COMBINED PROJECT INFORMATION DOCUMENT (PID) / INTEGRATED SAFEGUARDS DATA SHEET (ISDS)

CONCEPT STAGE

Date Prepared/Updated: 31-May-2017

I. BASIC INFORMATION

A. Basic Project Data

Country:	Colombia	**Project ID:**	P161713
Project Name:	Colombia Clean Energy Development Project (Guarantee)		
Task Team Leader:	Gabriela Elizondo		
Estimated Appraisal Date:	23-Jun-2017	**Estimated Board Date:**	31-Aug -2017
Managing Unit:	GEE04	**Lending Instrument:**	Guarantee
Sector:	Energy and Mining		
Theme:	Financial and Private Sector Development		

Proposed Development Objective:

The Project Development Objective is to assist Colombia in mobilizing private investment for large-scale renewable energy and energy efficiency in the industrial sector.

Components:

1. Renewable Energy
2. Energy Efficiency

Financing (in USD Million)

Financing Source	Amount
Estimated Private Equity	240
Estimated debt from Commercial Borrowing	404
Estimated debt from Development Finance Institutions & Export Credit Agencies	138
Total	783

Environmental Category:	Category FI-2
Decision:	The review did authorize the preparation to continue

B. Introduction and Context

Country Context

In the last decade, Colombia consolidated its position among the top economic performers in Latin

America. The country's sound macroeconomic management helped sustain relatively high growth rates, at an average of 5.4 percent before the global crisis (2004 08) and 4.8 percent thereafter (2010–14). High commodity prices contributed to an expansion of extractive industries' production and exports, which in turn supported fiscal revenues and growth. This allowed closing the country's per capita income gap with the leading economies of Latin America and the high-income countries of the Organization for Economic Co-operation and Development (OECD). Colombia's economy also received large capital inflows, taking advantage of abundant international liquidity. However, Colombia now faces slowing growth in the context of a less favorable external environment, including lower oil prices.

This economic growth and resulting job creation has been the main driver for Colombia's impressive strides in poverty reduction and shared prosperity. From 2002 through 2014, extreme poverty fell from 17.7 percent to 8.1 percent, while total poverty fell from 49.7 percent to 28.5 percent1, lifting 6.7 million people out of poverty. Shared prosperity indicators followed a similar trend, especially in the second half of the decade. Between 2008 and 2014, the income per capita of the bottom 40 percent of Colombians grew at an average rate of 6.2 percent, significantly higher than the national average rate of 4.1 percent.

The recent emergence of Colombia's extractives industries (mainly oil and coal, but also nickel, emeralds and gold) have accelerated economic growth and provided record investment funding for development, but has also posed questions about the future sustainability of the country's growth model. The opening up of the energy sector in 2003, as well as the recovery of state control from the guerilla of large tracts of the territory, contributed to a significant increase in oil production as the volume of oil extracted nearly doubled from 530 thousand barrels per day in 2007 to almost a million bpd over the past three years.

Rising oil and commodity prices added windfall revenues in the past years (2011- 2014), but most recently these have dropped. Oil and mining nearly doubled their participation in the economy over the past decade to about 12 percent. However, the recent drop in international oil prices has changed this equation more recently. Oil revenues dropped from 5.53 and 4.90 percent of GDP in 2013 and 2014 respectively, to about 2.12% of GDP at the end of 2015.

Sectoral and Institutional Context

The energy and mining sectors in Colombia represent an important source for the financing of development projects in the country. The two sectors contributed 11.2 percent to GDP in the period 2010-2013, with an important input from the hydrocarbons sector (about 52.3% of the total in that period). In 2013, the contributions of these two sectors (from taxes, benefits and shares) represented 32 percent of the Government's current income. These resources have facilitated the implementation of development projects across the country (National Development Plan, 2014-2018). For instance, the electricity tariff includes a component that channels resources to a public fund that finances electrification efforts in rural non- interconnected zones (Fondo de Apoyo Financiero para la Energización de Zonas No- Interconectadas, FAZNI).

