

Technical Cooperation and Investment Grant Document

I. BASIC INFORMATION FOR TC

Country/Region:	Mexico
TC/IG Name:	Support to FIRA for the Implementation of an Energy Efficiency Financing Strategy for the Agroindustrial Sector
TC Number / IG Number:	ME-T1266 / ME-G1006
Team Leader/Members:	Jose Juan Gomes (IFD/CMF), Team Leader; Maria Netto (IFD/CMF), Alternate Team Leader; Claudio Alatorre (INE/CCS); Patrick Emmanuel Lenoir Lara (SCF/FMK); Cesar Bustamante (RND/CME); Leticia Riquelme (IFD/CMF); Maria Margarita Cabrera (IFD/CMF); Louis-François Chrétien (LEG/SGO); Gloria Coronel (FMP/CME); Víctor Escala (FMP/CME); and Annabella Gaggero (IFD/CMF).
TC Taxonomy:	Operational Support
Number and name of the operation supported by the TC:	ME-L1145: First Program for the Financing of Rural Sector Production Restructuring and Investment Projects
Date of TC Abstract Authorization:	N.A.
Beneficiary:	Central Bank of Mexico, in its capacity as trustee of the Special Fund for Agricultural Financing (FEFA) which is part of the Agricultural Trust Funds (FIRA)
Executing Agency:	Central Bank of Mexico/FIRA
Donors Providing Funding:	Clean Technology Fund (CTF)
IDB Funding Requested:	US\$1,570,000
Local Counterpart Funding:	N/A
Disbursement Period:	42 months disbursement, 36 months execution
Required Start Date:	January 1st, 2015
Types of Consultants:	Individual consultants or firms
Prepared by Unit:	IFD/CMF
Unit of Disbursement Responsibility:	IFD/CMF
TC Included in Country Strategy:	Yes
TC Included in CPD:	No
GCI-9 Sector Priority:	Institutions for growth and social welfare; Protecting the environment and responding to climate change

II. DESCRIPTION OF THE ASSOCIATED LOAN

- 2.1 This operation will support the implementation of the operation –“First Program for the Financing of Rural Sector Production Restructuring and Investment Projects” (ME-L1145), under the Conditional Credit Line for Investment Projects (ME-X1021). This first program aims to support the efforts of the Government to promote a more efficient use

of natural resources in the Mexican rural sector. Its purpose is to channel funding through FIRA's financial intermediaries so that these institutions in turn can grant medium and long-term loans to agricultural enterprises and companies linked to the agroindustrial sector interested in undertaking investment projects that promote a more efficient use of energy and water, respectively. This would be achieved by pursuing two interconnected objectives: (i) increase investments in energy efficiency (EE) and rational use of water; and (ii) build up the capacities of FIRA and other relevant market actors on the structuring, financing, monitoring and evaluation of competitiveness-enhancing, environmentally-friendly projects. ME-L1145 is being funded with a US\$50 million loan from the ordinary capital, out of which some US\$20 million would be allocated to finance EE investment projects by agro industries. The program's resources will be complemented with US\$12.5 million in capital allocations by eligible beneficiaries under existing banking practices, of which US\$5 million would be related to EE investment projects.

III. OBJECTIVES AND JUSTIFICATION OF THE TC

- 3.1 Based on initial market assessment studies regarding opportunities and barriers to finance EE in the fruit and vegetables processing industries¹, it was identified that many of the barriers to gain access to credit are either related to lack of knowledge by local financial intermediaries and final beneficiaries and/or by the perceived risks of those actors. In order to address these barriers, a financing line needs to be accompanied with a set of activities that address the aforementioned knowledge gaps, ensure that any real or perceived risks are addressed, and that the projects supported result in actual energy savings and Green House Gases (GHG) emission reductions.
- 3.2 The main objective of this operation is to support the implementation of the EE sub-component of operation ME-L1145 by addressing informational and technical barriers and other real or perceived risks that have prevented the supply of and the demand for financing for EE investment projects. In particular, it will support the implementation of the "Strategy for the Promotion of EE Investment Projects"² by: (i) providing technical and coordination support to FIRA, training relevant stakeholders, and actively promoting the strategy among agricultural enterprises and companies linked to the agroindustrial sector, energy service and EE equipment providers, and intermediary financial institutions (IFI); (ii) offering independent, technical capacity for the validation of project proposals, of energy service and EE equipment providers, monitoring systems as well as verification of actual investments; and (iii) stimulating the demand for EE investments through dedicated demand incentives.
- 3.3 Apart from its direct results in terms of energy savings and GHG emissions reductions, it is hoped that the market structuring efforts and risk mitigation tools to be piloted could also result in increased market confidence on the services provided by energy service and EE equipment providers as well as in a lower perception of risk by IFIs and food-processing industries on EE projects, paving the way for future replication of the

