

**INTERAMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND**

**PERU
Caja Arequipa**

PE-M1092

**ECOMICRO PROGRAM FACILITY (RG-M1205)
DOCUMENT FOR PROJECT APPROVAL**

PROJECT DOCUMENT

This document was prepared by Avril Benchimol (MIF/ABS), Gregory Watson (MIF/ABS) team leader, Carmen Mosquera (MIF/CPE), Ruben Doboyn (MIF/DEU), Claudia Gutierrez (MIF/DEU), Georg Neumann (MIF/KSC), Anne Marie Lauschus (LEG), Isabel Auge (MIF/ABS) and Xoan Fernandez Garcia (MIF/ABS).

Under the Access to Information Policy, this document is subject to public disclosure.

ANNEXES

- ANNEX I.** LOGFRAME
ANNEX II. DETAILED BUDGET
ANNEX III. QED

APPENDIXES

Proposed Resolution

ABBREVIATIONS

Term	Meaning
AOP	Annual Operating Plan
CA	Caja Municipal de Ahorro y Crédito de Arequipa
DAI	DAI Consulting
DNA	Diagnostic of Executing Agency Needs
EA	Executing Agency
EU	Executing Unit
IDB	Inter-American Development Bank
GHG	Greenhouse Gases
LAC	Latin America and the Caribbean
MIF	Multilateral Investment Fund
MFI	Microfinance Institution
MSE	Micro and Small Enterprises
NDF	Nordic Development Fund
PSR	Project Status Report
TA	Technical Assistance

PROJECT DOCUMENT: CAJA AREQUIPA PERU (PE-M1092)

I. Basic Project Data

1. **Name:** Caja Arequipa EcoMicro Project (PE-M1092), a project under the EcoMicro Program Facility (RG-M1205).
2. **Country:** Peru.
3. **Executing Agency:** Caja Municipal de Ahorro y Crédito de Arequipa (CA).
4. **Project objective:** The project objective is to improve micro and small enterprises' competitiveness through the reduction of energy costs.
5. **Type of green finance product:** CA will develop green loans to finance micro and small enterprises demand for clean energy and energy efficiency that will reduce their energy costs.
6. **Estimated costs and financing:**¹

Total cost:	US\$ 399,998
MIF financing:	US\$ 279,998 (70%).
Counterpart financing:	US\$ 120,000 (30%).
7. **Estimated number of beneficiaries:** After 17 months, the pilot will have benefited 166 micro or small businesses.
8. **Submission date:** December 19th 2012.
9. **Execution Timing:** 17 months execution and 20 months disbursement.
10. **Consulting firm selected:** DAI Consulting.

II. Background

- 2.1 **The Program.** The EcoMicro Program Facility (RG-M1205) is a US\$ 7 million technical assistance (TA) Program, co-financed by the Nordic Development Fund (NDF) and the Multilateral Investment Fund (MIF), to pilot green microfinance for micro, small and medium enterprises (MSMEs) and low-income households in LAC. The aim of the Program is to facilitate green finance as a means to develop renewable energy and energy efficiency markets and to assist in adaptation to climate change. The results of the Program are to train at least 12 microfinance institutions (MFIs) to provide green finance instruments to capitalize on new opportunities in green financing, while adjusting their risk management models to climate change risk, and incorporating climate impact into their internal policies and operations.

¹ The Estimated costs and financing were defined and approved at Program level by the Donors' Committee. See paragraph 4.3 in the EcoMicro Program (RG-M 1205) Donors Memorandum.

- 2.2 **Execution Mechanism and Delegation of Authority.** Donors delegated authority to the MIF General Manager for the approval of the projects under the Program. In total, 12 projects will be submitted to the MIF General Manager for approval following three selection rounds. In the first round, a Selection Committee composed by MIF and IDB staff selected four MFIs to implement 4 projects: FDL (Nicaragua), Banco Los Andes ProCredit (Bolivia), Caja Municipal de Ahorro y Crédito de Arequipa (Peru) and Te Creemos (Mexico).² This second project (PE-M1092) corresponds to the initiative of Caja Municipal de Ahorro y Crédito de Arequipa (CA) in Peru, to facilitate green finance for micro and small enterprises' demand of clean energy and energy efficiency.
- 2.3 **Consulting firm involvement during design phase.** In accordance with the procurement policies described in the paragraph 5.4 of the Donors Memorandum of the EcoMicro Program RG-M1205, and with the procedures described in 5.5, 5.6, 5.7, 5.8 and 5.9 of the same document, pre-screened consulting firms are selected by the MFIs prior to project approval.
- 2.4 This Project Document is a proposal for the MIF General Manager's approval of the EcoMicro project for Caja Municipal de Ahorro y Crédito de Arequipa (See section X. MIF General Manager's approval). In accordance with the Bank's Environmental Safeguards Review (E&S), this project has been reviewed and classified as a category "C" operation on October 28th, 2012.

