

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Support for the Preparation of Energy Projects Aimed at Employment and Economic Recovery in Latin America and the Caribbean (LAC)
▪ TC Number:	RG-T3725
▪ Team Leader/Members:	Bonzi Teixeira, Augusto Cesar (INE/ENE) Team Leader; Aiello, Roberto Gabriel (INE/ENE); Alarcon, Arturo (INE/ENE); Ballon Lopez, Sergio Enrique (INE/ENE); Graybill Do Nascimento, Elizabeth (VPS/ESG); Greco, Maria Sofia (LEG/SGO); Johnson Naveo, Odile Ivette (INE/ENE); Macias Parra, Ana Maria (INE/ENE); Marquez Barroeta, Fidel (INE/ENE); Snyder, Virginia Maria (INE/ENE); Sologuren Blanco, Jaime (INE/ENE)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	27 May 2020
▪ Beneficiary:	Ministers of Infrastructure and Energy (or its equivalent) and Public Energy Companies from the IDB's borrowing member countries
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Infrastructure(INF)
▪ IDB Funding Requested:	US\$1,400,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	15 June 2020
▪ Types of consultants:	Individuals and Consulting Firms
▪ Prepared by Unit:	INE/ENE-Energy
▪ Unit of Disbursement Responsibility:	INE-Infrastructure and Energy Sector
▪ TC included in Country Strategy (y/n):	N/A
▪ TC included in CPD (y/n):	N
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; Institutional capacity and rule of law

II. Objectives and Justification of the TC

2.1 **Initial impacts from COVID-19.** The pandemic created by COVID-19 has presented alarming figures in the Latin America and the Caribbean (LAC) region considering the exponential growth of cases observed in some countries and the large economic impact from the five percent economic contraction that is estimated to the region this year.¹ The revival of employment is presenting enormous challenges for countries in the context of budgetary redefinitions that have reduced fiscal space and suspended investment projects post-COVID-19. In some countries, the fiscal and economic stimuli

¹ IDB. Del confinamiento a la reapertura: Consideraciones estratégicas para el reinicio de las actividades en América Latina y el Caribe en el marco de la COVID-19 (May 2020).

already show their limitations on regaining employment, due to the fragile situation of many companies to qualify for loans from banks.

- 2.2 The impact on the energy sector meant the reduction, and in some cases temporary elimination, of revenues in some electricity markets. According to the International Energy Agency (IEA), countries in full lockdown are experiencing a 25% decline – on average – in weekly energy demand, and countries in partial lockdown a 18% average decline.² The result is a possible scenario where energy demand contracts by 6% in 2020, the largest in 70 years in percentage terms and the largest ever in absolute terms. The impact of Covid-19 on energy demand in 2020 would be more than seven times larger than the impact of the 2008 financial crisis on global energy demand. The situation in LAC follows the same pattern; initial results indicate electricity demand in some countries fell between 3%-30% when compared to the same period in the previous year.³
- 2.3 **Positive impact from prompt intervention.** In this context, it is necessary to design targeted interventions with mechanisms to ensure their timely delivery and adequate measures as well as sufficient resources to prevent the halt in operations and investments in the energy sector; potentially leading to additional job losses and lasting consequences in the provision of essential services key for inclusion and development. Additionally, the design of targeted interventions presents an opportunity to maximize the potential for industry conversion and a low-carbon future. This includes the design of instruments to accelerate the incorporation of new technologies for sustainable development such as renewable energy (RE), and to introduce local supply chains. Economies of scale and innovations in technology continue to drive down prices of RE, creating an important opportunity for countries to introduce projects that reduces emissions such as with solar photovoltaic (PV) and wind technologies.
- 2.4 The economic recovery stage of COVID-19 will require a strong boost to investments with high employment impact, after reaching, in a short period of time, high levels of unemployment. The effect on levels of employment will depend, to a large extent, on promoting greater articulation between the activities to be financed to generate productive chains across the economy. The investments can have the desired impact on jobs creation (directly and indirectly) to the extent that it is possible to increase the local production capacity of machinery and equipment required by the construction and operation of infrastructure. This can in turn promote the development of new suppliers in the sector value chain (i.e., developers, installers, certifiers, trainers) and encourage tools for public utilities on measures to promote greater gender inclusion as well as for people with disabilities.
- 2.5 **Energy sector as job generation.** In the energy sector, a recent report by International Renewable Energy Agency (IRENA) has highlighted that the transition to RE is creating numerous employment opportunities and social economic benefits. This reaffirms suggestion from international experience that infrastructure jobs often represent long-term and well-paid opportunities. In 2019, there were already more than 11 million people employed in RE, mostly in PV and biomass.⁴ Moreover, the RE sector has a better gender balance compared to the traditional hydrocarbon sector.

