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COLOMBIA

IDB CLIMA: ENERGY TRANSITION SUPPORT PROGRAM (CO-L1287)

IDB CLIMA NONREIMBURSABLE FINANCING: ENERGY TRANSITION SUPPORT PROGRAM (CO-J0018)

AND

SUPPORT FOR IMPLEMENTATION OF THE ENERGY TRANSITION SUPPORT PROGRAM (CO-G1056)

LOAN AND NONREIMBURSABLE FINANCING PROPOSAL

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LINKS

REQUIRED:

1. Multiyear execution plan (MEP)/Annual work plan (AWP)
2. Monitoring and evaluation plan
3. Analysis of compliance with the Public Utilities Policy
4. Environmental and social review summary (ESRS)
5. Procurement plan

OPTIONAL:

1. Project economic analysis
2. Technical analysis
3. Gender and diversity annex
4. Climate change annex
5. Credit Regulations
6. Bibliography
7. Just energy transition (JET) regulatory framework
8. Lessons learned from Global Credit programs

ABBREVIATIONS

CIF	Climate Investment Funds
DNP	National Planning Department
ESPS	Environmental and Social Performance Standards
ESRS	Environmental and Social Review Summary
FDN	Financiera de Desarrollo Nacional [Colombia's national infrastructure development bank]
GHG	Greenhouse gas
GRUC	Grupo de Cooperantes Internacionales Colombia [International Donor's Group in Colombia]
JET	Just energy transition
KPIs	Key performance indicators
MME	Ministry of Mines and Energy
MRV	Monitoring, reporting, and verification
NCRES	Nonconventional renewable energy sources
NDB	National development bank
NDC	Nationally Determined Contribution
NIZs	Non-interconnected zones
OC	The Bank's Ordinary Capital
PIGCCme	Plan Integral de Gestión del Cambio Climático del sector minero-enérgetico [Comprehensive Climate Change Management Plan for the Mining and Energy Sector]
REI	Renewable Energy Integration
SARAS	Sistema de Administración de Riesgos e Impactos Ambientales y Sociales [Social and environmental risk and impact management system]
SCCPC	Colombian Public Procurement System
SCX	Strategic Climate Fund
SIN	National Interconnected System
TCFD	Task Force on Climate-related Financial Disclosures
tCO_2eq	Tons of carbon dioxide equivalent

Project Summary

Colombia

IDB CLIMA: Energy Transition Support Program (CO-L1287)

IDB CLIMA Nonreimbursable Financing: Energy Transition Support Program (CO-J0018)

and

Support for Implementation of the Energy Transition Support Program (CO-G1056)

Financial terms and conditions

Borrower and executing agency:		
Financiera de Desarrollo Nacional (FDN) [Colombia's National Infrastructure Development Bank]		
Guarantor:		
Republic of Colombia		
Source	**Amount (US$ millions)**	**%**
IDB Ordinary Capital (OC) loan:	72.0	51.5
IDB loan (SCX-REI) Renewable energy integration program (REI) of the Climate Investment Funds (SCX) of the Climate Investment Fund:[b]	66.5	47.5
IDB nonreimbursable financing (SCX-REI) (CO-G1056):[b]	1.4	1.0
Total:	139.9	100.0
IDB CLIMA nonreimbursable financing (CO-J0018):[e] [f]	3.6	5% of the IDB OC loan

	IDB loan (Ordinary Capital) Flexible Financing Facility (FFF)[a]	**IDB loan SCX-REI**[b]	**IDB nonreimbursable financing (SCX-REI)**[b]
Amortization period:	24.5 years	20 years	N/A
Disbursement period:	5 years	5 years	5 years
Grace period:	6 years[c]	8 years	N/A
Interest rate:	SOFR-based	1.11%	N/A
Credit fee:	[d]	N/A	N/A
Inspection and supervision fee:	[d]	N/A	N/A
Weighted average life:	15.25 years	N/A	N/A
Currency of approval:	U.S. dollars		

Project at a glance

Program objective/description: The general objective is to support decarbonization of the Colombian economy by accelerating the financing of just energy transition projects and strengthening the capacities and instruments of FDN that contribute to eventual access to thematic green capital markets at the necessary scale. The specific objectives are to: (i) increase financing for projects involving nonconventional renewable energy sources (NCRES) in the national interconnected system (SIN) and non-interconnected zones (NIZs), as well as for the scaling up of enabling technologies for their deployment, in order to contribute to sector decarbonization goals; (ii) strengthen FDN's technical capacity for the identification, design, and management of its climate project portfolio; and (iii) improve FDN's climate monitoring, reporting, and verification (MRV) capabilities to contribute to national climate reporting efforts and support eventual green debt issuance.