Colombia is endowed with abundant and diverse energy resources. In recent years, Colombia has increased its importance as an energy producer in the Western Hemisphere. The country is currently the third-largest oil producer of the LAC region and the seventh-largest crude exporter to the United States (EIA, 2015). Colombia is also the largest coal producer of the region and the nation with one of the highest total recoverable coal reserves at the global level. About 67 percent of the coal production is exported to Europe.

The Colombian economy relies predominantly on fossil fuels, with hydropower playing an important role in electricity generation, and non-conventional renewables largely unexploited. Total primary energy supply (TPES) reached 278 Million Barrels of Oil Equivalent in 2014, of which 75 percent was fossil fuel based. The supply was mainly in oil (36 percent of the total), natural gas (24 percent) and coal (15 percent). Hydropower played in 2014 also an important role in overall TPES (11.71 percent); and the remaining was in sugarcane, wood and non-conventional renewables.

In terms of Total Final Energy Consumption (TFEC), about 74% is provided by fossil fuels (48.4% in oil and LPG, 18% on natural gas, and 7.22 % on coal), and the rest by renewable resources, including bioenergy (12.6%), hydropower (13.5%) and wind (0.01%). The industrial, residential, and transport sectors consume 43, 32, and 12 percent respectively of TFEC. The electricity sector relies mainly on hydropower (68.4% of total production in 2013), gas (17.7%), coal (9.88%), bioenergy (3%) and oil (<1%). Wind has had a minor contribution to electricity generation (with only 0.07% in 2013).

The country has maintained a large degree of energy independence. The trilemma index of the World Energy Council ranks Colombia as one of the countries with the highest overall energy security at the global and regional levels (11th and 3rd place, respectively).2 Coal plays a minor role in the domestic consumption basket given that a high percent of total production is exported (98% in 2014). The country also exported about 14% of its natural gas production in 2014 (although more recently the country has not been able to export NG due to production constraints), and is a net exporter of electricity, mainly to Venezuela and Ecuador. Colombia does import about 60 percent of the demand for diesel oil and gasoline due to its limited refining capacity, but overall it has a limited energy dependency.

Colombia has a mature wholesale electricity market. The country reformed the power sector in 1994 and introduced a wholesale electricity market where competition is established across the value chain, including in transmission (with tenders for transmission expansion) and in retail (free non-regulated consumers). Commercial transactions are made through spot (cost based bidding and marginal cost dispatch) and contracts' markets. Private sector participation is allowed in all value chain segments.

Recent assessments have identified a number of structural issues affecting the performance of the electricity market in Colombia, including: i) high vulnerability to ENSO events, ii) limited availability of natural gas and high prices, iii) low scarcity prices (which is the price paid to generators for delivering firm energy; formula to calculate scarcity price is a function of the Platts US Gulf Coast Residual Fuel Oil Price), iv) design of reliability payments challenged by extreme or long weather episodes, v) lack of incentives for renewable energy development, vi) high degree of market concentration and power (50% of the market dominated by vertically integrated utilities (EPM, EMGESA and CODENSA), and vii) potential conflicts of interest (XM owned by ISA, which is in turn owned by companies operating in the market such as EPM and Energia de Bogota). The convergence of all these factors has evidenced the existence of structural issues in both the regulatory and institutional frameworks, and that the system, as it is organized now, is not delivering minimum levels of energy security. In addition, these problems are creating high uncertainty and deterring private sector participation.

Colombia is endowed with abundant and diverse renewable energy resources. Both hydro and non-hydro renewable energy resources in Colombia are significant. The International Renewable Energy Agency estimates that Colombia has a "high" resource potential to develop wind, solar, hydro and geothermal generation (IRENA, 2012). Recent assessments suggests that Colombia has a wind resource with the potential to develop 30 GW of installed capacity, geothermal resources to develop 1-2 GW, as well as regions with very high solar irradiation such as the Guajira and Costa Atlantica (UPME, 2015).The world atlas of the International Journal of Hydropower and Dams places Colombia's (economically

feasible) hydropower potential at 140 TWh per year (which is significant considering average annual generation in the order of 45 GWh). In addition, renewable resources in Colombia present a high degree of seasonal complementarity which enables the country to produce energy more reliably and at a lower cost.