² IEA. Global Energy Review 2020 (April 2020).

³ IDB. [¿Cómo se relaciona la demanda eléctrica con el coronavirus?](#) (April 13, 2020).

⁴ IRENA. Renewable Energy and Jobs: Annual Review 2019.

Employment numbers in the renewable sector have been on upward trend and depending on the scenario considered it can more than triple by 2050.

- 2.6 The objective of this TC is to react promptly and with sufficient resources to support countries in LAC facing economic challenges as a consequence of the COVID-19 pandemic crisis, ensuring that – at the design stage and early in the process - investment projects in the energy sector integrate proper assessments and standards, and regulatory reforms and financing resources for strengthening the sector are available for project preparation. The objective is also to support countries' design and introduction to mechanisms for the recovery of employment, in the energy sector, within a sustainable development framework. This includes decarbonization, development of resilience and productive linkages across value chain, and modernization to attract private investments into energy sector.
- 2.7 In this context, the TC will react promptly and with sufficient resources to support countries in LAC facing economic challenges consequence of the COVID-19. This support will be provided with technical studies in the energy sector for the development of **sustainable infrastructure** which includes potential interventions in different types of modules such as: the ones to **quick actions for job creation and continuity of services and protection of critical infrastructure**, which will give priority to activities that can be initiated and completed expeditiously aiming to commit a significant volume of funds within the first 18-24 months. It includes studies to: (i) prioritize rapid impact and low complexity activities; (ii) improve efficiency of maintenance programs and operating expenses; and (iii) support countries to develop contingency plans and design of priority projects. Another module will focus on **sustainable strategic investments** including activities such as: (i) expanding access and coverage with an emphasis on vulnerable populations and employment generation; (ii) development of sustainable and resilient urban services; (iii) development of regional production chains; (iv) acceleration of digital transformation; and (v) planning and modernization of the governance of the sector.
- 2.8 **Beneficiary countries.** All IDB borrowing member countries are eligible to participate in this TC. The TC activities will be focused on supporting countries which are preparing 2021 operations to overcome the COVID-19 crisis and focus on the economic recovery. The resources of the TC will be administered by the Bank. It is expected that the TC will be able to support four countries; this number can be extended if new letters are received by the Bank from countries developing activities to recover from COVID-19. These countries will be identified, and resources will be allocated on a need basis determined by the project team. This support will be formalized with letters of request and no-objection from the country liaison offices identified as beneficiaries, which will be requested by the Bank before the activities are initiated in the corresponding country. Some countries have already formalized this request⁵. Considering the Bank's experience in co-financing, opportunities will also be sought to elaborate studies and develop projects that in the future can mobilize resources from other entities such as other multilateral development institutions and financing entities (e.g. Japan international Cooperation Agency- JICA, Green Climate Fund- GCF, and Climate Investment Funds- CIF).

⁵ The Bank has received three request letters from Bolivia, Guyana, and El Salvador and one letter of non-objection from Brazil (Annex I).