III. Project Description

- 3.1 **Diagnostic of the Problem.** In Peru, micro and small enterprises (MSEs) represent 90% of existing MSMEs. They usually develop their economic activity in the home and provide 75% of Peruvian employment. These MSEs are nevertheless losing competitiveness due to high energy costs and disruptions in energy supply, among other reasons. Peru is home to high residential electricity tariffs that affect low-income populations and MSEs that develop their economic activities from home. With an average electricity price of US \$11.37 per KWH for the residential sector, Peruvian households pay on average 30% higher electricity prices than the rest of their South American neighbors in their respective residential sectors.³ In order to alleviate this economic burden, the Peruvian Government established in August 2001 a cross subsidy called the FOSE (Fondo de Compensación Social Eléctrica) aimed at reducing energy costs for households with monthly electricity consumption of less than 100 KWH.⁴ The sources of finance for subsidizing these energy bills come from the additional electricity costs charged both to residential units with more than 100KWH consumption per month and to industrial and commercial players in the regulated market.
- 3.2 Most MSEs are subject to residential tariffs, as they develop their economic activities from home. However, those consuming more than 100 KWH per month become a

² Selection procedures and Selection Committee were described in Section V paragraph 6 of the EcoMicro Program Donors Memorandum RG-M1205. Selection documents and proposal scorings are available in the Program's technical files.

³ Organización Latinoamericana de Energía OLADE (2003).

⁴ Law 27510. August 2001. Peru

“source” of financing for the cross subsidy FOSE by paying additional electricity charges. These MSEs are at a competitive disadvantage with competitors that benefit from the FOSE subsidy. The use of clean energies and energy efficiency for these MSEs could reduce their electricity consumption, which will result in a reduction of their electricity costs both by reducing their energy costs and by potentially reducing the extra charge for financing the FOSE (if the electricity costs at the household are kept constant). Additionally, MSEs that are not subject to residential tariffs but that develop energy intensive economic activities are also at a competitive disadvantage compared to bigger economic actors that can negotiate electricity prices in the free market.⁵ The use of clean energies and energy efficiency can also help these MSEs reduce their electricity consumption which will have a positive impact on their operating costs, hence improving competitiveness.

3.3 Climate events in Peru periodically disrupt energy supply. The El Niño phenomenon, also known as the southern oscillation, occurs every 3 to 12 years due to a warming of the surface of the eastern and central Pacific Ocean causing changes in global weather patterns. The warming brings heavy rains to western South America, especially to Peru. El Niño has caused significant physical damages and negative impacts to Peru’s economic growth.⁶ El Niño events caused major flooding in valleys where major hydrological power plants are located, damaging electric infrastructure and causing electricity cuts affecting the whole country. As a result, Peru has committed to the diversification of its energy matrix in its National Energy Policy (2010-2040).⁷ The goals include a significant increase in renewable energies as well as the construction of a more efficient and resilient hydroelectric system. Disruptions of energy supply and physical damages due to climate events such as El Niño, affect most vulnerable economic actors, including MSEs, by disrupting their economic activity and increasing their vulnerability.

3.4 Caja Municipal de Ahorro y Crédito de Arequipa (CA) is the main lender to MSEs in the center and the southern regions of the country. Approximately 60% of these clients develop their economic activities at home and are therefore subject to paying the residential tariff. In order to determine how many of their clients were negatively affected by the FOSE, in 2012 CA conducted a survey to identify its clients’ energy costs per segment of economic activity. The survey highlighted that more than half of CA’s clients were a source of financing for the FOSE subsidies.⁸ For these clients, the average monthly electricity bill was US\$ 79 compared with the average electricity bill of US\$ 21 of a FOSE beneficiary. Certain sectors such as textiles and leather treatment had electricity bills of more than US\$ 102 and commerce (food, miscellaneous) averaged US\$ 83 per month. For the other CA clients that were not source of financing for the

⁵ In Peru, the electricity tariff system allows bigger companies (that utilize more than 1,000 KWH electricity per month) to negotiate their electricity costs directly with energy providers under the “free” electricity market. Smaller companies such as MSEs (with energy consumption below 1,000 KWH/ month) are subject to fixed tariffs established by the government in the regulated market.

