficient end-use appliances, such as refrigerators and air conditioners, has often relied on large-scale programmatic interventions by governments, mainly implemented through utilities. Due to the lack of such a large scale programme, there has been no large-scale use of these existing energy efficient technologies. The pilot appliances program implemented by the Mexican government in 2009 revealed that attractive financing together with public support are necessary to gain traction.

Development Impact
The proposed project is consistent with the energy and climate strategy of the Mexican government as well as the Mexico World Bank Partnership strategy.

The project supports the government's mitigation efforts as well as – through vouchers to low-income households - the government's objective of promotion of social inclusion. The estimated reduction in consumption measures correspond to 1,400 MW of conserved capacity. Local environment and health benefit by reducing pollutants. The manufacturing and service sector will benefit from additional energy efficiency activity which in turn may foster economic development.

Implementation Potential
National policies and institutions credibly support the efforts: The programme is been accompanied by a national strategy for energy efficiency and climate change mitigation, that includes regulatory changes accompanied by the institutional strengthening of key government agencies, and the establishment of financial mechanisms to implement key programs.