¹ *Diseño de un Programa Integral para Financiar Proyectos de Eficiencia Energética en la Industria Procesadora de Alimentos*, Basel Agency for Sustainable Energy, Octubre 2013.

² See [Strategy for the promotion of EE investment projects](#).

program by other firms in the same sub-sector and other sectors based exclusively on the actual economic returns of EE projects.

- 3.4 The operation is aligned with the “IDB Country Strategy with Mexico 2013-2018” (GN-2749). Indeed, it seeks to promote sustained productivity growth in both the rural and urban areas by increasing the level of financing to the real economy. In particular, the strategy aims at boosting bank financing to the non-financial private sector through development banks in priority areas such as small and medium enterprises, energy, energy efficiency and the agricultural sector. Additionally, the operation is consistent with the GCI-9’s lending target for climate change, renewable energy and environmental sustainability and with the IDB’s priorities set in its Integrated Strategy for Climate Change Adaptation and Mitigation, and Sustainable and Renewable Energy (document GN-2609-1).
- 3.5 This operation will integrate results from another TC under execution with FIRA (RG-T1866; ATN/OC-12718-RG) which supported the preliminary design of a financing strategy to promote EE investment projects in the fruits and vegetables processing industries.

IV. DESCRIPTION OF ACTIVITIES/COMPONENTS AND BUDGET

- 4.1 The operation entails three components. The first two components will be financed with resources from the proposed TC (ME-T1266) and the third component will be financed with resources from the proposed Investment Grant (IG) (ME-G1006).
- 4.2 **Component 1: support for the deployment of the program’s operational instruments and mechanisms (US\$130,000).** Supporting the structuring of the demand side of the market by promoting the financing line and by training IFI and potential beneficiaries on: (i) the benefits that can be obtained through EE investments in terms of energy savings and GHG emission reductions; and (ii) on the real or perceived risks associated with this type of projects. This component will include a dissemination strategy, including promotional materials and events. It will also include the promotion of the program’s basic requirements and guidelines (e.g. basic technical and financial information of a project proposal, standard contracts with risk mitigation measures, specification of technical requirements for eligible projects, etc.) as well as of the performance insurance policy that would be offered under it. Specific activities supported under this component are:
- a. Hiring of an EE expert to support FIRA in the implementation of the Strategy for the Promotion of EE Investment Projects referred to in ¶ 3.2;
 - b. Training LFIs and potential beneficiaries; and
 - c. Outreach activities to promote the Strategy for the Promotion of EE Investment Projects as well as the coordination and dissemination efforts to be undertaken with relevant market players;
- 4.3 Consultancies will be hired to support FIRA with technical issues and the coordination of the different market actors that would be involved in the implementation of the

financing strategy. Consultancies could also be hired to actively promote the program and prepare the supporting material to that effect. The consultants may be required to travel as needed to address technical and coordination problems or to promote the program. The execution of this component will also entail the cost of events needed for outreach, training and consultation with relevant market players (such as local financial intermediaries, technical service providers, equipment suppliers, and potential clients).