This program is an operation under the IDB CLIMA Pilot Program[e] that includes: (i) an investment loan with Ordinary Capital resources; and (ii) IDB CLIMA nonreimbursable financing with resources from the IDB Grant Facility equivalent to 5% of the Ordinary Capital loan[f] (paragraph 2.2), provided that fulfillment of the targets of the Key Performance Indicators (KPIs) is independently verified (paragraph 3.15).

Special contractual conditions precedent to the first disbursement of the IDB (OC) and IDB (SCX-REI) loans and the IDB (SCX-REI) nonreimbursable financing: FDN has submitted evidence of the following to the Bank's satisfaction: (i) approval and entry into force of the Credit Regulations for the program, with the Bank's prior no objection, which will include the criteria and procedures for selecting eligible subprojects as well as the environmental and social requirements and incorporate the social and environmental risk and impact management system and the environmental and social action plan; and (ii) designation of a general coordinator and a financial management specialist on FDN's program execution team (paragraph 3.4).

See the other special contractual conditions precedent to the first disbursement and for environmental and social execution in Annex B of the Environmental and Social Review Summary (ESRS) (required link 4).

Conditions precedent to the IDB CLIMA nonreimbursable financing:[e] FDN has submitted to the Bank: (i) information on the bank account into which the IDB CLIMA nonreimbursable financing will be deposited; (ii) an independent verification report by the Reviewer on the key performance indicators (KPIs) indicating 100% compliance with the targets for the three KPIs; (iii) the indicative action plan mentioned in paragraph 3.20; and (iv) evidence that the operation has combined climate and biodiversity financing equivalent to at least 60% of the IDB (OC) loan, determined in accordance with Bank calculation methods. See the other IDB CLIMA Pilot Program requirements in Section III.C. (paragraph 3.14).

Exceptions to Bank policies: The Board of Executive Directors is asked to approve a partial waiver to Bank's Policy on Guarantees Required from the Borrower (OP-303) to allow the Bank to accept the Republic of Colombia's guarantee only of the borrower's financial obligations, waiving the Republic of Colombia's guarantee of the obligations related to performance and the borrower's local counterpart (paragraph 3.3).

Strategic alignment							
Objectives:[g]	O1 ☒		O2 ☒		O3 ☒		
Operational focus areas:[h]	OF1 ☒	OF2-G ☒ OF2-D ☒	OF3 ☒	OF4 ☐	OF5 ☒	OF6 ☒	OF7 ☐

[a] Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[b] The Renewable Energy Integration Program (REI) is currently part of the Strategic Climate Fund (SCX), which is one of the Climate Investment Funds' (CIF) funds. Pursuant to the Proposal for the Establishment of the Strategic Climate Fund in the Inter-American Development Bank (GN-2604-3), the Bank may act as the implementing entity of the CIF's SCX for reimbursable and nonreimbursable operations. Under Resolution DE-9/11, the Bank's Board of Executive Directors authorized the signing of the pertinent Financial Procedures Agreement that enables the Bank to act as implementing entity of the SCX, which was signed with the International Bank for Reconstruction and Development as administrator of the CIF on 17 February 2011.

[c] Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided they do not entail any extension of the original weighted average life of the Ordinary Capital loan or the last payment date as documented in the loan contract.

[d] The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

[e] By means of Resolution DE-67/23, the Board of Executive Directors approved an amendment to the Regulations of the IDB Grant Facility to finance the IDB CLIMA Pilot Program. Pursuant to Resolution AG-11/23, the Bank's Board of Governors expressed its support for the financing of the IDB CLIMA Pilot Program.

[f] If the IDB (OC) loan amount is reduced during the original disbursement period or any extension thereof, the amount of the IDB CLIMA nonreimbursable financing will be reduced proportionately to maintain the 5% level.

[g] O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

[h] EO1 (Biodiversity, natural capital, and climate action); EO2-G (Gender equality); EO2-D (Inclusion of diverse population groups); EO3 (Institutional capacity, rule of law, and citizen security); EO4 (Social protection and human capital development); EO5 (Productive development and innovation through the private sector); EO6 (Sustainable, resilient, and inclusive infrastructure); EO7 (Regional integration).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic and social context.** In recent decades, Colombia has been able to narrow various socioeconomic gaps. Monetary poverty fell from 49.4% to 36.6%[1] between 2002 and 2022. Inequality improved marginally, from a Gini coefficient of 0.573 to 0.556 in the same period.[2] The unemployment rate held at an average of 11.7%.[3] In 2023, the country's economy slowed, as reflected in real annual growth of 0.6%. However, the consolidation of public finances was maintained, and the total central government fiscal deficit was 1.1 percentage points lower than in 2022, reaching 4.2% of GDP in 2023. Inflation fell to 9.3%, which made it possible to lower the policy rate at the end of the year. The economy is expected to improve in 2024 and 2025, with projected growth rates of 1.5% and 2.7%, respectively, thanks to the easing of tight monetary policy, lower inflation, and the reactivation of strategic sectors.