In the La Guajira region, about 3 GW of wind projects were identified by private developers. Two transmission lines of 500 kV have already been put for bid to evacuate part of this generation capacity. The GoC is conducting an analysis to select and deploy the optimal policy instruments to make contracts with the newly developed facilities and to integrate them into the existing power system. In principle, there is a preference for competitive procurement for long term electricity contracts via reverse auctions. On energy efficiency, 16 large industrial companies in the Cartagena Area have already been assessed to figure out their energy saving potential. Upon the establishment of an appropriate financing mechanism to support investment, these projects can be quickly developed.

Studies by UPME have shown that the wind patterns in several locations in Colombia are counter cyclical to the rain patterns, in particular during ENSO events. This suggests that the development of wind (but also solar and geothermal) could contribute to diversification. Wind production would help operate the reservoirs at higher levels, increasing their resilience to cope with prolonged droughts. The insertion of non-conventional renewables to a hydro system is mutually beneficial. On one hand, the water stored in the reservoir works like a huge storage source, therefore mitigating the generation volatility of wind and solar. On the other hand, the counter-cyclical feature of wind generation enables a more reliable operation of the hydro system in times of scarcity.

The GoC is fully committed to the development of non-conventional renewable energy (NCRE). The GOC has enacted a law to promote renewable energy (Law 1715, revised in May 2014) and committed to the target of adding 1,220 MW between 2013 and 2018 in the National Development Plan. In addition, the regulatory framework includes fiscal and financial incentives for large scale grid connected renewables, as well as a price incentive for distributed generation. Also, there are a number of measures that need to be introduced by the Government to develop the market of renewables other than hydro: (i) a strategy or reference action plan to guide private investors on the sites and projects with the potential to be developed (including an "investment plan"), (ii) a specific price or quota based incentive to address the incremental cost and/or the existing risks (e.g. renewables portfolio standard, price incentives, or auction), (iii) regulations that facilitate access and connection to the grid, among other.

Investments in the range of US$ 2.6-3.5 billion will be needed to scale-up non- conventional renewable energy in the period 2015-2029, as per Colombia's electricity generation expansion plan. Based on information included in the expansion plan for the period 2015-2029 prepared by the Energy Planning Unit (UPME) of the Ministry of Mines and Energy (MME), investment needs in generation are estimated in at least US$ 22.8 Billion (under an scenario based on a conventional mix) and US$27.7 Billion (under and scenario with a mix that include renewables). Renewables alone, under scenario 10 of existing expansion plan would require an amount in the order of US$2.6 to 3.5 Billion. It is important to note that coal based generation continues to be a firm energy alternative for Colombia; renewable energy deployment would contribute to substantially lower potential coal based capacity additions (about 1.5 GW). Thus renewable energy is both a resilience and climate change mitigation solution.

In energy efficiency, the GoC has built a solid institutional policy framework to promote energy efficiency across sectors and it has gradually implemented a number of strategic actions. Colombia enacted Law 697 "Promotion of Rational and Efficient Use of Energy" in 2001, and since then has issued a number of key regulatory decrees, most notably: i) a resolution for the creation of an inter-secretarial commission that supports energy efficiency (Comisión Intersectorial para el Uso Racional y

Eficiente de la Energía y Fuentes no Convencionales, CIURE) which reports to the Ministry of Energy and Mines (MINAE), and ii) resolutions to introduce the Program for the "Promotion of Rational and Efficient Use of Energy and Non-Conventional Energy" (PROURE) and iii) Indicative Action Plans (PAI, 2010-2015 and subsequently PAI 2015-2020), which include specific targets by consumer segment.