⁶ Economic losses of up to 11% of PIB during the El Niño event of 1983 or the 6.2% cost in 1998 are caused, among others reasons, by energy disruptions. Lecciones de El Niño: memorias del fenómeno El Niño 1997-1998. Retos y propuestas para la región andina – Corporación Andina de Fomento (2009).

⁷ National Energy Policy of Peru (2010-2040). Supreme decree: 064-2010-EM

⁸ The survey covered all MSE clients including those developing their economic activities from home and those that do not.

FOSE, facilitating access to clean and efficient technologies can also reduce their energy costs and improve their competitiveness.

- 3.5 In addition to paying higher electricity costs, CA clients are also exposed to economic losses due to power cuts and property damages caused by El Niño. They also face direct negative climate change impacts in their activities and properties. CA's loan portfolio at risk (PAR <30 days) doubled in certain highly vulnerable areas during past El Niño events.⁹ The EcoMicro project will address these problems with a component that is aimed at assessing CA's portfolio vulnerability to climate change.
- 3.6 **Project Objectives.** The project impact is to increase micro and small enterprise competitiveness through a reduction of energy costs.¹⁰ The project results will be to develop a market-driven green finance product for clean energy use and energy efficiency that will reduce MSEs energy costs, and limit their reliability on energy sources that can be disrupted during extreme weather events.
- 3.7 **Model or Proposed solution.** The EcoMicro model intervenes directly with financial intermediaries, in this case CA. The success of the project will be dependent on designing and implementing a market-driven green finance product that is profitable for both the MFI and its clients. In order to build a market driven green finance product, the project will be treated as a pilot to test the product thus allowing CA to adjust the product prior to a larger scale launch. Furthermore, the EcoMicro intervention follows a holistic approach that was developed based on lessons learned from past experiences in green finance. EcoMicro includes three components: (i) greening the financial institution by developing environmental policies, reducing carbon footprint and educating management and staff in green habits,¹¹ (ii) assessing the institution's loan portfolio vulnerability to climate change, and (iii) developing a sustainable green finance product based on CA clients' demand. The green finance product will facilitate micro and small enterprises' use of clean and efficient technologies, reduce energy costs that will result in improved competitiveness, while reducing their reliability on energy sources that can be easily disrupted due to El Niño events.
- 3.8 **Lessons learned from past experiences in green finance and EcoMicro's holistic approach.** Although a few initiatives for green financing with MFIs in LAC have been piloted, these projects have traditionally been narrowly focused, and have not been aimed at developing market-driven initiatives. Prior initiatives have usually been concentrated on only one of the following areas: training institutions on energy

⁹ CA Branches of Cocachacra and Urubamba saw its PAR<30days increase from 3.7% to 6.95% and from 7.8% to 10% respectively during the last El Niño in 2009.

¹⁰ Reduction in energy costs will depend on the technology used and the economic activity of the clients. Initial estimates include reduction of energy costs of 30% through energy efficiency mechanisms and 20% through the use of clean energy equipment. Reduction in energy costs will be expressed in relative terms i.e.: energy saved per unit of output or by sales. Units will be determined after market study.

¹¹ Green habits include: habits that reduce electricity consumption (lighting, office equipment, air conditioning and heating); habits that reduce materials consumption (paper, disposal cups, marketing materials etc.) and habits that reduce of natural resources consumption (paper, disposable cups, etc.).

efficiency practices, training management to develop green energy lending, or developing clean energy programs subsidized by government or donors. The project will leverage these lessons learned and will be implemented with the aim of reaching a sustainable financing model that can help expanding clean energy and energy efficiency markets in LAC. The project will apply a holistic approach that encompasses three components to “mainstream” green finance into the daily operations of CA rather than superficially address the problem through partial treatments.

IV. Components

4.1 Component 1: Greening the MFI.

- a) Description: In order to achieve a strategic commitment to green finance, this module is set to facilitate institutional buy-in and mainstream climate change into daily operations which is one of the main lessons learned from other green finance projects. CA has already developed a corporate social responsibility strategy in 2012 that requires strengthening on environmental aspects. The greening of the institution will include the design of an institutional environmental policy; a diagnosis of energy efficiency at CA institutional level, implementation of an energy efficient action plan that will reduce CA’s direct carbon footprint, and the training of its staff as well as a communications strategy to increase internal awareness of becoming a green MFI .
- b) Activities: diagnosis of energy efficiency at CA in the Arequipa region, development of an action plan, training of CA’s staff on green habits through a “training the trainers” model, an internal communication plan to inform CA staff on how to become a green MFI; design and implementation of one environmental policy, and measuring results of energy efficiency policies in terms of percentage of GHG reduction.¹²
- c) Expected Results: The amount of energy saved in KWH at an institutional level and reduction of CA’s direct carbon footprint will be determined once the energy efficiency diagnosis and GHG baseline are determined. An environmental strategic plan including an internal communication plan on how to become a “green” MFI and a “training the trainers” module will be designed and delivered for green habits.

