

September 13, 2010

Comments from Germany

Dear Patricia,

thank you very much for the 7 project proposals we received. Please find below comments/questions for all of them. In addition we also provide more detailed comments/questions for 5 of them (all South African ones, Turkey and Philippines) as attachment.

1. TurSEFF Extension

We are happy to support the extension for the original project (the status quo about allocations seems to be outdated, though).

2. Philippines Renewable Energy Accelerator Programm

In principle we very much welcome this programm proposal as it seems well balanced and adequately adapted to the sectoral situation in the Philippines. We do have concerns however about the relative vagueness of a number of important issues (s. attachment). Given that a more detailed regulatory framework is expected in the next couple of weeks, which would provide a much better basis for specifying the necessary support measures, we suggest that the proposal is resubmitted after sufficient information has been obtained. We do realize the time constraints, but would like to point out that we only expect a short delay, which would much improve the quality of the proposal.

3. Vietnam Sustainable Energy Finance Programm

We noted that the original focus of the programm on small scale RE seems to have been changed to demand oriented EE of SME. As explained in our comments on the supplemental note we had serious concerns about the viability of this previous priority as a lack of donor financing does not seem to be the bottle neck, but rather the quality of project proposals, the experience of investors etc. Could you please confirm our impression about the change of priorities and explain whether you still intend to finance small-scale RE, possibly under which conditions and advisory services, and to which extent in relation to the scale up of energy efficient and cleaner production investments.

4. Thailand Sustainable Energy Finance Program

We are in principle prepared to approve the programm, but would like to seek clarification on a number of points before we do so:

- we find that in order to approve it we should be given some criteria for on-lending. There is very little in the proposal.
- also, it would be helpful to get some more information about prospective partners. Given the fact that some of this information might be classified as confidential, we suggest to expedite the signature of the pending Non-Disclosure Agreement. You would then be in a position to forward this additional information to interested donors.
- with regard to your analysis, there is a lack of appropriate financing mechanisms for small projects and SME's. On this background and given the rather small overall budget, we would like to suggest that on-lending should be better adapted to the analysis, i.a. the lower and upper limits for individual loans should be reduced. Then it would be possible to reach out to more and smaller projects and clients - despite the fact that it would increase the transaction costs and possible interest rates.
- Pricing/CTF Terms: we wondered why the mezzanine debt loan would be structured similarly to the senior debt loan. We also wondered why the

risk share facility would cover up to 80% of the first loss, whether 50% might not be sufficient.

- considering that the political situation seems to have stabilized we agree with your risk assessment, but would still ask you to give more specific information on the impact of the political tensions on the targeted sector and partners.

5. South Africa

We do very much welcome the CTF engagement in South Africa and support its overall approach especially considering the urgent need to enlarge the sub sectors of RE and EE.

Nonetheless, we have grave concerns with the proposed approaches.

There are three cross-cutting issues we would like to raise with you:

- All the project proposals are extremely vague. They neither give details concerning partners nor projects. Again, the NDA might be a vehicle for you to transport this sort of information, but we are somewhat hesitant to actually agree that this information should be considered classified in the South African country context at all.
- Energy is a focal area for German development cooperation in South Africa, more bilateral partners such as France, Danida and others are also active in this sector. None of the proposals gives any indication whether donor coordination was even considered (apart from a small mention of AFD's support). Any support from CTF sources would necessarily have to be harmonised with other donors' programs, a division of labour needs to be well-thought through, and all this ideally on the ground under the leadership of GoSA.
- These project proposals by 2 implementing MDB's compound the problem of additional administrative costs. Especially the rather small project for the Energy Efficiency Program does not warrant such a large administrative budget.

In addition we have also sector specific comments, see attachments. I would like to high light in particular the Sustainable Energy Acceleration Program, which might reduce the current pressure on the government to quickly implement the FIT. From our perspective it is now necessary to support measures such as TA for the implementation, a new financing mechanism might prove to be counterproductive at this time.

Overall, we come to the conclusion that the South African proposals are currently not in a form to be approved.

Thank you very much for your consideration,
Annette