The GoC is also in the process of developing the "Caribbean Sustainable Energy" strategy (CONPES), which will include a component to enhance energy efficiency in the industrial sector. CONPES will promote energy efficiency measures in the industrial sector located in the Northern region (Caribbean Coast). These measures will likely promote the upgrade and/or replacement of old inefficient equipment, including i) a movement towards the use of steam and waste heat and cogeneration, ii) replacement of inefficient motors and upgrading of furnaces and boilers, and iv) good operational practices. UPME (National Planning Unit) has recently carried out detailed energy audits in industrial companies located in the Cartagena Area. Improving energy efficiency in those areas has the additional benefit of contributing to improve reliability in the supply of electricity. Under the CONPES sixteen industrial companies have been selected for immediate support and financing, including activities such as agrochemicals, cement, waste management, plastics, packaging, and chemicals, among others.

Colombia submitted an Intended Nationally Determined Contribution (INDC) during COP 21 and ratified it on April 22, 2016 as its NDC. In it, Colombia committed to reduce 20% of its carbon emissions by 2030 when compared to a projected business as usual scenario. On the adaptation front, the country committed to implement measures in sectors with high exposure and degree of vulnerability to climate change including energy, transport, water, agriculture, health, social development, environment, education and tourism. Both renewable energy development and energy efficiency can contribute to climate change mitigation, while at the same time contributing to strengthen the resilience of the sector to climate change and increased weather variability including climatic shocks.

C. Proposed Development Objective

The Project Development Objective (PDO) is to assist Colombia in mobilizing private investment for large-scale renewable energy and energy efficiency in the industrial sector. To mobilize long term private investments and leverage limited Clean Technology Fund (CTF) and multilateral development bank (MDB) resources more efficiently, the project will use a risk mitigation guarantee facility (non-conventional renewable energy and energy efficiency) and potentially a line of credit (energy efficiency). The proposed guarantee facility will be capitalized with a proportion (less than 1/4th for energy efficiency projects) CTF and the *Financiera de Desarrollo National* (FDN) contributions for renewable energy projects). The remaining proportion of CTF and full contribution of the International Bank for Reconstruction and Development (IBRD) will backstop the guarantee obligations of the FDN.

D. Project Description

The proposed operation consists of IBRD and CTF guarantees to FDN aimed at backstopping FDN's guarantee payment obligations to private investors and lenders of renewable energy IPPs and industrial energy efficiency projects. The use of IBRD-CTF and FDN guarantees for clean energy development in Colombia is expected to support investments in 520 MW of renewable energy capacity by mobilizing an estimated amount of US$728 million from other financing sources, including private sector lending, development financial institutions' lending and equity from Independent Power Producers (IPPs). For energy efficiency projects, the CTF guarantees are expected to mobilize approximately US$55 million with the provision of Loan Guarantees using a proportion (approx. 1/4th) of CTF resources. Furthermore, the use of risk mitigation guarantees using IBRD-CTF to backstop FDN's guarantee obligations will help: (i) provide risk-reducing

instruments or innovative financial products to improve access to commercial financing and attract competitive pricing, (ii) guarantee investment recovery associated with renewable electricity for long-term institutional investors, and (iii) enhance the project risk profile to attract long term institutional investors. The table below summarizes the indicative sub-project costs, financing structure and guarantee sizing for this proposed operation as per initial discussions with the GoC. The exact guarantees' sizing will be determined after detailed financial analysis of expected level of risk coverage and subject to market testing with investors and lenders

The proposed IBRD-CTF guarantee structure will provide second-loss guarantees to enhance the creditworthiness of FDN. Under the proposed structure, FDN will create two different windows to provide guarantees, one for renewable energy and another one for energy efficiency sub-projects. The IBRD-CTF guarantees would work as a second-loss to backstop FDN's guarantee obligations with FDN taking the first loss. Therefore, IBRD-CTF support, backstopping FDN will only be drawn upon in the event that FDN is unable to pay its payout obligations for a guarantee call. Subject to further analysis, it is proposed that all energy efficiency project risks will be directly guaranteed using a proportion of the CTF guarantee amount (approx. 1/4th). The energy efficiency window will primarily provide CTF Loan Guarantees. Subject to further confirmation, under the RE window it is proposed that the guarantee exposure of IBRD-CTF be borne first by CTF (as a first-loss tranche) and then by IBRD (as a second-loss tranche). For the RE window, FDN will enter into two different guarantee agreements one directly with the IBRD with respect to the IBRD guarantees, and one with IBRD acting as implementing entity of the CTF with respect to the CTF guarantees. For the EE window, the private sector e.g., commercial lenders and institutional investors, will enter into CTF EE loan guarantee agreements with IBRD acting as implementing entity of the CTF. Under applicable CTF rules, a counter guarantee from the GoC is not required for the CTF proportion of the guarantee exposures. The figure below illustrates an indicative structure, features and guarantee claims processes. This structure will be further refined after FDN undertakes further assessments, with WB technical assistance, on suitable risk mitigation and credit enhancement products to be offered to potential lenders and investors.

