

**TC Document
CO-T1309**

Market Study and Colombia Sustainable Energy Finance Program (C-SEF) Coordination

I. BASIC INFORMATION FOR TC

▪ Country/Region:	Colombia
▪ TC Name:	Market study and Colombia Sustainable Energy Finance Program (C-SEF) Coordination
▪ TC Number:	CO-T1309
▪ Team Leader/Members:	Claudio Alatorre (INE/CCS), Team leader; Roberto Esmeral (CCS/CCO); Jose J. Gomes Lorenzo (IFD/CMF); Diego Flaiban (SCF/FMK); Paula Urbano (IIC); Monica Lugo (LEG/SGO); Verónica Valencia (INE/CCS) and Ayatima Hernández-Rojas (INE/CCS)
▪ Date of TC Abstract authorization:	TC Abstract Document
▪ Donors providing funding:	Clean Technology Fund
▪ Beneficiary:	Republic of Colombia
▪ Executing Agency and contact name	Inter-American Development Bank (IDB) through the Climate Change and Sustainability Division (INE/CCS). Mr Claudio Alatorre (INE/CCS) and Mr. Roberto Esmeral (CCS/CCO)
▪ IDB Funding Requested:	USD \$275,000
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period:	30 months
▪ Required start date:	February 28 th , 2013
▪ Types of consultants:	Consulting firm and Individual consultant
▪ Prepared by Unit:	INE/CCS
▪ Unit of Disbursement Responsibility:	INE
▪ TC Included in Country Strategy (y/n):	Y
▪ TC included in CPD (y/n):	Y
▪ GCI-9 Sector Priority:	5. Environment protection and climate change

II. OBJECTIVES AND JUSTIFICATION OF THE TC

2.1 The main objectives of this TC are: (i) to provide support to the Beneficiary to carry out the necessary activities for the implementation, coordination and follow up of the Colombia Sustainable Energy Finance Program (C-SEF) as well as its coordination with other energy efficiency and clean energy (EECE) programs carried out by the Bank in Colombia¹; and (ii) to develop a study to evaluate the state of the EECE market in Colombia.

¹ CO-L1124 and a further operation to be developed by FOMIN.

- 2.2 The C-SEF Program is aimed at stimulating the development of the financial market for EECE in Colombia by supporting the financial institutions and addressing the market barriers in a programmatic perspective. CSEF contemplates investments in the amounts of USD\$17.5 million from the CTF, USD\$10 million through the International Finance Corporation (IFC), USD\$5 million through the IDB and USD\$2.5 million for Technical Cooperation and operation through the two Banks. This TC is funded by these resources.
- 2.3 The main challenges that energy efficiency measures face in Colombia are: (i) the lack of financial and market services to support stakeholders in the development of EECE projects, in particular, the Energy Service Companies (ESCOs); (ii) the scarcity of information on new technology options; (iii) the limited knowledge on the economic benefits of EERE projects; and (iv) the absence of financial institutions promoting investments in this area.
- 2.4 The investment component of the SCEF Program will contribute to overcome some of the barriers mentioned in the previous paragraph by providing the financial institutions with economic resources which will help them to facilitate EERE investments. The investment component is complemented with a technical assistance package, which includes, in addition to the activities of this TC:
- a) Training for commercial banks which will provide them with additional tools and elements aimed at increasing the number of EERE operations financed;
 - b) Support to the creation of technical capabilities and to the execution of energy audits for both energy services providers and energy end-users;
 - c) Development and dissemination of technical and financial information to increase the knowledge on the potential benefits and opportunities associated to EECE operations and activities;
 - d) Trainings for energy service providers, including ESCOs and companies that do business with small and medium-sized enterprises (SMEs), on basic technical and economic aspects of EECE financing.
- 2.5 The market study financed in Component I of this TC is intended to facilitate the identification of opportunity areas which will be supported by the Program, as well as to develop a detailed assessment of the market, its characteristics and barriers. In general terms, at this point in time, both financial institutions and end users lack the knowledge about attractive investment opportunities, the economic benefits that can result from the execution of projects, the feasibility of the EECE measures and the characteristics of the mechanisms needed to implement the projects. The market study will provide the main actors in the EECE market (Government, financial institutions and energy end-users) with the necessary elements to move the program forward and lay the ground for future investments in the country.
- 2.6 The coordination activities included in Component II will ensure the consistency and coordination between the different elements of the C-SEF Program. The CTF Investment Plan for Colombia identified as one of the barriers to increase energy efficiency the insufficient coordination in national programs that manage the informational and technical aspects of efficient investments and connect the consumer with financing. It also identified in the risk assessment that one of the risks is the limited institutional capacity to

coordinate the implementation of the proposed activities in the public sector. To address these issues, CTF resources are to be used to provide support for government planning and develop capacity to better coordinate the initiatives among the relevant agencies.

- 2.7 The TC will contribute to the 5th GCI-9 Sector Priority “Protect the environment, respond to climate change, promote renewable energy and ensure food security”, and to IDB’s 3rd lending program indicator, “lending to support climate change initiatives, sustainable energy (including renewable) and environmental sustainability”. The TC will also contribute to the Colombian Country Strategy in the “Access to financial services” and support sector.

III. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET

- 3.1 The TC will consist of two components to be developed simultaneously as described below.

