INDEPENDENT AUDITOR’S REPORT

On

SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT

Implemented by

MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE FOR EU AFFAIRS AND FOREIGN RELATIONS

And

Financed Under

World Bank Grant Agreement numbered TF-014579

As of December 31, 2016 and For The Year Then Ended

Report Number

83/13-33/15

Prepared by:

Nuri ATEŞ
Senior Treasury Controller

Selçuk KIRBAŞ
Junior Treasury Controller

22 June 2017
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EXECUTIVE SUMMARY
A. Project Summary

The Grant Agreement for Small and Medium Enterprises Energy Efficiency Project with GEF Trust Fund Grant Number TF-014579 was signed on 06/05/2013 by the World Bank acting as the implementing agent of the Global Environment Facility and Undersecretariat of Treasury representing the recipient of the grant, Republic of Turkey. The World Bank agreed to extend to the recipient, on the terms and conditions set forth or referred to in the Grant Agreement, a grant in an amount equal to USD 940,000.

The objective of the Small and Medium Enterprises Energy Efficiency Project (Project) is to improve the efficiency of energy use in small and medium enterprises in the Republic of Turkey, by scaling-up commercial bank lending for energy efficiency investments.

Ministry of Energy and Natural Resources (MENR) was appointed by the Grant Agreement as the implementing agency of the Recipient to carry out the Part D of the Project.

Part D of the project, Energy Efficiency Policy and Project Management Support to MENR, covers the following:

1. Enhancement of the enabling environment for, and the fostering of, broader energy efficiency market development in the Republic of Turkey through, inter alia, the following activities to be carried out by MENR;

   a) Market development and information dissemination, including:

      (i) Raising awareness of, and providing training and disseminating information on, opportunities for energy efficiency and the success of schemes used in the credit lines established under the Project;

      (ii) Carrying out market studies and assessments and developing options for future investment programs beyond the SME market; and

      (iii) Establishing a dialogue with stakeholders.

   b) Strengthening of the energy efficiency and regulatory regimes, including carrying out:

      (i) Reviews of energy efficiency policies and developing recommendations for improvement especially in the SME sector; reviews of energy efficiency incentive and informational programs (including impact assessments) and developing recommendations to improve utilization and impact of those programs; and

      (ii) Staff training.

2. Support MENR's management of activities under this Part D of the Project.
According to the provisions of the Grant Agreement, the procurements made for the Project are classified into a single category named "Goods, Non-consultant Services, Consultants’ Services and Training Under Part D of the Project". According to the Section IV article B(2) of the Schedule 2 “Project Execution” part of the Grant Agreement, the closing date of the Project is September 28, 2018.

The expenditure realized throughout the current audit period of 01.01.2016-31.12.2016 is USD 293,371,55 resulting in the cumulative spending by the end of the audit period amount to USD 597,010,15.

B. Objectives of Audit

The objectives of our audit are;

a) To give an opinion on whether the financial statements, prepared as of December 31, 2016 and for the period then ended, present fairly, in all material respects, the financial position of the project in accordance with the cash receipts and disbursements basis of accounting.

b) To determine, as of December 31, 2016, whether the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations has complied, in all material respects, with the rules and procedures of the Grant Agreement numbered TF-014579,

c) To examine whether adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred with respect to SOEs and evaluate eligibility of these expenditures for financing under the Grant Agreement.

C. Scope of Audit

We have performed an audit of financial statements of Small and Medium Enterprises Energy Efficiency Project as of December 31, 2016 and for the period then ended in accordance with the cash receipts and disbursements basis of accounting. We have also performed a compliance audit on whether project activities are in line with the Grant Agreement.

Our audit was conducted in accordance with International Standards on Auditing published by International Federation of Accountants (IFAC) applicable to the audit of financial statements and compliance auditing.

There was no limitation in our scope for the Project’s audit.

D. Audit Results

For the financial statements of project; our audit resulted with an unqualified opinion.
As of December 31, 2016, Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations has complied, in all material respects, with the rules and procedures of the Grant Agreement numbered TF-014579.

In addition, with respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditures incurred; and which expenditures are eligible for financing under the Grant Agreement numbered TF-014579.

E. Management Recommendations

A management letter, dated June 22, 2017, to the attention of the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations was issued separately from this report. The objective of this Management Letter is to enable the auditors to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditors have identified during the audit and that, in the auditors' professional judgment, are of sufficient importance to merit their respective attentions. For this purpose, our recommendations are attached to the Letter.
INDEPENDENT AUDITOR'S REPORT & FINANCIAL STATEMENTS OF THE PROJECT
INDEPENDENT AUDITOR’S REPORT

TO MINISTRY OF ENERGY AND NATURAL RESOURCES,
General Directorate for EU Affairs and Foreign Relations, ANKARA

Opinion

We have audited the Statement of Sources and Uses of Funds, Statement of Cumulative Investments, Statement of Requests for Reimbursement (SOE Statement) and Statement of Special Account of the Small and Medium Enterprises Energy Efficiency Project as of December 31, 2016, and for the period then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations based on relevant provisions of the Grant Agreement Numbered TF-014579.