To manage risk exposure of clean energy sector, FDN will create two windows to provide targeted financial products, one for renewable energy (RE) sub-projects and the other for energy efficiency (EE) sub-projects:

1. **Renewable Energy Window:** FDN will design, with the support of WB technical assistance, specific risk mitigation products and provide (as Guarantor) such products to the investors and lenders as part of the proposed auction process. This window should primarily mitigate two major risks: (i) the first is related to the creditworthiness of the offtaker (Power Purchase Agreement payment risk). One of the possibilities still being discussed is that XM (or a ring fenced account) will be the central buyer for all energy produced by renewable energy sources. This energy will be resold in the wholesale market on a merchant basis. There are several benefits in centralizing the procurement and diversifying renewable variability across the entire market. Other countries in LAC have adopted such scheme and it has been working satisfactorily. However, investors may perceive that XM is primarily a system clearing account and may not be considered as a creditworthy distribution company, as its source of revenues depend on effective functioning of the wholesale market and its settlement rules. Furthermore, there may be a financial mismatch between the payment by XM to generators and the funds collected via sale of energy in the spot market. Any mismatch needs to be recovered through retail rates via an uplift, which needs to be

operationalized. Regardless of the choice of XM or another central offtaker, the perception of creditworthiness risk among investors should be considered for risk mitigation; (ii) the second is a more traditional debt service default risk affecting lenders and bond holders' ability to finance renewable energy IPPs.

2. **Energy Efficiency Window**: This window, supported fully by CTF guarantees, primarily mitigates credit risk faced by financial institutions who are assigned to provide financial resources to large industries to develop their energy efficiency projects. Considering the lack of a significant ESCO market, the borrower of energy efficiency projects could either be the large industries themselves or ESCOs (on an aggregated basis). The commercial banks that provides financing will normally seek loan guarantees to mitigate debt service default due to insufficient cash flows from the underlying sub-projects. The perception of credit risk is also due to less familiarity among commercial banks with the technicalities of energy efficiency projects, expected savings, how those savings can be monetized and other M&V (Monitoring and Verification) issues. The energy efficiency window will be fully supported by a proportion of CTF guarantee amount (approximately USD 11 million). The CTF technical assistance support will help FDN and commercial banks better assess the projects in terms of technical performance, expected savings and M&V methodologies.

E. Project Implementation

The Ministry of Mines and Energy (MINMINAS) has the legal obligations established in Law 1715. In this respect, MINMINAS will promote the low-carbon development of the energy sector and deployment of renewable energy and energy efficiency. With this obligation, MINMINAS will lead the interinstitutional dialogue, policy formulation, and activities necessary to address the market failures affecting the development of clean energy. MINMINAS -through UPME- will plan and launch the procurement processes required to build the transmission capacity to interconnect the volume of large scale renewable energy that the market is prepared (notably in the Guajira department). MINMINAS is also in charge of formulating and issuing the policy to promote renewable energy auctions.

The success of the Project depends also on the formulation of appropriate regulatory measures and market arrangements which are necessary for attracting long term financing and private participation in clean energy. Market institutions such as the Energy Regulatory Commission (CREG) and the Electricity Market Operator and Administrator (XM) have a key role to play in unlocking the development of grid-connected NCRE in Colombia. MINMINAS recently issued Decree 570 (March 23rd, 2018), establishing the policy guidelines to define and implement a mechanism to procure long-term electricity generation contracts and it is in the process of designing an auction mechanism, which will consider the specific characteristics and value of variable NCRE. MinMinas, UPME, CREG and XM (or another agency, such as the National Compensation Chamber, Risk Chamber, or DERIVEX), needs to evaluate the possibility of adopting function of a Central Offtake Agency (COA) or other long-term offtake arrangement, acting as a "custodian" of long-term PPAs, and managing credit, liquidity and operational risks, supported by adequate credit enhancement by IBRD/CTF Eligible Financial Product.