4.2 Component 2: Loan Portfolio assessment of Climate Change risk

- a) Description. The consulting firm DAI will analyze CA’s loan portfolio to assess its vulnerability to climate change. The analysis will include a map of climate change risks and their specific impact for CA’s clients. The consulting firm will develop a monitoring tool for this new type of risk and will provide recommendations to reduce CA’s exposure with specific courses of action, and tools when appropriate.
- b) Activities include: analysis of CA’s risk management methodologies, a mapping of climate change risks for CA’s current and potential clients in their specific geographical areas, design of risk management methodology and tools to monitor climate change impact on CA’s loan portfolio.

¹² The percentage of GHG reductions to be achieved will be determined once the baseline is determined.

- c) Expected Results: report on climate change risks for CA’s loan portfolio, methodologies and tool for climate change risk, when appropriate, that can help CA’s strategic decision-making.

4.3 **Component 3: Develop a sustainable, market driven green finance product.**

- a) Description: The project’s main objective is to identify opportunities for demand driven green finance that will help micro and small enterprises’ access and use of clean energies and energy efficiency to reduce their energy costs and improve their competitiveness. The consulting firm DAI will first complete a market study to determine whether energy efficiency, clean energy or a combination of both is required to reduce energy costs. The market study and product viability will depart from the findings of the survey that CA carried out in 2012. As part of the market study, suppliers of clean energy and energy efficiency will be identified. The consulting firm will design a business plan for piloting green finance for 166 micro and small enterprises in 8 branches.¹³ The pilot will require the training of appropriate staff and will be evaluated after 16 months with the objective of adapting the product for a larger scale launch. The consulting firm will make recommendations for the larger scale launch of the green finance product.
- b) Activities include (i) CA lessons learned from previous initiatives on sustainable products¹⁴; (ii) demand side market analysis based on regions with highest potential demand; (iii) supply side market analysis; (iv) evaluation of green technology suppliers/energy efficiency initiatives and identification of products with market viability; (v) design of business plan for green finance product and plan for pilot implementation; (vi) technical assistance for 96 credit officers through a “training the trainers” model; (vii) implementation of pilot project; (ix) pilot evaluation; (x) design of launching plan at a larger scale. CA will develop a communications strategy to reach potential clients, and cross-promote the new product with direct marketing and relevant supporting materials such as brochures. “Training the trainers” methodology and the internal communication strategy enables internal management and staff buy-in.
- c) Expected Results will include one market study, one business plan for the green finance product including technologies to be financed, sales force trained, implementation of a pilot project for at least 166 micro and small enterprises,¹⁵ pilot project final report with key considerations for scaling up plan.

4.4 **Component 4: Knowledge capturing and dissemination activities.**

- a) Description: One of the main components of the EcoMicro Program relates to capturing, synthesizing and disseminating the knowledge generated at the project level, including lessons learned, best practices, and key factors for success. This project will contribute to the overall knowledge objective by focusing on a case study for energy efficiency products in the context of weather events which disrupt the energy supply.

¹³ The branches identified for the pilot phase are: Arequipa (4 agencies), and Andina and Sur (2 agencies each).

¹⁴ Caja Arequipa previous sustainable financing include “movigas” green financing for substituting car’s gasoline fuel by gas, “microglobal” financing MSMEs in environmental friendly economic activities and clean equipment financing that includes financing of clean energy devices.

¹⁵ The data of the pilot will be disaggregated by gender.

- b) Activities: CA will provide a full report, including results of the market analysis, the developed credit methodology and green finance product, and highlight major challenges and key factors for success. The report will include a case study that will feed into the general program's Knowledge and Dissemination Component, which will disseminate credit products, methodologies, and case studies through the Program website.
- c) Expected results: one full report on overall project implementation which includes a case study and a compilation of all materials produced during project execution that will be used at Program level to disseminate results and apply lessons learned to other projects and other regions if possible. CA has agreed to provide data at impact level by 2015 and will be willing to participate in future workshops and seminars organized by the MIF in order to share its business case and lessons learned.