In our opinion;

a) The accompanying Statement of Sources and Uses of Funds, Statement of Cumulative Investments, Statement of Requests for Reimbursement (SOE Statement) and Statement of Special Account present fairly, in all material respects, the financial position and accounting policies of the Small and Medium Enterprises Energy Efficiency Project as of December 31, 2016 and for the period then ended in accordance with the provisions of the Grant Agreement Numbered TF-014579.

b) Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations, as of December 31, 2016 has complied with, in all material respects, the requirements of the Grant Agreement Numbered TF-014579.

c) With respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursement of expenditures incurred, and these expenditures are eligible for financing under the Grant Agreement Numbered TF-014579.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of this report. We are independent of the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations within the meaning of ethical requirements and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note “2” to the financial statements, which describe the basis of accounting.
The financial statements are prepared to assist the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations to comply with the financial reporting provisions of the World Bank Grant Agreement Numbered TF-014579. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations, Undersecretariat of Treasury, and World Bank, and should not be distributed or used by other parties.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations is responsible for the preparation and fair presentation of these financial statements in accordance with Grant Agreement Numbered TF-014579, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Ministry of Energy and Natural Resources, General Directorate for EU Affairs and Foreign Relations’ financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.
• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ahmet Umit SUCU
Acting Chairman of
Board of Treasury Controllers

Ali ÇALIŞKAN
(Audit Partner)
Vice-Chairman

Nuri ATEŞ
Senior Treasury Controller

Selçuk KIRBAŞ
Junior Treasury Controller

Date: June 22, 2017
Address: T.C. Başbakanlık Hazine Müsteşarlığı
Hazine Kontrolörleri Kurulu Başkanlığı
06510 Ankara/TURKEY
## MINISTRY OF ENERGY AND NATURAL RESOURCES
### GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
#### SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT
##### (TRUST FUND GRANT NUMBER TF014579)
###### STATEMENT OF SOURCES and USES of FUNDS
##### As of December 31, 2016 and For The Year Then Ended (In USD)

<table>
<thead>
<tr>
<th>I- SOURCES OF FUNDS</th>
<th>Notes</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
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<td>YTD</td>
<td>Cumulative</td>
<td>YTD</td>
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<td>694,521,43</td>
<td>264,987,39</td>
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<td>2- Special Account</td>
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<td>694,521,43</td>
<td>264,987,39</td>
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<td>a) Advance</td>
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<td>b) SOE Procedures</td>
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<td>D- Refund to SA</td>
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<td>TOTAL FUNDS RECEIVED</td>
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<td>694,521,43</td>
<td>264,987,39</td>
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<table>
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<tr>
<th>II- USES OF FUNDS</th>
<th>Notes</th>
<th>Actual</th>
<th>Planned</th>
<th>Variance</th>
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<tr>
<td></td>
<td></td>
<td>YTD</td>
<td>Cumulative</td>
<td>YTD</td>
</tr>
<tr>
<td>A- Goods</td>
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<tr>
<td>B- Consulting Services</td>
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<td>555,700.48</td>
<td>276,862.70</td>
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<td>21,317.44</td>
<td>16,508.85</td>
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<td>NET USES OF FUNDS</td>
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<td>597,010.15</td>
<td>293,371.55</td>
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</tbody>
</table>

| III- Cash at the end of the period |        | 125,895.44    |                |                |
| IV- Cash at the beginning of the period |       | 97,511.28     |                |                |
## MINISTRY OF ENERGY AND NATURAL RESOURCES
### GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
### SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT
(Trust Fund Grant Number TF014579)
### STATEMENT OF CUMULATIVE INVESTMENTS
As of December 31, 2016 and For The Year Then Ended (In USD)