The implementing agency FDN, as a financial intermediary, has the main functions of catalyzing private investment in clean energy. In coordination with MINMINAS and UPME, FDN will maintain a continuous dialogue with key stakeholders of the energy sector to discuss and promote the introduction of appropriate market and regulatory measures necessary to strengthen the enabling environment for clean energy development in the country. FDN will also develop and maintain strong relationships with multilaterals, DFIs, private commercial banks, institutional investors, rating agencies and sponsors interested in participating in the clean energy market. The experiences brought by IBRD and CTF guarantees, from other operations, will also help improve the capacity of FDN.

To accommodate the readiness of Sub-projects, the Project's components may be implemented sequentially. Depending on the readiness, the Large-scale and Small-scale Sub-projects in renewable energy and energy efficiency activities are expected to be implemented in a different timeline. Thus, the clean energy projects will be delivered sequentially as Sub-projects become ready for implementation. To implement the Project, a detailed Operations Manual will be developed before the guarantee effectiveness, that will set out the principles, operational policies and procedures, financial management procedures, implementation of performance standards (Environmental and Social Management System, including gender considerations), reporting, monitoring and supervision of Sub-projects. The Operations Manual will also include a Business and Implementation Plan for planning and implementing the Project. A key role for FDN will be to select Sub-projects and beneficiaries based on pre-defined eligibility criteria and conduct detailed due diligence on technical, economic, social and gender, environmental, financial feasibility and other project related assessments. The Operations Manual will also focus on standardizing certain transaction documents in creating processing efficiencies and allow for speedier scale-up. The Operations Manual will have specific procedures for small-scale and large-scale Sub-projects to accommodate the timing.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will support the creation of two different windows to provide guarantees, one for renewable energy sub-projects – including potential wind power sub-projects in the La Guajira region –, and another for energy efficiency sub-projects in industries – potentially in the Cartagena area. However, the specific sites where these sub-projects will be developed are yet to be identified. Once site identification has been completed and private sponsors have been selected, the sponsors will undertake all the necessary risk assessments, identify and implement the mitigation measures, and develop an appropriate monitoring framework to ensure that the power plants supported under the Project are in compliance with FDN's Environmental and Social Management System (ESMS) and, consequently, the Bank's Performance Standards.

B. Borrower's Institutional Capacity for Safeguards Policy

Colombia has one of Latin America's most robust environmental management frameworks and was among the first countries in the world to incorporate Environmental Impact Assessments (EIAs) in its legal framework, more than four decades ago. A dedicated National Agency for Environmental Licenses, created by Decree 3573 of September 2011, is responsible for ensuring that works, projects, and activities that require an environmental license meet the country's environmental standards and regulations. In addition, sub-national environmental authorities, including Regional Environmental Corporations, have relatively strong capacity to evaluate EIAs within their jurisdictions.

FDN's mandate is to catalyze investment in Colombian infrastructure and addresses market failures that undercut optimal infrastructure financing. In implementing its mandate, FDN has developed capacities for the environmental and social management of the diverse activities related to infrastructure development, including the knowledge of and coordination with the local, regional, and national jurisdictional EIA systems. FDN has social and environmental staff (as permanent staff or consultants) to work in due diligence processes, with experience applying IFC's performance standards, which are the basis for FDN's ESMS. The specific sub-projects will be developed by private companies (i.e., private companies and sponsors will be in charge of subproject's design, construction/installation, and operation & maintenance, including the environmental and social assessments, assurance of legal compliance and risk management). During Project preparation, the Bank will assess the capacities of FDN in connection with Bank environmental and social safeguards. As needed, strengthening of the social and environmental unit at FDN will be defined and established in the Project Operation Manual. Private sector company capacity needs will be established in the Project's Environmental and Social Management Review after reviewing FDN's ESMS.

