

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC11102

Project Name	EU/IPA Energy Sector Technical Assistance Program - Phase 2 Project (P151934)
Region	EUROPE AND CENTRAL ASIA
Country	Turkey
Sector(s)	General energy sector (100%)
Theme(s)	Managing for development results (80%), Climate change (20%)
Lending Instrument	Investment Project Financing
Project ID	P151934
Borrower(s)	Republic of Turkey
Implementing Agency	Ministry of Energy and Natural Resources
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	17-Nov-2014
Date PID Approved/ Disclosed	23-Dec-2014
Estimated Date of Appraisal Completion	
Estimated Date of Board Approval	31-Mar-2015
Concept Review Decision	Track I - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

After a strong rebound from the global crisis in 2010-2011, growth slowed down and is projected in the 3-4 percent range for 2015-2017. Turkey rebounded strongly from the global crisis with GDP growth reaching 9.2 percent and 8.8 percent in 2010 and 2011 respectively. Exchange rate depreciation followed by decisive monetary policy tightening in the second half of 2011 succeeded in rebalancing the economy and helped Turkey achieve a soft landing in 2012. In 2012, full year GDP growth eased to 2.2 percent. Following the soft landing in 2012, economic growth staged a recovery in 2013 with the real GDP growth reaching 4.3 percent. Economic growth is projected to slow down significantly in 2014 with the current account deficit improving on the back of stronger exports. Political uncertainty, the depreciation of the lira and the monetary tightening affected both consumer and investor confidence at the beginning of the year. Private consumption is estimated to lose considerable momentum, while the recovery in private investment is likely to be delayed. The weaker lira and a further pickup in EU demand should help support exports. All in all, economic

growth is forecast to ease around 2 percent in 2014. Growth is likely to remain below recent historical averages over the medium term in the 3-4 percent range for 2015-2017.

Turkey is a candidate country for European Union membership. Accession negotiations started in October 2005. Since then the European Union (EU) has provisionally closed one chapter (Science and Research) and opened negotiations on 12 other chapters. Turkey views the accession process as her own, fundamental “modernization project”, and after the June 2011 elections, the Government upgraded the institution overseeing EU accession matters into a new Ministry for EU Affairs (MEU). Although the energy chapter has not been opened for negotiations, energy is a topic of key interest in EU-Turkey relations.

Sectoral and Institutional Context

Energy is a topic of key interest in EU-Turkey relations and the energy sector is highlighted for EU support in the 2011-2013 Multi-Annual Indicative Planning Document (MIPD) adopted by the European Commission (EC) in June 2011. As indicated in the MIPD: “By completing the energy sector liberalization process Turkey hopes to establish a well-functioning, free and competitive energy market. This requires sustainable private sector investments and a well-functioning and regulated energy market, while limiting environmental damage, reducing greenhouse gas emissions, and increasing energy efficiency”.

On May 30, 2014, the Bank's Regional Vice President approved the Phase 1 Project [P131921] under the captioned Energy Sector Technical Assistance Program. This approval brought to a conclusion an unexpectedly long preparation process initiated in December 2010 when the European Commission (EC) and the Bank, with the support of the Government of Turkey, launched a new initiative seeking to pursue opportunities for synergies in working with the Turkish authorities. The energy sector was identified as one of the first priority areas for collaboration and tripartite discussions started on the scope and modalities of an envisioned energy sector technical assistance program.

In October 2011, Turkey's Ministry for EU Affairs (MEU) submitted a proposal to the Commission to include under the European Union's (EU) assistance to Turkey, under its Instrument of Pre-Accession Assistance (IPA) program for Turkey, financing for a World Bank administered energy sector technical assistance project to be executed by the Ministry of Energy and Natural Resources (MENR). The proposal was endorsed by the EU-wide IPA Committee in April 2012. A Project Fiche (the equivalent of a Bank project appraisal document) was prepared and in March 2013 Turkey and EC executed a Financing Agreement to channel IPA funds for the Phase 1 Project to Turkey through a trust fund to be administered by the Bank. In accordance with an EC/WB Framework Agreement, an Administration Agreement was prepared and signed by EC and the Bank in November 2013. However the finalization and Bank approval of the Phase 1 project was held up until May 2014 due to need to establish MENR's legal authority to enter into a Grant Agreement with the Bank for the implementation of the project.

Phase 2 Project

All three parties – the Government, the Commission and the Bank – regarded the Phase 1 Project as the first “installment” in an envisioned multi-year program, also with a view to the EU's aim to move towards a more sectoral approach in IPA implementation during the IPA2 (2014-2020) period. Accordingly, while MENR's legal authorization was being established and Phase 1 Project was on hold, work continued on the 2013 IPA Sector Fiche for Energy (which includes the Phase 2

Project) and the Financing Agreement for the 2013 IPA program (including IPA financing for the Phase 2 Project). The Financing Agreement became effective in June 2014. Enhanced energy cooperation is an integral part of the EU-Turkey agenda. Five cooperation areas have been confirmed:

- I. Long-term perspectives on energy scenarios and energy mix;
- II. Electricity and gas market integration and development of infrastructures of common interest;
- III. Global and regional energy cooperation;
- IV. Promotion of renewable energy, energy efficiency and clean energy technologies; and;
- V. Nuclear safety and radiation protection.