### 1- INVESTMENT

<table>
<thead>
<tr>
<th>Category Name</th>
<th>Actual YTD</th>
<th>Cumulative</th>
<th>Planned YTD</th>
<th>Cumulative</th>
<th>Variance YTD</th>
<th>Cumulative</th>
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<td>19,992,23</td>
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<td><strong>2. Consultants’ Services</strong></td>
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<td>555,700,48</td>
<td>282,602,05</td>
<td>561,439,83</td>
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<td>-5,739,35</td>
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<td>MENR-CS-01 a Awareness Raising to SMEs and ESCOs on EE and EE Financing</td>
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<td>82,484.32</td>
<td>82,484.32</td>
<td>82,484.32</td>
<td>0,00</td>
<td>0,00</td>
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<td>MENR-CS-02 Policy gap analysis, EE program evaluation (incl.review and recomm. of policies, incentives and info. programs)</td>
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<td>119,998.92</td>
<td>0,00</td>
<td>119,998.92</td>
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<tr>
<td>MENR-CS-03 Preparation of guidelines for EPC contracting for ESCOs and case study development (incl. establishing monitoring mechanism) Market Assessment for future inv. prog. beyond SME’s Market (Mainly Public Buildings)</td>
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<td>204,003.36</td>
<td>181,972.96</td>
<td>204,003.36</td>
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<td><strong>3. Non consultant services and Training</strong></td>
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<td>21,317.44</td>
<td>5,906.46</td>
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<td>4,863.04</td>
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MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT
(TRUST FUND GRANT NUMBER TF014579)
STATEMENT OF REQUEST FOR DISBURSEMENT (SOE STATEMENT)
As of December 31, 2016 and For The Year Then Ended (In USD)

<table>
<thead>
<tr>
<th>I- Request Reimbursement</th>
<th>Disbursement Categories</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Total</th>
<th>Amount</th>
<th>Date of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Application</td>
<td>Civil Work</td>
<td>Goods</td>
<td>Consultant’s Services</td>
<td>In-Service Training</td>
<td>Non Con. Services and Training</td>
<td>Recurrent Costs</td>
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<tr>
<td>Sub Total</td>
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<td>0.00</td>
<td>16.508.85</td>
<td>0.00</td>
<td>264.987.39</td>
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<table>
<thead>
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<th>Disbursement Categories</th>
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<th></th>
<th></th>
<th>Total</th>
<th>Amount</th>
<th>Date of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date</td>
<td>Application</td>
<td>Civil Work</td>
<td>Goods</td>
<td>Consultant’s Services</td>
<td>In-Service Training</td>
<td>Non Con. Services and Training</td>
<td>Recurrent Costs</td>
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<tr>
<td>Sub Total</td>
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<td>0.00</td>
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<th>Total Amount Requested</th>
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<th></th>
<th>Total</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Work</td>
<td>Goods</td>
<td>Consultant’s Services</td>
<td>In-Service Training</td>
<td>Non Con. Services and Training</td>
<td>Recurrent Costs</td>
<td>Total</td>
<td>Amount</td>
</tr>
<tr>
<td>0.00</td>
<td>0.00</td>
<td>248.478.54</td>
<td>0.00</td>
<td>16.508.85</td>
<td>0.00</td>
<td>264.987.39</td>
<td>264.987.39</td>
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MINISTRY OF ENERGY AND NATURAL RESOURCES
GENERAL DIRECTORATE OF FOREIGN RELATIONS AND EU
SMALL AND MEDIUM ENTERPRISES ENERGY EFFICIENCY PROJECT
(TRUST FUND GRANT NUMBER TF014579)
SPECIAL ACCOUNT STATEMENT
ACCOUNT NO: 94 140 101 41 AT CENTRAL BANK
As of December 31, 2016 and For The Year Then Ended (In USD)

<table>
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<th>Description</th>
<th>Amount</th>
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<td>Reimbursements to SA</td>
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<td>- a) Advance</td>
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<td>- b) SOE Procedure</td>
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<tr>
<td>- c) Summary Sheet</td>
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<td>Refund to SA</td>
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<td>Available Funds</td>
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<td>Payment Made for Expenditures</td>
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<td>Service charges for the account</td>
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<td>Total Project Investments</td>
<td>293,371.55</td>
</tr>
<tr>
<td>Closing Balance</td>
<td>97,511.28</td>
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</table>

Ali Murat BUCERIKLI
Dil6 Başkanı
I. OBJECTIVES AND STRUCTURE OF THE PROJECT/GRANT

GEF Trust Fund Grant Agreement is implemented under GEF Trust Fund Grant Number TF014579 which was signed between International Bank for Reconstruction and Development (World Bank) and Turkish Government (Recipient) on May 6, 2013 and was put into effect upon publication in the Official Gazette numbered 28678 and dated June 15, 2013.

The objective of the Project is to improve the efficiency of energy use in small and medium enterprises in the Republic of Turkey, by scaling-up commercial bank lending for energy efficiency investments.