4.5 **List of Standard Indicators for the Program.** The project will contribute to develop the MIF Agenda "Expanding access to clean and efficient energy" in developing financing structures that are suitable to attend the demand of green financing from Micro and small enterprises and low income people. The project will also contribute to the Adaptation agenda by implementing activities of Component 2: Assessing Loan Portfolio Vulnerability to climate change. The Project will include different sets of indicators depending on the beneficiaries.

- a) When considering the MFIs as a beneficiary, project indicators will include the following Clean Energy Agenda indicators: (i) number of finance products for clean energy and energy efficiency provided, (ii) financing mobilized in US\$ for financing of clean energy and energy efficiency and (iii) energy savings in kWh. The tool for monitoring climate change risk impact in loan portfolio will contribute to the Adaptation Agenda: "implementation of adaptation models".
- b) When considering micro and small enterprises as a beneficiary, project indicators will include the following Clean Energy Agenda indicators: (i) number of MSMEs receiving at least one green finance product or implementing clean/efficient technologies, (ii) energy savings in kWh for MSMEs (as consumers), (iii) energy cost savings for MSMEs in US\$.
- c) When considering the environment as a beneficiary, the project will include the following Clean Energy Agenda indicators: GHGs emissions reduced or avoided in CO2 equivalent both for MSMEs and the MFI.

4.6 **Relation of CA's project to the EcoMicro Program objectives.** The execution of the CA project under the Program will seek to prove a sustainable business case in financing the demand of clean energy and energy efficiency for micro and small enterprises. Additionally, the project will contribute to building MIF's knowledge on innovative business models and sustainable financing structures for clean energy and energy efficiency. This knowledge will be compiled and used in the execution of future projects of EcoMicro and will be shared with international audiences under of the broader

EcoMicro Program RG-M1205 Component 3: Knowledge Capturing and Dissemination.¹⁶

- 4.7 **Project relation to other MIF objectives.** The project does not have activities specifically targeted at empowering women as it will serve both women and men micro and small entrepreneurs. The data collected by CA on their clients will be, however, disaggregated by gender, so further monitoring and analysis could be conducted on the relationships between gender and energy use. CA's project will be conducted through 8 of its agencies. The pilot will be conducted in three main areas of which Puno, has in average 70% of its population living below poverty line.¹⁷ Within the region of Arequipa, the province of Arequipa, CA has four agencies. This area has 24% of its population living below the national poverty line. The nearby province of Camaná has an agency in Pedregal and the area has 32% of its population living in poverty. In Moquegua's province of Mariscal Nieto there is also an agency and the region has 28% of its population living in poverty.¹⁸
- 4.8 As referenced by the Climatescope 2012, Peru is home to a well-developed green microfinance sector.¹⁹ The EcoMicro project will provide further impulse to develop markets of clean and efficient technologies for micro and small enterprises and low-income people. CA has already identified a clean energy provider Energia Innovadora SAC that has already partnered with CA for other products. The company will be interested in supplying clean energy devices during pilot phase and eventually participating in the scaling up phase.

V. Budget

- 5.1 The total budget of the project is US\$ 399,998. The MIF will contribute with US\$ 279,998 of non-reimbursable resources. Counterpart contribution will be US\$ 120,000; half in cash and half in kind. The expected execution period for this Project is 17 months and the expected disbursement period is 20 months. The project budget does not allocate resources for Contingencies, Audit and Evaluations as these are already covered in the budget by the broader Program RG-M1205.²⁰

¹⁶ Activities of the EcoMicro Program Component 3 knowledge and dissemination include: compilation of case studies of each project executed, a how-to guide to facilitate extrapolation of the Program lessons learned, annual workshops and dissemination events that will take place at least twice a year, and a wrap up publication that will gather all relevant experiences at the end of the Program.

¹⁷ CA has two agencies in Puno: one in the province of San Román with 66% of the population living in poverty and one in the region of Azángaro where 85% of the population live below the poverty line

¹⁸ Poverty map: <http://geocommons.com/maps/170042#> Robles, M., Rodriguez, R. and Ramirez, R. "PERU Pobreza y desigualdad monetaria a nivel provincial y distrital", INEI, September 2007

¹⁹ A total of 11 MFIs in Peru are offering green finance. Climatescope 2012.

²⁰ Funds for audit and evaluations were budgeted under the EcoMicro Program RG-M1205. The amount allocated is US\$ 330,000 for mid-term and final Program evaluation as well as final evaluation and audits of each project.