C. Environmental and Social Safeguards Specialists on the Team

Ernesto Sanchez-Triana, Lead Environmental Specialist
Carlos Alberto Molina, Senior Social Development Specialist

D. Safeguard Policies That Might Apply

The task team proposes to use the World Bank Group's Operational Policy OP 4.03 (Performance Standards for Private Sector Activities) for this Project. The project will use a guarantee product. The private sector companies developing projects may request private sector financing. Only Performance Standards 1 and 2 are triggered for projects involving financing intermediaries. In those cases, the financing intermediary – i.e. FDN – must adopt an Environmental and Social Management System in accordance to all Performance Standards (1 to 8). The Bank will work with FDN to review its ESMS and ensure the system complies with all performance standards.

The Project is classified as Category FI-2 as it is expected to have moderate and site-specific impacts related to construction related issues (dust; noise, air, land and water pollution; access; potential of tree cutting, among others), as well as occupational health and safety of labor and neighboring communities. Availability and ownership of land will need to be determined, as well as other risks and potential impacts related to the project's location in rural settings. The

Bank recommended FDN to exclude sub-projects that could be classified as Category A from the portfolio supported with the Project. FDN will consider and further discuss such recommendation with the Bank in the next stages of Project preparation. For that reason, the Project category may be upgraded at appraisal stage if there is potential to significantly environmental and social risks and impacts.

Application of Performance Standards

Performance Standards	Yes	No	TBD	Explanation (optional)
PS 1: Assessment and Management of Environmental and Social Risks and Impacts	X			The proposed project is anticipated to have a significant, positive effect on the environment as renewable energy and energy efficiency sub-projects would reduce the need for fossil-fuel based power generation. Thus, the project would contribute to reduce and avoid emission of local pollutants and greenhouse gases. At this stage, supported renewable energy sub-projects are anticipated to have moderate, well-known and site-specific impacts related to construction related issues (dust; noise, air, land and water pollution; access; potential of tree cutting, among others). Potential sub-projects are not expected to have significant risks and impacts on disadvantaged or vulnerable individuals or groups. Once sub-projects start operations, their impacts will largely depend on their specific technologies. In general terms, risks and potential adverse impacts could be, for example, on landscapes, local fauna, avifauna, and indigenous plants and trees. Under FDN's ESMS, the identification of E&S risks and impacts will also identify disadvantaged or vulnerable individuals or groups that may be directly and disproportionately affected by the project. Furthermore, the assessment will take into consideration risks and impacts associated with the influx of workers during the construction of the sub-projects on the environment and the community.
PS 2: Labor and Working Conditions	X			The FI policies on labor need to be considered as part of its ESMS as well as in its review of the sub-projects receiving guarantees, including the principles of non-discrimination and equal opportunity as per PS2.
PS 3: Resource Efficiency and Pollution Prevention		X		
PS 4: Community Health, Safety, and Security		X		
PS 5: Land Acquisition and Involuntary Resettlement		X		
PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources		X		
PS 7: Indigenous Peoples		X		
PS 8: Cultural Heritage		X		

E. Safeguard Preparation Plan

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Tentative target date for preparing the PAD Stage ISDS: May, 2017.

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the PAD-stage ISDS. May, 2017

The FDN will review and adjust its Environmental and Social Management System (ESMS) that will include the mechanisms and procedures for FDN to assess renewable energy proposals according to eligibility criteria and compliance with WB's Performance Standards, define and establish applicable environmental and social project-specific requirements, and supervise sub-projects during Project implementation.

The Bank will review samples of due diligence processes conducted by FDN under its ESMS, and will provide inputs to refine the system. Once site identification has been completed and potential private sponsors have been selected, the sponsors will undertake all the necessary risks assessments, identify and implement the mitigation measures, and develop an appropriate monitoring framework to ensure that the power plants supported under the Project are in compliance with World Bank's Standards for Private Sector Activities.

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