In the Part D of the project, Energy Efficiency Policy and Project Management Support to MENR;

1. Enhancement of the enabling environment for, and the fostering of, broader energy efficiency market development in the Republic of Turkey through, 'inter alia, the following activities to be carried out by MENR;

   a) Market development and information dissemination, including:

      (i) raising awareness of, and providing training and disseminating information on, opportunities for energy efficiency and the success of schemes used in the credit lines established under the Project;

      (ii) carrying out market studies and assessments and developing options for future investment programs beyond the SME market; and

      (iii) establishing a dialogue with stakeholders.

   b) Strengthening of the energy efficiency and regulatory regimes, including carrying out:

      (i) reviews of energy efficiency policies and developing recommendations for improvement especially in the SME sector; reviews of energy efficiency incentive and informational programs (including impact assessments) and developing recommendations to improve utilization and impact of those programs; and reviews of institutional arrangements to strengthen the energy efficiency policy and implementation function in all sectors; and

      (ii) (ii) staff training.

2. Support MENR’s management of activities under this Part D of the Project.
II. DURATION OF THE GRANT

Closing date of the Project is September 28, 2018.

III. FINANCING OF THE GRANT

Total amount of the GEF is $940,000 (nine hundred forty thousand United States Dollars) all of which is funded by the World Bank.

IV. THE ACCOUNTING PRINCIPLES AND POLICIES WITH CHART OF ACCOUNTS AND FISCAL TABLES

1. Accounting Standard Applied

Any computer-based accounting software has not been procured for this grant.

However, the Chart of Accounts of the Project has been prepared and converted into a computer based format.

The Chart of Accounts of the Project functions on a “cash basis” in order to avoid exchange differences in investment expenditures and costs.

2. Accounting Basis

The entire fiscal tables are prepared in accordance with the cash basis. In line with this basis, after the financial transactions and economic events took place, they are taken into accounting records when the cash or quasi cash assets have been collected or paid and are reflected to fiscal tables of the related period.

3. Currency

Our accounting records are kept by applying real time exchange for both currencies, Turkish Lira and US Dollar which is the financial currency of the loan agreement signed between the World Bank and the Turkish Government.

4. Fixed Assets

The fixed assets which have been purchased by the project resources are recorded in line with the costs on the procurement date, the project components and the expenditure categories. The amortization records related with the project assets are not carried out.

5. Exchange Transactions

US Dollar or TL records of the utilization of the resources and funds, and the investment expenditures, the daily current exchange buying rate on the collection and payment date published by the Central Bank of the Republic of Turkey, is taken into account.
6. Receivables

The receivables are specified by net asset basis. Since the accounting system functions on a cash basis, the “receivables” are formulated by advance payments to the components and staff responsible. Advance payments in the period of arrangement of standard periodical reports by the World Bank are added to the related investment accounts.

7. Continuity

The Project shall execute the activities by September 28, 2018 or another date which shall be negotiated between the World Bank and the Republic of Turkey.

8. Severance Pay

In accordance with the Turkish Law the severance pay is paid in case of retirement or dismissal. The staff of the Projects Implementation Unit is the staff of MENR General Directorate of Foreign Relations and EU. The contracted consultants work under working contracts. Due to this fact, the severance pay is not under discussion and not made any provision.

9. The Capitalization of the Financial Expenditures

Neither commission fee nor charge has been paid to The Central Bank of Republic of Turkey.

10. Refunds to the special account

No amount has been refunded paid to the Central Bank of Republic of Turkey where Project Special Account exists.

V. THE LIMITED UTILIZATION OF THE FUND AND OTHER ASSETS

In accordance with the loan agreement signed between the Republic of Turkey and the World Bank, the funds under the Special Account are restricted to be utilized only in line with the project/Grant objectives. Fixed assets procured with the project funds of MENR, are restricted only to be used in line with the project objectives by the closing date of the Project/Grant. MENR, in order to control such assets, during the project and sub-project implementations, has kept each record relevant to this issue.

VI. THE GRANT OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD)

The amount of withdrawal from the grant to the account in the Central Bank is US $ 694,521,43 as of December 31, 2016.
VII. **THE ACTUAL CASH AMOUNT OF DECEMBER 31, 2015**

The actual cash amount as of December 31, 2015 is as indicated in the chart below. The currency is stated in US Dollars.

<table>
<thead>
<tr>
<th></th>
<th>Loan Funds</th>
<th>Mutual Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Account</td>
<td>97,511,28</td>
<td>0.00</td>
<td>97,511,28</td>
</tr>
<tr>
<td>Fixed Funds</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Checking Account</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>97,511,28</td>
<td>0.00</td>
<td>97,511,28</td>
</tr>
</tbody>
</table>

VIII. **THE PLANNED EXPENDITURES FOR THE CURRENT YEAR**

The expenditure planned for the year 2016 by grant activities are as follows: 276,862,7 for consultancy services, 16,508,85 for non-consultancy services and trainings, corresponding to US $ 293,371,55. This total amount received from the grant.

IX. **DIFFERENCES BETWEEN THE REQUESTED AND PAID AMOUNTS UNDER THE SOE PROCEDURE**

No withdrawal application has been made in the review period.