



**Inter-American
Development Bank**

**Colombia CTF-IDB
Preparation Grant for the Bancoldex
Energy Efficiency Financing Program**

**IDB Public Sector CTF Proposal
for Submission to the CTF Trust-Fund Committee**

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TABLE OF CONTENTS

<u>Colombia CTF-IDB Preparation Grant for the Bancoldex Energy Efficiency Financing Program</u>	2
Scope and Rationale of Work	3
Components	4
Component 1.....	4
Component 2.....	4
Component 3.....	5
Execution Arrangements	5
Budget	5
List of Abbreviations	6

<i>Name of Project or Program</i>	Colombia CTF-IDB Preparation Grant for the Bancoldex Energy Efficiency Financing Program
<i>CTF amount requested</i>	USD 250,000 Preparation Grant USD 12,500 fees for IDB implementation and supervision expenses TOTAL: USD 262,500
<i>Country targeted</i>	Colombia
<i>Indicate if proposal is a Project or Program</i>	Public Sector Preparation Grant

SCOPE AND RATIONALE OF WORK

1. The Colombia Clean Technology Fund (CTF) Investment Plan (IP) includes an allocation of USD 32.5 million of CTF resources for energy efficiency projects and programs to be managed by the Inter-American Development Bank (IDB).¹ A first energy efficiency program called Colombia Sustainable Energy Finance (CSEF) Program was submitted jointly by IDB and IFC and approved in December 2010. This program includes USD 6.11 million of CTF resources to be managed by IDB.²
2. The IDB is currently preparing further energy efficiency projects and programs under the umbrella of the CTF IP, for a total amount of USD 26.39 of CTF resources (plus additional IDB resources). One of these programs is the *CTF Energy Efficiency Financing Program for the Services Sector*, which would include a USD 10 million CTF public sector loan to Bancoldex, a national development loan, complemented by USD 10 million in counterpart contributions from an IDB loan under execution with this financial institution.³
3. The objective of this Program is to support Colombia's efforts to reduce greenhouse gas (GHG) emissions through the development of a dedicated financing line by Bancoldex for energy efficiency projects in the services sector. The operation is expected to result in an increased number of firms (in particular hotels and private hospitals) that gain access to investment finance, through eligible financial intermediaries (FIs), at financing terms and conditions that should not only be consistent with the internal rates of return of this type of projects, but also stimulate the interest of firms and FIs in undertaking and financing them.
4. The main **objective** of this preparation grant is to support the design of this operation (CO-L1124), complementing initial market assessment studies regarding opportunities and barriers to finance energy efficiency in the hotel and hospital sectors.⁴ The preparation grant will focus on: (i) specific eligibility criteria, modalities and design of the financing line for energy efficiency in hotel and hospitals; (ii) specific institutional and legal requirements to ensure support and participation of key partners (e.g. hotel and hospital associations, energy companies, insurance companies, etc.) in the implementation of the financing line; and (iii) methodological approaches and protocols to monitor results / benefits of the financing line (i.e. reduction of energy use; GHG emission reductions).

¹ The IP (see <http://bit.ly/CTFIPCol>) contains in addition USD 17.5M of CTF resources for energy efficiency projects or programs managed by the International Finance Corporation (IFC).

² The CSEF Program (see <http://bit.ly/CTFCSEF>) contains in addition an amount of USD 11.39M of CTF resources for IFC-managed loans and technical cooperation activities. The total amount of CSEF is USD 17.5M of CTF resources, plus additional leveraged resources.

³ The prospective CTF loan has the IDB number CO-L1124; the counterpart IDB loan is the IDB operation CO-L1082 (2193/OC-CO).

⁴ These studies were supported through two IDB technical cooperation activities (IDB numbers CO-T1153 and RG-T1866).

5. The preparation grant is aligned with the *IDB Country Strategy for Colombia 2010-14*.⁵ In particular, it seeks to support the promotion of lines of credit and the development of financial products (insurance, savings, microcredit, microfranchises) and nonfinancial products (technical assistance for small- and medium-sized enterprises) through second-tier banks (Bancoldex). The preparation grant will also result in further dialogue and knowledge support on energy efficiency.

6. The grant is also consistent with the IDB's Ninth Global Capital Increase (GCI-9)⁶ lending target for climate change, renewable energy and environmental sustainability and with the IDB's priorities set in its Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy, approved in March 2011.⁷

7. The grant will integrate results from other studies and technical cooperations undertaken by IDB with Bancoldex, including three technical assistance projects to support Bancoldex in developing and implementing green lines.⁸ Under these projects preliminary market assessments for supporting the CTF operation were already undertaken and provide for some initial findings regarding specific market barriers for financing and opportunities.

