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Subje RE: Turkey: Private Sector Renewable Energy and
ct Energy Efficiency Project

Dear Patricia

I would like to express Japan's consent to the proposed Turkish RE/EE project and appreciate the hard work by you and your colleagues. I believe that this project could be worthy of CTF support. However, in order to illustrate distinction of CTF project more clearly, I would like to comment the following, expecting improvements on the PAD in these points by the WB Board approval.

The first comment is on cost effectiveness of CTF. It is appreciated that the PAD mentions to the direct effect of CTF 5-8USD/ton CO2e reduced. We could use this as a benchmark for the successive projects.

The second is related to transformational potential of this project. CTF support should not end up financing a single project, rather, it should bring sector wide impact. From this perspective, it is important to decrease CTF intervention gradually during the project period. In the case of this particular project, it is important to make it clear that the capacity of whole Turkish financial sector, not only of the two FIs, must be improved by implementation of this project. Generally, we should underline that, in projects of the same type, the proportion of CTF involvement should be decreased during the project period.

Third point is about the use of "threshold IRRs". I think it is acceptable to use threshold IRRs as a rational for CTF amount. However, I think it is important to monitor "threshold IRRs" during the project period, because threshold IRRs could decrease when the Turkish financial market matures and investors get familiar to EE and RE projects.

The last comment is about the quantity of the indirect impact of this project and its explanation. The document says that this project will have the indirect impact of 199 mtCO2 in 2020. However, this should be seen as overstated to a certain extent, because, despite the 2nd phase for this project and others would be developed under the Turkish Investment Plan, it is attributing whole emission reduction potential to this project only. In this regard, it is expected that the explanation on this point should be refined and clearly acknowledge the interrelation with other projects.

Sincerely,

Hiroshi Takami
Ministry of Finance, Japan