

September 13, 2010

Comments from Germany on the following projects (see attachment):

IFC/AfDB South Africa: Energy Efficiency Program

IFC/AfDB South Africa: Solar Water Heating Program

IFC/AfDB South Africa: Sustainable Energy Acceleration Program

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We are happy to support the extension for the original project (the status quo about allocations seems to be outdated, though).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

Attachment :

Comments on CTF Private Sector Proposal “South Africa Sustainable Energy Acceleration Program”

Joint Submission by IFC & AfDB

Financial Volume: 83 million USD CTF Loan
1 million USD CTF Advisory Grant
1 million USD CTF Implementation and Supervision Budget

155 million USD MDB Loans
Total: 240 million USD

Parallel activities of 455 million USD by others national and international Agencies

Purpose of the Project: CTF funds shall be used to support private sector megawatt scale sustainable energy (SE) projects, including cogeneration energy efficiency (EE) projects and wind and solar renewable energy (RE) projects. More specifically the program seeks to encourage transformation of the private SE sector by establishing a series of direct, project level interventions in the wind, solar and cogeneration sectors.

A General Comments on the Project

The already existing Renewable Energy Feed-in Tariff (REFIT) generously supports the funding of up to 500 MW (10.000 GWh) of wind and solar projects by 2013 with a considerable bigger allocation being expected in the course of the Integrated Resource Plan 2010 currently under elaboration. The private sector is ready to finance these projects on a commercial basis without further subsidies.

The biggest barrier why no RE project have been undertaken so far in South Africa is the remaining implementation of the REFIT, the cheap electricity prices and the rejection of the national power utility ESKOM to take off renewable energy and feed it into its grid.

The proposal seems to be based on a desk top study, is general in nature and is slightly outdated. No significant South African partner institutions, executing agencies or private companies are named in the proposal. No formal competitive process for the selection of eligible loan takers is planned. In addition, the selection criteria are not very specific and traceable.

A detailed mapping of much more significant private, national and donor driven activities in the sector seems not having to been undertaken. A coordination of donor activities has not taken place.

The envisaged advisory services in the three categories regulatory advice, capacity building and knowledge management are described in a very general nature. Most of the activities focus on information and best practice dissemination at investors / project developers' level. Although in principle it makes sense to accompany financial support with advisory services, the latter remain too vague in order to assess at this stage whether they will have an impact at all. Furthermore, the private sector in South Africa, especially when linked to international companies, is already well capacitated, with the biggest barrier being the lack of capacity of governmental institution. The proposal doesn't address these capacity needs, which, however, in a way makes sense since a lot of donor activities are already focusing on this area.

The request for an unconditional letter of commitment for the entire amount of funds required under this program and the upfront transfer of the entire amount of CTF funding is difficult to justify under these circumstances.

Not only would this undermine the steering and supervisory role of the Trust Fund Committee but would also reduce the interest income of the trust fund.

IFC/ AfDB should be requested to reapply for funding, by the time concrete and sufficiently well prepared funding proposals have been prepared. CTF funding for wind and solar projects should not be excluded for projects that are supported under the REFIT scheme. Otherwise the CTF funding would mostly crowd out private sector funding that would be invested in renewable energy anyway.

B General Comments on the Financing Terms

The on-lending terms of CTF supported projects are:

Senior Loans:

- Pricing: LIBOR -75 basis points
- Maturity: 14-18 years
- Grace: tbd years

Mezzanine and equity financing has also been requested as an option.

The proposed on-lending conditions seem to be adequate.

C Investment Criteria

Potential for GHG Emissions Savings

The theoretical potential for wind and solar projects is unlimited. The potential for co-generation projects is not given in the document.

Cost-Effectiveness

Direct: 0.31 tons CO₂e/\$; Indirect: 1.53 tons CO₂e/\$

Demonstration potential at scale

The programme is supposed to achieve the below-mentioned emission reductions. We consider these as highly optimistic, since in fact no other funds are leveraged by CTF funding.