1.2 **National commitments to decarbonization of the economy.** In its Nationally Determined Contribution (NDC) of 2020, considered one of the most ambitious in Latin America and the Caribbean, Colombia undertook to reduce its greenhouse gas (GHG) emissions by 51% compared to the projected scenario by 2030. About 30.7% of those emissions (nearly 90 million tCO_2eq) come from the energy sector.[4] This highlights the importance of this sector in mitigating GHGs. Accordingly, the sector is leading implementation of the Comprehensive Climate Change Management Plan for the Mining and Energy Sector (PIGCCme), whose objective is a 11.2 million tCO_2eq[5] reduction by 2030, and taking steps to lay the groundwork for carbon neutrality by 2050. The transportation subsector was also prioritized in the NDC, with the goal of reducing emissions through electromobility by 4.0 million tCO_2eq by 2030. Moreover, in 2022 the Colombian government issued a Green Taxonomy, which is a system for classifying what can be considered economic activities and assets that can potentially contribute to environmental and climate change targets, allowing the use of thematic debt markets to advance climate ambition at the national level.[6] This taxonomy, aligned with international commitments and government policies, defines green investments and provides clarity for financial institutions like FDN, investors, and other public and private stakeholders.

1.3 **The just energy transition (JET)[7] as the cornerstone of decarbonization of the country's economy.** One of the main catalysts of public policy to attain the decarbonization targets is implementation of a JET that is sustainable and gradual

1 Optional link 6 [1].
2 Optional link 6 [2].
3 Optional link 6 [3].
4 Optional link 6 [4].
5 Optional link 6 [5].
6 Optional link 6 [6].
7 Optional link 6 [7].

and that guarantees energy sovereignty and democratic access to energy.[8] This transition has five core elements: (i) migrate to a mix of more competitive, efficient, and resilient energies through the widespread use of nonconventional renewable energy sources (NCRES) and the adoption of new technologies; (ii) close the gaps in access by using new business models that accelerate universalization of service based on NCRES; (iii) implement energy efficiency policies; (iv) lead the battle against climate change; and (v) reindustrialize the economy as a crosscutting goal of the JET. To achieve these objectives the Colombian government has committed to the following targets by 2030: (i) increase NCRES generating capacity by 6 GW by 2026[9] and 20 GW by 2032;[10] (ii) use offshore coastal wind energy with an installed capacity of 1 GW;[11] (iii) install 545 MW of distributed generating capacity through the promotion of energy communities;[12] (iv) develop 1-3 GW of green hydrogen (H2V) electrolysis capacity;[13] and (v) achieve 100% electric power coverage.[14] As for electrification of the vehicle fleet, the government has established targets for incorporating 600,000 electric vehicles by 2030[15] and the requirement that 20% of the total new fleet of strategic public transportation systems and integrated public and regional transportation systems must use net-zero emissions technology.

1.4 **Progress in implementing the JET.** Colombia has a public policy, legal, and regulatory framework that has enabled the deployment of infrastructure for the JET (optional link 7). As of June 2024, Colombia had installed electric power generating capacity of 20,436.86 MW, with 64.7% from hydroelectric plants, 29.7% from thermoelectric plants, 4.7% from solar power, and 0.9% from biomass plants.[16] In recent years, progress has been made in contracting NCRES projects, auctioning 7,300 MW of new capacity[17] with the goal of guaranteeing medium-term energy demand. This includes the recently completed Subasta de Cargo por Confiabilidad de 2024, [2024 Energy Reliability Auction] valid to 2027 and 2028, in which 4,441 MW were assigned to solar plants and 48 MW to biomass plants, with firm energy obligations. However, there have been major delays in completing those projects.[18] The national interconnected system (SIN) has 29,446 km of transmission lines that interconnect 340[19] generating plants in urban areas and serve some 13.5 million users. Nonetheless, connecting this new capacity requires large investments in transmission, particularly in areas where wind generation is

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8 The government, through the Ministry of Mines and Energy, is completing the design of a new JET roadmap.

9 Optional link 6 [8].

10 Optional link 6 [9].

11 Optional link 6 [10].

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13 Optional link 6 [12].

14 Optional link 6 [13].

15 Optional link 6 [14].

16 Optional link 6 [15].

17 Wind and solar energy projects with capacity allocated under firm energy auctions or long-term capacity auctions.

18 The main barriers identified include environmental permits, prior consultations, and changes in regulations, taxes, and financing.