- 4.4 **Component 2: Technical support for technical validation/verification as well as for monitoring and evaluation (US\$425,000).** One important element to mitigate perceived risks from the market is to ensure that a third party reviews project proposals from a technical point of view and ensures that energy services and EE equipment providers have the technical qualifications and experience to design and implement EE projects. Ensuring that results are tracked and monitored is also key to account for the energy savings and GHG reductions of the projects and the program as a whole. This component will include the implementation of an independent system that will control the quality of projects and ensure the proper reporting, monitoring and verification of their expected results and of the program as a whole. Through a third party, it will support the technical validation of: (i) EE projects; (ii) energy service and EE equipment providers; (iii) EE projects' monitoring and reporting systems; and (iv) projects' results. It will also verify that the investments took place and that substituted equipment was properly disposed. Finally, the component includes an impact evaluation of the program.
- 4.5 Specific activities supported under this component include: (i) Validation of Technical proposals; (ii) Validation of energy service providers; (iii) Verification of equipments' installation, of their monitoring systems and of the proper disposition of retired equipment; (iv) Verification of energy savings and GHG reductions; and (v) Impact evaluation of the EE program
- 4.6 The *Asociación Nacional de Normalización y Certificación del Sector Eléctrico A.C. (ANCE)* will be hired as third party validator/verifier through Sole Source Selection to conduct the first four activities identified above. The institution has a unique combination of all the required qualifications for this contract. It is an agency with 20 years of experience in certification and normalization. ANCE's headquarters are in the city of Mexico, and it has branches in Monterrey, Tijuana, Guadalajara, Nuevo Laredo, and Mérida. The agency was founded by 32 companies in the electrical sector, with the aim of contributing to the culture of standards in Mexico, as well as their knowledge, use, applications and diffusion. Around 220 people work at ANCE. There is no other institution in Mexico that has the required skills for the program nor the regional presence that ANCE has in the country.
- 4.7 Individual consultants will also be hired for the fifth activity to support evaluation efforts, including establishment of a baseline, collection of data through surveys, their tabulation and the overall analysis.

Table 1: Indicative Results Matrix									
	Unit	Baseline		Year 1		Year 2 to 4		Expected Completion Date	Data Source
		Value	Year	Planned	Actual	Planned	Actual		
Component 1 – # of outreach and training events organized	#	0	2015	2		7		12/31/2016	IDB Systems FIRA registry
Component 1: # of LFIs and clients reached through meetings, e-mail, calls, mailing and social media	#	0	2015	150		250		12/31/2016	IDB Systems FIRA registry
Component 1 -# of technical services providers following the standards established in the financing line	#	0	2015	4		8		6/30/2018	IDB Systems FIRA registry
Component 2 – Information system serving as a repository of program results running and updated	#	0	2015	1		1		03/30/2015	IDB Systems FIRA registry
Component 2 - # of technical proposals validated/ verified under the program.	#	0	2015	11		92		06/30/2018	IDB Systems FIRA registry
Component 2 # of energy service providers validated under the program	#	0	2015	3		15		06/30/2018	IDB Systems FIRA registry
Component 3 -# of projects supported by the Incentive mechanism	#	0	2015	11		92		06/30/2018	IDB Systems FIRA registry

4.8 **Component 3: incentive mechanism to encourage the demand for EE investments on a pilot basis (US\$985,000).** The program contemplates a demand incentive to encourage the undertaking of EE investments. The incentive could be offered either as a percentage-point reduction in the interest rate confronted by final beneficiaries or as an upfront payment equivalent to a percentage of the loan, which will be disbursed once the project has been completed and its performance validated by a third party. Both alternatives will be analyzed to decide which one would be more efficient and effective.

- 4.9 The total amount of the operation is US\$1.570.000 and resources will be provided by the Clean Technology Fund (CTF), which would be used to hire the services of experts to implement Components 1, 2 and 3 above, as well as to pay for the incentive and the logistics of consultative events and related consultants' travel needs.