Direct Potential: 26 mil t CO₂e

Indirect: 130 mil t CO₂e

Development Impact

Some employment creation and promotion of private sector investment in the power sector.

Implementation Potential

The already existing Renewable Energy Feed-in Tariff (REFIT) generously supports the funding of up to 500 MW of wind and solar projects. The private sector is ready to finance these projects on a commercial basis without further subsidies. The South African government is currently discussing whether to increase the scope of the REFIT scheme. This would allow to exploit a larger share of the implementation potential. Otherwise only limited investments in RE can be expected.

The biggest barrier why no RE projects have been undertaken so far in South Africa is the lack of implementation of the REFIT, the cheap electricity prices and the rejection of the national power utility ESKOM to take off renewable energy and feed it into its grid.

Comments on CTF Private Sector Proposal “South Africa Energy Efficiency Program”

Joint Submission by IFC & AfDB

Financial Volume:	13.15 million USD CTF Loan
	1 million USD CTF Advisory Grant
	0.85 million USD CTF Implementation and Supervision Budget
	52 million USD MDB Loans
	20 million USD national
	Total: 85 million USD

Purpose of the Project: The proposed program addresses the use of CTF funds to support the roll out of Solar Water Heating Systems in South African municipalities by financing private and public end consumers through intermediaries such as municipalities, ESCOs or FIs; and to provide long term finance to SWH manufacturers.

A General Comments on the Project

The value added of this comparatively small programme in comparison to much bigger ongoing programmes of AfD, KfW and IDC (Industrial Development Bank of SA) with a financing volume of 220 million USD and significant bilateral technical assistance programmes by bilateral donors is not clear.

The proposal does not take the latest developments in the South African energy sector into account. The proposal seems to be based on a desk top study and is general in nature. No significant South African partner institutions, executing agencies or private companies are named in the proposal.

A mapping of much more significant private, national and donor driven activities in the sector seems not to have taken place or the wrong conclusions have been drawn. No attempts to align the programme to other donor activities have been undertaken and the value added is unclear.

The description of the planned advisory service activities is general in nature. Especially the coordination and development of the lending market activities leave room for specification. Further, it remains unclear how ESCOs will be supported and utilised.

The German Technical Cooperation, as well as SDC, UNIDO/SECO, DANIDA all provide Technical Assistance in the field of Energy Efficiency. IFC/AfDB do not seem to be aware of these activities. Additional TA components financed out of CTF funds should therefore be carefully targeted.

The request for an unconditional letter of commitment for the entire amount of funds required under this program and the upfront transfer of the entire amount of CTF funding seems not justified under these circumstances.

Not only would this undermine the steering and supervisory role of the Trust Fund Committee but would also reduce the interest income of the trust fund.

IFC/ AfDB should be requested to reapply for funding, by the time concrete and sufficiently well prepared funding proposals have been prepared and should consider more carefully other programmes currently under preparation to avoid a doubling of activities.

B General Comments on the Financing Terms

The on-lending terms of CTF supported projects are:

Senior unsecured Loans to FI`s:

- Pricing: LIBOR -150 to LIBOR -50 basis points
- Maturity: up to 15 years
- Grace: tbd years

The proposed on-lending conditions seem to be adequate.

C Investment Criteria

Potential for GHG Emissions Savings

The national target for energy efficiency measures

Cost-Effectiveness

Direct: 0.18 tons CO₂e/\$; Indirect: 0.22 tons CO₂e/\$

Demonstration potential at scale

No further reliable details given.

Direct Potential: 2.36 mil t CO₂e

Indirect: 2.8 mil t CO₂e

Development Impact

Employment creation enabled by market creation and productivity gains trickle down effect and deepening of the financial sector.

Implementation Potential

Although not elaborated on in detail in the document, it can be expected that increasing power tariffs over the next years will increase the viability of energy efficiency projects and will allow for a significant roll-out of energy efficiency measures.