COMPONENTS

8. This grant seeks to support the further preparation of the operation CO-L1124 through 3 main components:

Component 1

9. This component involves the development of specific eligibility criteria, modalities and design of a financing line for energy efficiency in hotels and hospitals. It will include recommendations and an analysis of different elements needed to correctly address specific financial needs, reflect specific local financing conditions from Bancoldex, and address technical barriers and lack of knowledge to gain access to credit. Among the issues that would be addressed through this component, the most important ones are the following:

- options to structure local demand for credit and integrate in the financing line the costs of all the technical support needed (service and technology providers) for project developers to develop bankable projects that fulfill the credit line eligibility criteria;
- options of different financing conditions and modalities to be followed (e.g. interest rates, grace periods, payback periods, guarantees, insurance products, etc.) taking into account the costs of implementation of the line and the different sources of funds available (CTF and IDB/Bancoldex funding), and
- operational modalities of the financing line – including guidelines for financial intermediates and project developers on how to apply / use the line.

Component 2

10. This component seeks to develop specific institutional and legal requirements to ensure support and participation of key partners in the implementation of the financing line. From the results of initial market studies, it is clear that a successful financing line for energy efficiency will need to integrate / promote the participation of a number of partnerships with key players (technology and service providers, associations of potential clients, methodology / technical verifiers and government and regulators) to ensure that final

⁵ See ¶3.11 and ¶3.42 of the Country Strategy (<http://bit.ly/IDBCSCol>).

⁶ Report on the Ninth General Increase in the Resources of the IDB (<http://bit.ly/IDBGCI9>).

⁷ See ¶1.3, 2.9 and 3.14 of document GN-2609-1 (<http://bit.ly/IDBCCst>).

⁸ IDB numbers CO-T1198 (bit.ly/CO-T1198), CO-T1153 (bit.ly/CO-T1153), and RG-T1866 (bit.ly/RG-T1866).

beneficiaries and financial intermediaries are open to change behavior and develop innovative projects that are bankable and well implemented. Specific results of these activities include the identification of:

- specific technical capacity needed within Bancoldex to promote the financing line and effectively execute it, including the assessment of project eligibility and the creation of record system of projects for monitoring, reporting and validation of project results;
- lists of roles, conditions and agreements / contractual requirements that would need to be fulfilled by potential players engaged in project development and monitoring, e.g. technology and service providers, insurers for project performance insurance, and project certifiers and verifiers., and
- lists of the roles, conditions and agreements required for the proper promotion of the financing line, including those specifically related to existing associations of potential clients (e.g. hotels and hospitals) and technical services providers (association of experts in energy efficiency).

Component 3

11. Finally under component 3 methodological approaches and protocols to monitor results / benefits of financing lines (i.e. reduction of energy use; GHG emission reductions) would be developed. The integration of benefits arising from energy savings in the financing line will be a key incentive for clients to invest in this type of projects, provided that those savings materialize. In order to ensure that these benefits are tracked and fully accounted for, there exists the need to consider specific recommendations and tools, including:

- specific criteria and key players who can play the role of “third party” verifier of project eligibility and certifier of achieved results (e.g. energy efficiency, GHG emission reductions);
- a methodology for assessing eligible projects, including how to present result indicators and monitoring systems of the proposed projects, and
- protocols and templates for presenting projects, validating projects, monitoring results after credit is granted, and for validating results of monitoring.

EXECUTION ARRANGEMENTS

12. This operation will be executed by the IDB, since it will focus on a number of highly technical inputs which should be consistent with specific project preparation requirements from both the IDB and the CTF. IDB execution is also recommended to assess any additional specific technical capacity needs required by Bancoldex to promote the energy efficiency financing line of the operation CO-L1124.

BUDGET

13. The indicative budget is described in the following table.

Figure 1. Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding*	Total Funding
Component 1	Demand structuring conditions	35,000	40,000	75,000
	Financing line conditions	35,000	40,000	75,000
	Operational modalities	20,000	40,000	75,000
Component 2	Technical capacity needs for Bancoldex	30,000	n.a.	30,000
	Conditions and requirements for stakeholders supporting project preparation and monitoring	30,000	n.a.	30,000
	Conditions and requirements for stakeholders supporting financing line promotion	30,000	n.a.	30,000
Component 3	Criteria and conditions for third party validators and verifiers	20,000	n.a.	20,000
	Methodology to assess project by project results	30,000	n.a.	30,000
	Protocols and templates	20,000		20,000
Sub-total for consultants		225,000	120,000	245,000
Travel expenses		25,000	n.a.	25,000
Final Total		250,000	120,000	370,000

* Prefeasibility market studies financed by IDB through projects CO-T1153 and RG-T1866.

LIST OF ABBREVIATIONS

CSEF	Colombia Sustainable Energy Finance Program
CTF	Clean Technology Fund
EE	energy efficiency
FI	financial intermediary
GCI-9	Ninth General Capital Increase of the IDB
GHG	greenhouse gases
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IP	Investment Plan
M	million
TC	technical cooperation
USD	United States Dollars