- 2.9 **IDB experience and lessons learned.** The Energy Division (INE/ENE) has a longstanding experience and track record supporting countries develop technical studies related to energy infrastructure projects. One of the lessons learned identified in the Energy Sector Framework Document (SFD) (GN-2830-8) relates to the importance of having solid pre-investment studies as “Correct allocation of resources for their preparation, monitoring, and closure, is key to achieving the required quality of a project” (¶4.22). A related lesson learned identified that the diversification of the electricity matrix with more sustainable resources requires multiple studies to establish a baseline, to determine an inventory of energy resources, to perform an analysis of possible policy options, timelines, and alternative strategies to achieve each policy goal (¶4.12). These lessons learned have been incorporated in the design of this TC and will be taken into consideration during implementation.
- 2.10 **Strategic alignment.** The TC is consistent with the Second Update of the Institutional Strategy 2020-2023 (AB-3190-2), in particular with the development challenge of Productivity and Innovation by improving the efficiency of the sector with lower cost and higher quality of energy supply that can lead to productivity gains, introducing new technologies and innovation with the use of RE and smart solutions. The TC is also aligned with the cross-cutting themes of: (i) Institutional Capacity and Rule of Law by strengthening the capacity of public entities and regulatory agencies to enable private sector investments; and (ii) Climate Change (CC) and Environmental Sustainability by promoting the development of RE sources and contributing to the reduction of greenhouse gas (GHG) emissions.
- 2.11 The TC is also aligned with the Energy SFD (GN-2830-8), specifically with the priority areas of: (i) energy sustainability with the development of RE projects and energy efficiency initiatives; and (ii) energy security by improving quality of service, developing energy projects that are resilient, and fostering regional energy integration. The TC is also aligned with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (GN-2710-5) in the priority area of action to promote continuous improvements in infrastructure governance and regulatory framework to increase efficiency in the provision of infrastructure services. Finally, the TC is aligned with the Strategic Program for Infrastructure Development financed by Ordinary Capital (OC-SDP) for Infrastructure (GN-2818-1) by contributing and supporting development of tools for the efficient prioritization and development of infrastructure projects.

III. Description of activities/components and budget

- 3.1 **Component I: Preparation of studies for energy infrastructure project (US\$400,000).** This component will finance: (i) development and structuring of methodology for the selection of eligible projects and review of current projects underway, following a methodology to be agreed with the authorities of the beneficiary countries; (ii) studies, data collection, and technical work needed to structure projects to promote private sector investment and Public-Private Partnerships (PPPs) arrangements; and (iii) development of consultancies for the study and structuring of public or PPP projects in the sector. The lessons learned from the activities in this component will be documented in a blog or technical notes for further dissemination.
- 3.2 **Component II: Design of specific interventions to reactivate employment in the sector (US\$400,000).** This component will finance: (i) analysis of the sectoral and financial framework of subsectors (RE, energy efficiency, generation, transmission and distribution, regional energy integration) with the perspective of job generation capabilities; (ii) data collection, design of performance indicators, specialized

consultancies and cross-country workshops (initially virtual ones, and in person when the situation allows) to share good practices and international experience from crisis responses. The results of these workshops will be documented in a blog or technical note for further dissemination; and (iii) measures for the inclusion in the energy sector of persons at social risk and vulnerability, and with disabilities.

- 3.3 **Component III: Increase in use of clean technologies, productive value chains, energy efficiency, resilience, and digitalization (US\$300,000).** Initiatives for the replacement of carbon intense fuels in power generation with options that are more climate friendly in the energy sector will be financed through: (i) studies of penetration of RE, and implementation of energy efficiency mechanisms such as distributed generation, and street lighting programs; and (ii) development of resilience mechanisms, disaster emergency and contingency plans, and interventions such as new standards, digitalization of infrastructure and automation of operational and commercial processes. The activities in this component will study, design and seek to implement scalable solutions and platforms that can be replicated in other markets in the region. The assessment of opportunities to improve security in operations will also be considered in this component.
- 3.4 **Component IV: Revision of the current regulatory framework to drive policy reforms (US\$300,000).** This component will finance revision of the current regulatory and institutional framework to propose adjustments in regulation and management models, market reforms and market-based incentives to identify barriers and generate opportunities for private sector participation, to promote decarbonization plans and improvements in public utility capabilities and efficiencies. The component will also support institutional strengthening activities, such as training workshops and visits to international experiences to promote dialogue for the revision of the regulatory framework and lessons learned from other countries.
- 3.5 The total cost of this TC will be US\$1,400,000 and it will be financed through resources from the Strategic Program for the Development Infrastructure financed with Ordinary Capital (INF).

