

August 3, 2012

**Comments from Germany on Approval by mail: CTF-IDB "Ecocasa" Program
(Mexico Energy Efficiency Program Part II) (IDB)**

Dear colleagues,

please find enclosed our comments on the above mentioned project.

Thank you,

kind regards

Ina

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German Comments on CTF Public Sector Proposal “Ecocasa Program”

Overall comments on the project proposal

- **The CTF-IDB "Ecocasa" Program is in line with the objectives of the CTF and we are ready to endorse it, provided that remaining inconsistencies are clarified (see comments below).**
- The project is well designed, aspects like gender, donor coordination monitoring are well described. We particularly welcome the attempt to cover the aspect of CO2 emission despite the inherent difficulties for these calculations in the area of energy efficiency (especially in the building sector).
- The project addresses a critical regulatory bottleneck: The NAMA programme for Sustainable Housing establishes the basis for an appropriate policy framework aiming at a transformational shift to a sustainable housing sector. The NAMA’s “whole house approach” follows the same scheme than the German Energy Savings Ordinance (EnEV) and was developed with support of the German International Cooperation Agency (GIZ).
- The project addresses a critical bottleneck of the NAMA concept: The Ecocasa Program will fill the typical start-up financing gap for the implementation of NAMAs opening the path for scale up and replication.
- However, some questions need to be clarified in project design and we would like some explanations on the points elaborated below.

Questions regarding overall project approach and implementation strategy

1. We are not sure why the programme limits itself to the development and construction of new housing while the application of standards and incentives for improving EE of existing housing is being left out.
2. It is not entirely clear how the project complements existing initiatives and is based on lessons learnt opposed to merely replicating what has been done before.
3. Given the severity and rapid pace of urban sprawl in the key target areas of the project, we would appreciate more clarity as to how the project supports the GoMs current urbanization policies. This applies particularly to the risk that the improved credit provision for low-income housing resulting from the project (if not combined with safeguards and incentives to counterbalance this likely outcome) could contribute to further aggravate the problem of driving poorer households even further outside of urban boundaries. This effect has been observed with comparable housing/mortgage projects in the past, hence it would be reassuring to know that this risk is being addressed.

Questions and observations regarding assumptions and calculations

4. For the following reasons, we would appreciate greater clarity concerning the assumptions made with regards to expected loan/mortgage default rates: (i) Loan

reimbursements seem to be a major source of funding for the “second wave” of construction, adding another 13,800 houses to the 27,600 houses built during the first wave. (ii) Created in 2002 and with less than EUR 1 bio of mortgage loans (with assumed avg. loan of EUR 25k equiv. to approx. 40,000 loans) in its performing loan portfolio, SHF is still a relatively new and small player on the Mexican mortgage market, hence it seems debatable whether or not the organisation has the capacity to manage a program of comparable size and complexity while achieving the assumed competitive collection rates and transaction cost of past projects (which were all managed by much bigger and more established players).

5. Project “products” and “results” in the results matrix are only provided for the initiative as a whole. Hence, in particular with regards to GHG emission reductions, it is not clear which part or percentage of project impacts can be assigned/correlated to CTF funding provided.

6. The numbers for number of houses built and GHG emissions abated given on page 12 and the results matrix do not seem to match.

7. While the project document (for the sake of calculating savings in energy subsidies) assumes a continued 0.14 USD/kWh subsidization of electricity increasing by 6% annually (amounting to a subsidy of 0.20 USD in year 7), the calculations do not seem to consider the negative effect of rising subsidies on the demand for improvements in energy efficiency and clean energy appliances at the household level. Moreover, while electricity subsidies have been partly included into NPV calculations, the impact of natural gas subsidies does not seem to be reflected at all. Since the direct and indirect subsidization of energy (in particular with regard to electricity and natural gas) continues to be a major barrier for energy efficiency improvements and the dissemination of renewable energy appliances in the housing sector, we suggest to more comprehensively reflect the impact of current and future energy subsidies on project results in the form of different scenarios (e.g. phase out, constant, rising subsidies).

Compliance with investment criteria

1. Potential for GHG Emissions Savings

- According to the assumptions established for the baseline scenario, the project will reduce a very significant amount of GHG emission reductions amounting to 1.6 million tCO₂e.

2. „Cost-Effectiveness“

- According to the project document, the CTF investment per ton CO₂e amounts to 32 USD. The Program’s marginal cost of reducing a ton of CO₂e of USD 125 is below the maximal limited of US200 established at the BLUE Map Scenario.

- According to the economic analysis elaborated (Optional Document 4, POD) the intervention is financially feasible at both Program and house unit levels throughout the given lifetime of the houses.
- The residential sector has been selected as one the 7 areas of opportunity by PRONASE because of the cost-effectiveness of energy efficiency improvements in buildings compared to other alternatives over a time period of approx. 20 years (2030) according to the GHG mitigation curve of Mckinsey (V.2, 2009) . Thus, although other alternatives might be more cost-effective in the short term, the untapped saving potential in the residential sector represents a cost-effective alternative in the mid- and long-term.
- However, due to the aggregated format of most calculations, not all project results can be clearly attributed to the CTF contribution.

3 “Demonstration potential at scale”

- Replication potential and “show case character” are presented as core strengths of the Ecocasa Program (... rather than CO2e emission reductions directly resulting from the project).
- The Program will likely foster new construction techniques and designs going far beyond the current state of the art creating a solid platform for implementation and scale up of future sustainable housing NAMAs.
- Through its demonstration character, the focus on large project developers as well as close cooperation with the private sector, the project is likely to lead to significant additional “follow-up” emission reductions.
- The project will test-run the necessary simulation and monitoring systems and allow to fine-tune technical rules and standards, thus contributing to the consolidation of political and administrative frameworks for a transformational shift towards a more sustainable housing sector.

4 „Development Impact“

- Beneficiaries of the project are low and middle income households which will profit both from improved comfort conditions and energy savings. Concerning the risk of driving poorer households even further outside of urban boundaries see above.
- The project will strengthen resilience to climate change by improving building insulation conditions of low and middle income households in the most severely affected regions.
- Serious negative environmental impacts are not expected.
- No reference made with regard to MDGs.

5 „Implementation Potential“

- The Program appears well aligned with Mexico's development priorities and directly contributes to the implementation of the national climate change and energy strategy within the housing sector.
- The strong implication state agencies in designing the project framework and incentives schemes point towards robust ownership and implication of key stakeholders.
- The Program is likely to be complemented by additional concessional loans within Germany's International Climate and Environment Initiative (provided through KfW) as well as grant funds from the Latin American Investment Facility of the European Commission.
- Consistency with activities of other bilateral & multilateral donors: All institutions involved in the implementation of the Program, including SHF as executing agency as well as KfW and IDB as financial institutions, are active members of the recently established "Inter-institutional Working Group for Sustainable Housing", a coordination platform where all relevant public and private sector institutions as well as other donors active in the sector (GIZ, Canada, UK, etc) are participating.

6 Additional Costs and Risk Premium

- Given the above mentioned gaps in the project assumptions and cost-benefit analysis, we have doubts about compliance with cost and risk investment criteria and would like to see more information on this.