Indicative Budget (US\$)

Activity/Component	Description	CTF Funding	Total
Component 1 (ME-T1266)	Technical Support and Trainings	90,000	90,000
	Communication/promotion	40,000	40,000
Component 2 (ME-T1266)	Validation of energy service and equipment providers	20,000	20,000
	Validation of technical proposals	145,000	145,000
	Verification of equipment's installation, projects' monitoring systems and final disposition of substituted equipment	70,000	70,000
	Validation of energy savings and GHG emission reductions	70,000	70,000
	Impact evaluation of the Program	120,000	120,000
	Component 3 (ME-G1006)	Resources for an EE demand incentive on a pilot basis	985,000
Audits (ME-T1266/ME-G1006 en partes iguales)		30,000	30,000
Total:		1,570,000	1,570,000

- 4.10 The counterpart resources for the operation would be the staff time of relevant FIRA personnel to properly administer the EE demand incentive and to review the technical aspects of the terms of reference and intermediate and final reports of all the consultancies envisioned under it. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of IFD/CMF.
- 4.11 To ensure a proper execution of the TC and IG, the project team will organize launching, midterm and final review meetings/audio-conferences with FIRA and consultants for the implementation of planned activities.

V. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 5.1 The Executing Agency (EA) will be the Central Bank of Mexico through FIRA. FIRA has the necessary fiduciary and operational capacity for the successful execution of the program, as it is governed by the Financial System Act and is subject to oversight and monitoring by the "Comision Nacional Bancaria y de Valores". The government has also chosen FIRA as one of the entities that will support its GHG emissions reduction efforts.
- 5.2 FIRA will be responsible for: (i) executing and supervising the appropriate use of the resources obtained through the proposed operation; (ii) providing in due time and form the necessary human, technological, and budgetary resources; and (iii) delivering to the Bank the required documentation to comply with disbursements and other execution

requirements. Any contracting will follow Bank's policies and procedures. Audit resources are contemplated for the program.

- 5.3 As a condition prior to the first disbursement of the operation, the executing agency will provide evidence, to the Bank's satisfaction, of the formal designation of a Program Coordinator. Prior to the disbursement of the US\$985,000 intended to support the demand incentive for EE projects (Component 3), FIRA will provide evidence, to the Banks' satisfaction, of the scheme that would be used to allocate those resources among potential beneficiaries. The project execution will be based on the results matrix advanced above and the products and indicators contained therein.
- 5.4 FIRA will present to IDB the following types of reports: (i) progress reports every six months, within 60 days from the end of the six months; and (ii) a final report within 6 months from the end of the last project activity executed. The contents of the reports will be jointly agreed between IDB and FIRA.
- 5.5 The executing agency will also provide to the IDB, the financial statements of the TC and IG, within 90 days after the date stipulated for its last disbursement. Such statements will be audited by an independent auditor selected and hired in accordance with IDB procedures.

VI. MAJOR ISSUES

- 6.1 Given that the work proposed by this operation is highly technical, there is a risk of not obtaining good quality results if the work carried out by consultants is not properly monitored. For this reason, the proposal envisages ongoing monitoring activities. Peer reviewers will also be asked to review the products developed.

VII. EXCEPTIONS TO BANK POLICY

- 7.1 No exceptions to Bank policy are envisioned.

VIII. ENVIRONMENTAL AND SOCIAL STRATEGY

- 8.1 Based on the Environment and Safeguard Compliance Policy (OP-703), the proposed operation has been classified as category C. No potential negative environmental and/or social impacts of the TC were identified and therefore no mitigation strategy is required to address any impact. See [Safeguard Policy Filter Report \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).

REQUIRED ANNEXES:

- ANNEX I: [Request from the Client](#)
- ANNEX II: [Terms of Reference](#)
- ANNEX III: [Procurement Plan](#)

**SUPPORT TO FIRA FOR THE IMPLEMENTATION OF AN ENERGY
EFFICIENCY FINANCING STRATEGY FOR THE FOOD PROCESSING
INDUSTRY**

ME-T1266

US\$570,000 (CTF)

ME-G1006

US\$1,000,000 (CTF)

CERTIFICATION

I hereby certify that this operation was approved for financing under the Clean Technology Fund (CTF), through a communication dated October 14, 2014 and signed by Goritza Ninova (ORP/GCM). Also, I certify that resources from said fund are available for up to **US\$1,570,000** (ME-T1266 - US\$570,000 and ME-G1006 - US\$1,000,000) per commitment of funds by the CTF Trustee dated September 8, 2014, in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of six (6) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. 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. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

Original Signed

12/4/2014

Sonia M. Rivera
Chief
Grants and Cofinancing Management Unit
ORP/GCM

Date