Comments on CTF Private Sector Proposal “South Africa Solar Water Heating Program”

Joint Submission by IFC & AfDB

Financial Volume: 47 million USD CTF Loan
2 million USD CTF Advisory Grant
1 million USD CTF Implementation and Supervision Budget

50 million USD MDB Loans

Total: 100 million USD

Purpose of the Project: The proposal addresses the use of CTF funds to support private sector energy efficiency projects through collaboration with Financial Intermediaries (FIs) and Energy Service Companies (ESCOs). More specifically, the program seeks to encourage transformation of the energy efficiency sector by establishing a source of funding for on-lending by FIs to industry and SME`s for investments in energy efficient equipment.

A General Comments on the Project

The proposal is partially inconsistent and does not take the latest developments in the South African Energy Sector into account. The proposal seems to be based on a desk top study and is general in nature. No significant South African partner institutions, executing agencies or private companies are named in the proposal.

Currently the regulatory framework for national support schemes to promote SWH is not clear. An existing up-front subsidy scheme to promote SWH is managed by ESKOM. Despite the generous capitalisation of the ESKOM programme only 30.000 SWH systems instead of the targeted 1 mil. SWH systems have been installed. In parallel the newly established EEDSM Plan by Nersa is offering rebates for the operation of SWH. DBSA (Development Bank of Southern Africa) has in the meantime been nominated as the nodal agency for the roll-out of the SWH and EEDSM Plan.

German Financial Cooperation on behalf of the German government has signed a 50 mil. EUR soft loan with DBSA for the promotion of SWH in municipalities in 2009. However, no funds have been disbursed due to a lack of interest and bankable projects from the municipalities.

Another 50 mil. EUR soft loan is due to be signed in 2010 with IDC (Industrial Development Bank of South Africa) to focus specifically on SMEs and ESCO's incl. a significant TA assistance component.

It is therefore questionable, whether an additional programme supported by the CTF of similar size, that is not yet prepared will make a difference or will be specifically transformative.

The planned advisory services mainly target information dissemination and sharing of best practices, and are presented in a rather vague and unstructured manner. The German Technical Cooperation, as well as SDC, UNIDO/SECO, DANIDA all provide Technical Assistance in the field of Energy Efficiency related to SWH and Municipalities. IFC/AfDB do not seem to be aware of these activities. Additional TA components financed out of CTF funds should therefore be carefully targeted.

Since a comprehensive mapping of private, national and donor driven activities in the sector seems not having to been undertaken, a coordination of donor activities for the roll-out of SWH in municipalities should be actively considered.

The request for an unconditional letter of commitment for the entire amount of funds required under this program and the upfront transfer of the entire amount of CTF funding seems not justified under these circumstances.

Not only would this undermine the role of the Trust Fund Committee but would reduce the interest income of the trust fund.

IFC/ AfDB shall reapply for funding by the time concrete and sufficiently well prepared funding proposals have been prepared.

B General Comments on the Financing Terms

The on-lending terms of CTF supported projects are:

Senior unsecured Loans to FI`s:

- Pricing: LIBOR -300 to LIBOR -150 basis points
- Maturity: up to 10 years
- Grace: tbd years

The proposed on-lending conditions seem to be excessive and not appropriately targeted since several other national incentive schemes are already in place.

C Investment Criteria

Potential for GHG Emissions Savings

Direct Potential: 2.17 mil t CO₂e

Indirect: 10.86 mil t CO₂e (subject to national support and reduction of costs and risk premiums)

Cost-Effectiveness

Direct: 0.05 tons CO₂e/\$; Indirect: 0.23 tons CO₂e/\$

Demonstration potential at scale

200 mil t CO₂e

Development Impact

Employment creation through the promotion of SWH service and manufacturing companies.

Implementation Potential

Although the regulatory framework in South Africa is currently unclear, it can be expected that there will be a significant implementation potential in the coming years.