Relationship to CAS

The project contributes to the realization of Turkey's energy sector development objectives and the alignment of the energy sector with the energy priorities and strategies of the European Union. The project contributes to the implementation of: (a) Turkey's Electricity Market and Security of Supply Strategy, the Energy Efficiency Strategy, and the National Climate Change Strategy (2010) and Action Plan; and (b) the EC's Multi-Annual Indicative Planning Document. The project contributes to the realization of the objectives of Turkey Country Partnership Strategy (CPS) for the FY12-15 period approved by the World Bank's Executive Board on March 27, 2012. The CPS has three main strategic objectives and pillars: Strategic Objective 1 - enhanced competitiveness and employment; Strategic Objective 2 - improved equity and public services; and Strategic Objective 3 - deepened sustainable development. Activities planned under the Deepened Sustainable Development include policy advice and financing to address energy, environmental and climate change challenges in an integrated manner.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The objective of the EU/IPA Energy Sector Technical Assistance Program is the achievement of a secure, liberal and transparent Turkish energy market in line with the EU Acquis and Europe 2020 energy sustainability targets. The Phase 1 Project is focused on the natural gas market, renewable energy and energy efficiency - areas 2 and 4 on the five-point EU-Turkey energy agenda. The objective of the Phase 2 Project is to develop the administrative and technical capacity of relevant institutions in the areas of energy efficiency, electricity and gas market, and long-term energy planning and modelling - areas 1, 2, and 4 on the five-point EU-Turkey energy agenda.

Key Results (From PCN)

The realization of the development objective of the 2013 IPA program is proposed to be measured through the achievement of the following Project Development Objectives (PDO) results: (i) Energy efficiency potential in electricity transmission and generation and in gas transmission determined; implementation projects formulated and launched; (ii) Legal, structural and administrative basis for properly functioning energy exchange operations is achieved - EPIAŞ fully functional, liquid electricity and gas markets; (iii) Long-term energy scenarios available for energy policy and strategy decision-making. Energy data available from the new Energy Data Center; (iv) Increased public awareness of EU's energy objectives and strategies particularly in energy efficiency and renewable energy.

III. Preliminary Description

Concept Description

The following components have been formulated for the IPA 2013 program and would be supported under the EU/IPA-financed WB-administered trust fund for the Phase 2 Project:

- I. Energy Efficiency - review of the network investment plans of TEIAS and BOTAS and energy efficiency of selected power plants of EUAS and feasibility studies of projects to improve energy efficiency in electricity transmission and generation and gas transmission (in TEIAS and BOTAS networks and EUAS generation plants);
- II. Electricity and Gas Market Development - continuation of work on electricity and gas market development from the Phase 1 Project and from other projects/programs including those supported by the Bank under TEIAS investment projects, the ESES DPL series and the energy component of the ongoing Shared Growth DPL series;
- III. Long-term Energy Scenarios, Capacity Building and Establishment of an Energy Data Center - under the Phase 1 Project MENR's statistics and energy planning functions will be reviewed and gaps and needs will be defined. Based on the findings and recommendation, under the Phase 2 Project planning and forecasting models will be procured and used for long term energy planning. This component will enable MENR to collect all energy related data in one center and provide capacity building to develop long-term energy scenarios; and
- IV. Visibility and Public Awareness - awareness raising among stakeholders through the organization of fora, seminars and workshops and media awareness campaigns about EU's energy objectives and strategies particularly in energy efficiency and renewable energy.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	16.37	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			0.00
Borrowing Agency			0.61
Free-standing TFs for ECA CU6 Country Unit			15.76

Total	16.37
-------	-------

Public Disclosure Copy

VI. Contact point

World Bank

Contact: Kari J. Nyman
 Title: Lead Specialist
 Tel: 458-1469
 Email: knyman@worldbank.org

Borrower/Client/Recipient

Name: Republic of Turkey
 Contact:
 Title:
 Tel:
 Email:

Implementing Agencies

Name: Ministry of Energy and Natural Resources
 Contact: Murat Becerikli
 Title: Head, EU Affairs and IFIs Department
 Tel: 90-312-213-1124
 Email: mbecerikli@enerji.gov.tr

VII. For more information contact:

The InfoShop
 The World Bank
 1818 H Street, NW
 Washington, D.C. 20433
 Telephone: (202) 458-4500
 Fax: (202) 522-1500
 Web: <http://www.worldbank.org/infoshop>

Public Disclosure Copy