Components	Funding (in US\$)				
	MIF funds	Counterpart in Cash	Counterpart in kind	Total	%
Component 1: Greening the Institution	35,841	25,987	10,805	72,633	18.2 %
Component 2: Address Loan portfolio vulnerability to climate change	53,137	4,013	8,104	62,254	16.3%
Component 3: Develop sustainable green finance product	159,097	30,000	12,696	201,794	50.4%
Component 4: Knowledge Capturing and Dissemination	9,823	-	810	10,633	2.7%
Administration	22,100	-	27,584	49,684	12.4%
Total in US\$	279,998	60,000	60,000	399,998	
Total per line of funding in %	70%	15%	15%	100%	100%

VI. Beneficiaries

- 6.1 Access to green finance will benefit both CA clients and CA itself. CA will target two main client groups: micro-entrepreneurs for whom the average loan size is below US\$ 5,000 and small companies for which the average loan size between US\$5,000 and US\$100,000.²¹ The pilot project will target 166 micro and small enterprises in 8 branches. These MSEs will increase competitiveness through a reduction of their energy costs as a result of the use of clean energy or energy efficiency. For those MSEs that finance the FOSE, reduction in costs will come as a smaller charge in their FOSE contributions. This pilot will be the base for the larger scale launch. CA's goal is to achieve 5% of green finance within its total loan portfolio by 2015.²²
- 6.2 CA will diversify its product offer and increase sales and profits. The product design and pilot phase will be crucial to determine required results to achieve break-even and a successful market driven green finance product. CA will also benefit from the implementation of the three components by decreasing its operational energy costs, improving climate change risk management, strengthening its corporate social and environmental responsibility and its positioning as green MFI in the Peruvian market.

²¹ CA will provide data consistent with MIF classification of micro entrepreneurs and small companies.

²² CA has agreed to provide data to the MIF on the fulfillment of their 5% target by 2015, even if this timeframe exceeds project execution.

- 6.3 The Environment is also a beneficiary. CA will reduce its direct environmental footprint and will also implement green practices in their operational activities.

VII. Execution Agency and Executing mechanism

- 7.1 **Executing Agency.** This EcoMicro project (PE-M1092) will be executed by Caja Municipal de Ahorro y Crédito de Arequipa (CA). Originally created as a municipal savings bank in 1986, CA provides loans, savings, micro-insurance and remittances for micro and small enterprises in Arequipa, the southern and central regions of Peru.²³ CA serves more than 225,000 clients with an average loan size of US\$ 3,665 through a network of 79 offices and more than 2,500 employees. CA gross loan portfolio is US\$ 831.5 million and savings are US\$ 759.3 million. CA materialized its institutional commitment to sustainability and the environment by announcing its corporate social responsibility (CSR) in early 2012. The project will complement and strengthen CA's initiatives on the environmental side of its CSR strategy. CA was recognized by the MIF and IDB with the Microfinance Excellence Award in 2002 and, has been ranked as one of the best 50 MFIs in the world by the Forbes magazine in 2007.²⁴
- 7.2 **Executing Mechanism.** An Executing Unit (EU) will be created within CA and will directly report to CA's Director of SME products. The EU will hire a local project coordinator as permanent staff of CA. The project coordinator will liaise with the different CA's division chiefs involved in the execution of the activities of each component. The project coordinator will liaise with (i) the administration and logistics director for Component 1; (ii) the Risk Management director for Component 2, and (iii) the directors of the SME products and the micro enterprise divisions for Component 3. The project coordinator will be responsible for the timely and effective implementation of project activities, technical management and all reporting and administration related to Bank/MIF requirements. His/her responsibilities will include: a) annually develop and approve the Annual Operative Plan (AOP), b) supervise progress made in each activity by the consulting firm and ensure timely deliveries of results, c) be knowledgeable of the technical specificities of the underlying green finance product; and d) control and administer project activities and financial processes that include MIF requirements. The annual execution mechanism will be detailed in the Annual Operating Plan (AOP) that will clearly define responsibilities of the DAI consulting firm and the EU.
- 7.3 **Project Supervision.** CA will be responsible for compiling and analyzing relevant information for the ongoing monitoring of project execution and the indicators established in the Logical Framework (see Annex I). CA's will generate the institutional information required for that purpose.