A. Component I. Market Study.

- 3.2 A consulting firm will be hired to develop a market study on EECE alternatives, which will provide in-depth information useful to enhance the implementation process of projects included in the C-SEF Program. This study will build on similar efforts carried out recently, including a market study executed with Bancoldex on the hospitality sector. The market study will assess the characteristics of new opportunity areas which could potentially contribute to the Program. The study will take into account related studies and research, performed by the IDB and by others (for example the study of KfW for Bancoldex, including aspects such as ESCOs), in order to avoid duplication and built on existing efforts.
- 3.3 The market study will generate a set of concrete proposals for additional potential instruments aimed at the transformation of relevant economic sectors by increasing the number of EECE activities. These sectors will be those with the highest potential for investments in EECE, from an investor’s point of view.
- 3.4 The study will perform a comprehensive evaluation of the EECE market in Colombia, including comparisons with relevant international experiences. Such evaluation should consider at least the following aspects:
 - a. Assessment of the size of the EECE market for the economic sectors with the highest potential for EECE projects. This should take into account different scenarios for the application of new technologies, as well as the suitability of measures to be implemented within the program’s framework by local actors such as governmental and financial institutions, chambers of commerce, and the private sector.
 - b. Institutional context, including a description of the role played by the institutions in charge of promoting EECE, with a focus on the financial aspects.
 - c. Analysis of the positive or negative impact of existing laws and regulations on the financial preparation of EECE projects.
 - d. Analysis of success cases in Colombia of Renewable Energy programs financed by commercial banks, if existing.

- e. Description of the capabilities in firms devoted to the development of EECE projects in Colombia from the technical, legal and financial viewpoint, as a way to assess their ability to respond to the demand of services that will eventually arise once the financial institutions have implemented more suitable financial instruments. This should include an analysis of lessons learnt with the existing contract models and procedures such as outsourcing and performance contracting, commonly used by ESCOs.
- f. Analysis of the evolution of EECE investments in different sectors and technology areas, identifying challenges and the potential mechanisms to overcome them.
- g. Based on the previous issues, the study will identify areas of opportunity for the deployment of EECE in specific sectors and technologies, and suggest the creation of suitable financial instruments.

B. Component II. Coordination

3.5 The objective of this component is to support the Beneficiary in the coordination of activities and proposed actions associated to the Colombia CTF Investment Plan. An individual consultant will be hired to: (i) provide technical assistance in the coordination, implementation and supervision of the C-SEF Programs; (ii) ensure an adequate coordination, during the preparation and implementation stages, with the participating stakeholders in Colombia, including governmental institutions (Unidad de Planeación Minero Energética - UPME, the Ministries of Finance, Mines and Energy, and Environment) commercial Banks, service providers and industrial associations, among others; (iii) refine Terms of Reference as necessary; (iv) ensure dialogue and exchange of information with, and among, the consultants hired to perform specific tasks within the related Programs.

Indicative Results Matrix

Activity	Responsible	Timing	Outputs	Results
1. Market Study	INE/CCS	4 months	A market study	<ul style="list-style-type: none"> • Potential market size by sector • Analysis of the institutional context • Analysis of the legal and regulatory framework • Assessment of the service providers capabilities • Investment environment for EECE • Identification and assessment of main opportunity areas for EECE
2. Coordination	INE/CCS	24 months	Reports	<ul style="list-style-type: none"> • Reports on the coordination activities for the Program.

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
1. Market Study	Development of a market study	150,000	-	150,000
2. Coordination	Support for the coordination of C-SEF activities	125,000	-	125,000
Total		275,000	-	275,000

- 3.6 The TC will be supervised by INE/CCS through its Country Office in Bogota. The focal point for the coordination of this TC is CCS/CCO. The project team will be in charge of directly supervising and monitoring (at least monthly) both the consulting firm and the consultant hired to carry out the tasks of this operation.
- 3.7 The consultant firms will deliver reports according to the timeline below. No intermediate evaluation reports will be prepared. Only a final report will be prepared by the project team.

ACTIVITIES - MONTHS	2	4	6	8	10	12	14	16	18	20	22	24
Component I. Market study	*	■										
Component II. Coordination	*	*	*	*	*	*	*	*	*	*	*	■

* Partial report ■ Final report

IV. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 4.1 The Bank through its Climate Change and Sustainability Division will act as the executing agency for this operation.
- 4.2 The Bank will carry out the execution of this operation through its Country Office in Bogota, and this execution arrangement is justified based on the need to ensure direct coordination and collaboration with the participating stakeholders in Colombia. Also, with the consent of the Government, this execution arrangement relies on the expertise of the bank to carry out EE programs and will facilitate the coordination among the Programs associated to the Colombia CTF Investment Plan. (see Annex I).
- 4.3 There are no special conditions to be fulfilled prior to the first disbursement, nor any special modalities for disbursement.

V. MAJOR ISSUES

- 5.1 No major implementation risks have been identified for the execution of this TC. However, the project team believes that some delays are possible during the process of gathering information from public and private sector stakeholders. The Bank will operate in close coordination with participating organizations in order to minimize the chances of any complications or interruptions.

VI. EXCEPTIONS TO BANK POLICY

- 6.1 No exceptions to the Bank Policy

VII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 7.1 In accordance with the Environmental and Social Compliance (OP-703) and the Safeguard Classification Toolkit, this project has been classified as category “C”. The project team does not anticipate any direct or indirect negative social or environmental impacts associated with the activities to be financed with the present operation [IDBDOCS-#36841859](#)

VIII. REQUIRED ANNEXES

- i. Annex I Colombia Sustainable Energy Finance Program (C-SEF), submitted by IFC and IDB to the Clean Technology [IDBDOCS-#37054333](#)
- ii. Annex II. Terms of Reference for activities/components to be procured.
Component 1: Market Study: [IDBDOCS-#37077629](#)
Component 2: Coordinator: [IDBDOCS-#37077129](#)
- iii. Annex III. Procurement Plan. [IDBDOCS-#37063723](#)
- iv. Annex IV. Request from the “Agencia Presidencial de Cooperación Internacional de Colombia APC” [IDBDOCS-#37324340](#)