Indicative Budget

Component and activities		IDB/Fund Funding	Counterpart Funding	Total Funding
I. Preparation of energy Infrastructure Project Studies	Development of a methodology for the identification, monitoring and evaluation of Energy projects	US\$100,000	-	US\$100,000
	Technical studies to structure projects that support private sector participation	US\$150,000	-	US\$150,000
	Technical studies to develop Energy projects	US\$150,000	-	US\$150,000
II. Design of specialized interventions to reactivate employment in the sector	Regulatory analysis of the energy sub-sectors	US\$200,000	-	US\$200,000
	Data collection, development of performance indicators, documentation of best practices and lessons learned from crisis	US\$150,000	-	US\$150,000

	Identification of measures for including diversity and gender aspect in the sector	US\$50,000	-	US\$50,000
III. Use of clean technologies, productive chains, resilience, and energy efficiency	Studies of penetration of RE	US\$100,000	-	US\$100,000
	Development of resilience mechanisms such as digitalization and contingency	US\$200,000	-	US\$200,000
IV. Review of the regulatory framework of the sector to drive policy reforms	Review of regulatory framework of the sector, including development of training programs	US\$300,000	-	US\$300,000
Total		US\$1,400,000	US\$0	US\$1,400,000

IV. Executing agency and execution structure

- 4.1 The Bank will execute this operation in accordance with Appendix 10 to the Operational Guidelines for Technical Cooperation Products (GN-2629-1), considering the Bank's experience in the preparation of the operational and technical instruments proposed for this type of operation. As indicated in the letters received by the countries requesting such support, the Bank will act as the Executing Agency. The TC will be implemented through the Energy Division (INE/ENE) in coordination with the beneficiary countries. This coordination will be formalized with letters of request and no-objection from the countries, which will be requested by the Bank before the activities are initiated in the country.
- 4.2 The Energy Division, will be responsible for supervising and monitoring the implementation of the TC, managing the selection, recruitment, and supervision of external consultants, as well as the acquisition of services in accordance with the Bank's applicable procedures. INE/ENE will be responsible for the procurement processes, which will allow the contracts developed under the TC to be timely and planned at the time of execution. The TC's activities complements the TC "Sustainability and Transformation of Public Utilities in LAC" (RG-T3686) recently developed by INE/ENE in the context of COVID-19.
- 4.3 The contracts will be carried out in accordance with the Bank's policies: (i) contracting of consultancy firms for services related to project identification studies and advisory and knowledge services in accordance with GN-2765-4 and its associated guidelines OP-1155-4; (ii) contracting of logistics support and consulting services, in accordance with the policy GN-2303-28; and (iii) contracting of individual consultants, in accordance with the norms AM-650. The procurement plan is presented in Annex IV.
- 4.4 The beneficiary countries may provide technical inputs to the terms of reference and reports of the consultants, but the Bank will have the autonomy to approve such documents and act as Executing Agency (EA) of the TC. This dynamic will facilitate a better articulation between the various actors within the framework of the technical dialogue of this TC.

V. Major issues

- 5.1 The main risk of this TC relates to the exacerbation of the COVID-19 impact in the LAC region with extension of limitations on international travel, restrictions on the availability of key personnel, and difficulties for field work and data measurements. This could lead to delays in the completion of the activities which would have an impact on the implementation of the TC. To mitigate these risks, the TC will be organizing as many as possible virtual activities and will be considering tasks and data collection activities that can be done remotely and on existing databases.
- 5.1 A related risk mentioned by Environmental and Social Solutions Unit (ESG) relates to the potential that the proposed regulatory frameworks, including development of training programs, could overlook, or have detrimental impacts, in the environmental or social components. To mitigate that risk an environmental specialist from ESG will be part of the team, providing inputs into the Terms of Reference for related studies and reviewing the applicable products and proposals.
- 5.2 The TC does not present fiduciary management risks as it will be implemented by the Bank. For this same reason, no financial audit is required.

VI. Exceptions to Bank policy

- 6.1 There are no exceptions to Bank policies in this operation.

VII. Environmental and Social Strategy

- 7.1 According to the Environmental and Safeguards Compliance Policy (OP-703), this TC has been classified as Category “C”. The latter ratifies a negative minimum or inexistent environmental, social, and/or cultural impact; therefore, no environmental assessment studies or consultations are required for Category “C” operations. For further details, please see the [Safeguard Policy Filter Report](#) and the [Safeguard Screening Form](#).

Required Annexes:

[Request from the Client_20446.pdf](#)

[Terms of Reference_76912.pdf](#)

[Procurement Plan_59724.pdf](#)