²³ CA covers several regions with high index of poverty. <http://geocommons.com/maps/170042#>

²⁴ http://www.forbes.com/2007/12/20/microfinance-philanthropy-credit-biz-cz_ms_1220microfinance_table.html

- 7.4 Within the IDB/MIF, MIF staff at the Bank's Country Office in Peru will be responsible for the activities of monitoring and supervision of the Project, ensuring the compliance with the contractual clauses and disbursement procedures. They will be supported by MIF/ABS for technical supervision, and will be supported by MIF/DEU and MIF/KSC for the exchange of information and lessons learned from similar projects, and communication and dissemination activities, respectively. MIF/ CPE will also be in charge of receiving the audited financial statements or similar. To that end, CA will provide with all reports required by the MIF for the correct execution of the project.
- 7.5 **Reports.** CA will be responsible for presenting Project Status Reports (PSRs) to the MIF within thirty (30) days after the end of each semester, or more frequently as determined by the MIF, providing at least sixty (60) days advance notice to the Executing Agency. The PSR will contain information on the progress of project execution, achievement of milestones, and completion of project objectives as stated in the logical framework and other operational planning tools. The PSR will also describe issues encountered during execution and outline possible solutions. Within ninety (90) days after the end of the execution term, the Executing Agency will submit to the MIF a Final Project Status Report (Final PSR) which will highlight results achieved, project sustainability, evaluation findings, and lessons learned. These reports are necessary to comply with the Program Evaluation Plan that requires annual reports to the Donors' Committee describing the progress performance and all recorded results.
- 7.6 **Results-based disbursements.** The Project will be monitored by the MIF specialist in Peru in accordance with the performance and risk management policies (fulfillment of milestones) established by the MIF in April 2008. Project disbursements will be contingent upon verification of the achievement of milestones²⁵. These milestones will be verified using their means of verification, which will be agreed upon between the Executing Agency and the MIF. Achievement of milestones does not exempt the Executing Agency from the responsibility of reaching the logical framework indicators and project's objectives. According to the Performance and Risk-based Project Management approach, project disbursement amounts will be based on the project's liquidity needs, for a maximum period of 6 months. These needs must be agreed upon between the MIF and the EA and will reflect the activities and costs scheduled in the annual planning exercise. Disbursements will be made when the EA requests them to continue normal project implementation and after it is confirmed that no milestones are pending at the time of the request.
- 7.7 The first disbursement will be contingent on reaching Milestone 0 (conditions prior). Subsequent disbursements will be issued as long as the following two conditions are met: i) MIF has verified that milestones have been achieved, as agreed to in the annual plan; and ii) that the Executing Agency has justified 80% of all cumulative advances. In the

²⁵ Milestones are activities or outputs critical to achieving the development objectives and must be determined jointly by the executing agency and the MIF. They may be revised and reprogrammed during the project implementation. The Executing Agency may also request that the Bank modifies the milestones with a limit of 2 times and provided that the corresponding deadlines have not expired. Fulfillment of milestones does not relieve the EA of the responsibilities to meet the indicators set forth in the Logical Framework

event that milestones are not reached, the MIF and the MIF/CPE will assess the severity of the situation and take appropriate measures to ensure that this does not have an impact on project implementation and /or achievement of the objectives. The amount of subsequent payments will be calculated based on the needs derived from each activity scheduled within the scope of next milestone. Supporting documentation of requests for replenishments will be required by the MIF and will be revised in an ex-post basis.

- 7.8 **Conditions Precedent.** The first disbursement (Milestone 0) will be made when the operation is approved. Approval will be granted once the MIF General Manager signs the contract and upon fulfillment of the following conditions in addition to those set by the Bank's Agreement: presentation of an EU including a project coordinator as well as the terms or reference for the consulting firm DAI. The second disbursement will require the approval of the annual plan and the signed contract with the consulting firm. The amount of successive disbursements will be calculated based on the Project's spending needs to cover the costs of the activities programmed for the period in question.
- 7.9 **Procurement.** For the procurement of goods and contracting of consulting services, the Executing Agency will apply the IDB Policies (GN-2349-9 y GN-2350-9). Given that the Diagnostic of Executing Agency Needs (DNA) generated a low level of need/risk classification, the review of procurement and contracting processes for the project will be conducted ex-post and on an annual basis <http://mif.iadb.org/projects/prjrissummary.aspx?proj=PE-M1092>. Before project contracting and procurement begins, the Executing Agency must submit the project Procurement Plan for the IDB/MIFs approval which should be updated annually and when there are changes in the methods or goods or services to be procured.
- 7.10 **Financial Management and supervision.** CA will establish and will be responsible for maintaining adequate accounts of its finances, internal controls, and project files according to the financial management policy of the IDB/MIF. Given that the Diagnostic of Executing Agency Needs (DNA) <http://mif.iadb.org/projects/prjrissummary.aspx?proj=PE-M1092> generated a low level of need/risk in financial management, the review of supporting documentation for disbursements will be conducted ex-post and on an annual basis.
- 7.11 The MIF will contract independent auditors to carry out the ex-post reviews of procurement processes and of supporting documentation for disbursements. Ex post reviews will include an analysis of the Financial Statements that the EA should prepare as part of its financial management. The costs associated with this contract will be financed with the MIF contribution resources according to IDB procedures. During project execution, the frequency of ex post reviews for procurement processes and supporting documentation for disbursements as well as the need for additional financial reports can be modified by the MIF based on the results of the ex post review reports conducted by external auditors during the project execution.
- 7.12 **Evaluations.** A baseline study will be conducted in order to set the starting point of the indicators included in the logical framework, as well as other indicators of interest for

