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

Sent on Behalf of Billy Pizer:

Patricia, et al:

I am happy to register U.S. approval of Turkey's REEE proposal. Thank you for the hard work you put into it and continue to put into the CTF. Your dedication to the fund's success is apparent in your desire to continually make improvements as we move forward. I also appreciate your willingness to engage with the TFC collegially and constructively. My hope is that this interaction has helped everyone – staff and TFC alike – recognize what they want to see in future annexes, so that future reviews will be easier.

In this same spirit, I want to offer some important observations that I hope will contribute to the successful implementation of the project, perhaps serve as guidance for future proposals, and help in developing the right measurement and evaluations metrics.

1. It is necessary to address risk aversion towards EE projects among potential corporate investors by using CTF financing to kick-start the sector by providing an

unusually high rate of return, but this itself is neither sufficient nor transformational. Rather, for the banks to provide valuable EE finance and for the business community (especially energy intensive industry) to demand it, then this project must be complemented by targeted technical assistance and awareness-raising activities. I was encouraged to see a strong appreciation of this in the appraisal document, and to learn more about the array of EE TA projects ongoing and planned in Turkey. Even clearer attention to these complementary efforts in future annexes, as well as in the evaluation phase, will be particularly valuable. Furthermore, the scale and success of the technical assistance and awareness-raising program ex-post should form a key part of the evaluation criteria.

2. Similarly, for this project to succeed the Electricity Market and Supply Security Strategy and other regulatory measures must be approved and implemented. The proposal made a strong case that the timing may right for the project and regulatory framework development to encourage one another. For example: on the one hand, the project will only have its intended effect if the appropriate feed-in tariffs are determined and enacted; on the other hand, the approval of this project will send a strong signal to the government that now is the time to ensure that this gets completed. We look forward to updates on how this unfolds.

3. Finally, it is critical that the banks understand that this project is intended to move them out of their comfort zone and into new sectors. As time passes, the success of this project will be measured by the increase in diversity of clean energy projects in the portfolios of banks across Turkey's financial sector as well as by the increasingly lower threshold rates of return in these areas. Specifically, we would like to see the transformational outcomes of the project assessed according to the extent to which there is a shift to a more diversified portfolio of renewable energy projects, and the opening up of a commercial market in energy efficiency lending. It will be valuable to send a signal to the banks now and, during the evaluation, to review both the portfolio of projects and evolving IRRs.

I optimistic about this proposal and I think it gets to the heart of the climate challenge. But as we know, this first project will be highly scrutinized. Therefore, it is important that we establish robust evaluation criteria to help guide the project team and ensure success

Sincerely,

Billy Pizer

Daniel Riley

Office of Environment & Energy

U.S. Treasury Department