monitoring the project. The baseline survey will include questions about the microenterprises current business performance and energy consumption patterns. A final project evaluation will be carried out when 90% of the MIF contribution has been disbursed or 16 months of the execution period have elapsed. This evaluation will include a survey to the microenterprises to assess the changes in their situation. The evaluation will identify the key factors needed to build a sustainable business case on green finance. The key factors will be determined once the market study defines the green finance product to be implemented and the evaluation of the pilot is conducted for larger scale launch. Furthermore, the evaluation will include the following aspects: (i) analysis of the results achieved in comparison with the baseline and the objectives set forth in the Logical Framework; (ii) scalability of the project; (iii) institutional capacity of the Execution Agency; (iii) efficiency, efficacy, coverage, relevance and sustainability of execution; (iv) best practices and lessons learned for future replicability. This report should include lessons learned to achieve sustainable business models and will indicate any corrective measures needed to ensure a better execution of other Projects under the Program. The MIF will commission the evaluation with resources from its contribution. An evaluation and dissemination workshop will be held upon project completion to evaluate and disseminate project results.

VIII. Risks

- 8.1 **Limited appetite of clients for CA green finance instruments.** The Project will address limited demand by devoting significant resources to market study and product design. CA will have a project coordinator within the Executing Unit that will have expertise in the underlying green finance products (i.e. clean energies and energy efficiency). This will be crucial for ongoing training and reference of CA credit officers. Finally, the pilot project will serve to evaluate the green finance product and adjust it to demand before launching at a larger scale.
- 8.2 **Changes in the regulatory environment could affect the FOSE subsidy and reduce the incentives for clean energy and energy efficiency solutions.** The FOSE subsidy was originally implemented in 2001 with a 3 years term. In July 2004, the subsidy got an indefinite extension in Law 28307.²⁶ The subsidy has therefore low probabilities of being revoked.
- 8.3 **Green finance instruments could require new credit methodologies that will affect CA asset-liability management.** CA has already developed financial products that required bigger loan sizes as well as larger maturities. The consulting firm DAI will address this risk by including in the business plan an activity on how to incorporate the green finance product to the existing loan portfolio of CA. Finally, partnerships with energy companies or other players might help reach greater scale and reduce unit costs and therefore loan amounts.

²⁶<http://www.osinerg.gob.pe/newweb/uploads/GFE/Normativa/6.1%20Fondo%20de%20compensacion%20electrica/LEY.28307.pdf>

IX. Recommendation

- 9.1 The project, through its Team Leader, Gregory Watson recommends the approval of this operation by the MIF Manager, under the Delegation of Authority granted by the Donors Committee in October 5th, 2011 and the use of resources from the Fund totaling up to US\$ 280,000 in order to finance the corresponding project.

X. MIF General Manager Approval

- 10.1 I hereby approve, in accordance to the Delegation of Authority provided by the Donors Committee on October 5th, 2011 MIF/AT-1143, up to US\$280,000 for the financing of the project “Caja Arequipa Peru” PE-M1092, the “Project”, to be considered as part of the EcoMicro Program.
- 10.2 That the resources of the Project shall be utilized to finance the activities described and budgeted in this document chargeable to the resources of the MIF under the EcoMicro Program (RG-M1205) in a non-reimbursable basis.
- 10.3 The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country.
- 10.4 No resources of the Program shall be made available to cover amounts greater than the amount certified herein above for the implementation of this TC Brief.

Approved



Nancy Lee
MIF, General Manager

January 28, 2013

[Date]