19 Optional link 6 [16].

concentrated. The non-interconnected zones (NIZs)[20] serve 309,211 users with local generating solutions (324 MW), mainly with diesel power plants (81.2%) and 18.8% renewables.[21] Between 2017 and 2023,[22] 241,749 new users were connected, mainly through NCRES electrification projects, and the decree on energy communities was issued.[23] But close to 486,637 homes still have no service.[24] As for the electrification of transportation, between 2018 and 2022, the country increased electric vehicle registration from 2,165 to 6,134 units[25] and procured a fleet of 1,589 electric buses, mainly in Bogota, Medellin, and Cali. However, the country is nowhere near the goal of 600,000 electric vehicles by 2030. Despite the progress made, the energy sector is facing significant challenges in financing projects that help to reduce GHG emissions and decarbonize the Colombian economy.[26]

1.5 The need to reduce GHG emissions generated by the country's energy sector is the main problem identified by the proposed program, which it will help to resolve. Although the problem can be attributed to many determinants, the operation will focus on the following: (i) limited access to financing for JET projects and for scaling up enabling technologies for their deployment; and (ii) limited capacity of national financial institutions to identify, evaluate, and manage a portfolio of climate projects that will contribute to sector decarbonization targets and comply with national and/or debt market standards for climate monitoring, reporting, and verification (MRV).

1.6 **Limited investment in sustainable infrastructure projects is one of the main barriers to the JET.** The country faces major challenges in financing JET-related projects. The World Economic Forum's Energy Transition Index ranks Colombia 39th out of 120 countries, with a score of 53 points out of 100 in its transition readiness.[27] That study underscores the need to take steps to increase financing for the energy transition, given that between 2017 and 2022, clean energy investments only amounted to US$400 million a year[28] when the Colombian government estimates that an investment of US$14.5 billion is needed.[29] The magnitude of these needs exceeds the capacity of the public sector,[30] which invested an average of 1.5% of GDP in infrastructure between 2014 and 2022, according to the National Planning Department (DNP). Therefore, greater private sector participation is crucial for ensuring that the energy transition

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28 Optional link 6 [25].

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30 Although funds are available to support rural electrification and NCRES projects, such as the *Fondo de Apoyo Financiero para la Energización de las Zonas no Interconectadas (FAZNI)* [Fund to Support Electrification in Non-interconnected Zones] and the *Fondo de Energías No Convencionales y Gestión Eficiente de la Energía (FENOGE)* [Fund for Nonconventional Energy and Efficient Energy Management], they are insufficient to cover needs.

will be a success. The 2022 Estrategia Nacional de Financiamiento Climático (ENFC) [National Climate Financing Strategy] stresses the need to mobilize more private resources and to leverage international sources of financing. It also calls for strengthening the financial sector in decarbonizing its investment portfolios, consolidating the green taxonomy, and establishing an action plan for access to international sources of climate financing. In the case of FDN, an ambitious target has been set to double the alignment of its portfolio with the country's green taxonomy (from 9% in 2024 to 20.7% in 2029).

1.7 The financial sectors also face market failures that make long-term financing scarce. The literature agrees that macroeconomic instability, coupled with the high cost of transactions, information, and contract execution, means that financial institutions offer less financing and at shorter terms.[31] The Colombian financial system suffers from several of these market failures,[32] particularly: (i) limited resources to cover JET financing needs; (ii) the financing available is not very competitive, tends to be costly and short term, does not meet the needs of projects with long horizons, all of which makes it difficult to close financial deals; (iii) a lack of knowledge and/or scale in the private sector of sophisticated financing mechanisms, such as Project Finance, which would facilitate the entry of new players into the electricity sector; and (iv) a low appetite for risk hampers access to credit to invest in new technologies such as green hydrogen and electromobility.

1.8 At the same time, use of green debt markets by Latin American and Caribbean national development banks (NDBs) remains incipient.[33] This is due to the lack of priority attached to climate considerations in investments intended to close development gaps; low sector commitment to integrate climate considerations on the necessary scale; and limited institutional capacity for the MRV[34] of biodiversity and climate targets and best practices for efficiently accessing climate finance markets.[35] To access to thematic debt markets, countries and institutions need to comply with certain standards, such as those of the International Capital Market Association (ICMA) and the Loan Market Association (LMA), which require solid commitments to improve institutional frameworks. Recent IDB interventions in the region demonstrate that these efforts can be monetized, as an incentive to larger ambitions in terms of biodiversity and climate change (optional link 4). In the case of this program, these capacities will be built to monitor and report on the environmental effects of FDN's investments in line with the standards established in their time by the Task Force on Climate-Related Financial Disclosures (TCFD), reducing regulatory barriers, but especially with respect to institutional capacities among issuers.[36] Thus, FDN is expected to be able to access the green debt and climate finance market in the future.

1.9 **Colombia poses gender and diversity challenges in electric power delivery, job creation, and equity in energy use (optional link 3).** As for access to energy, some non-interconnected zones (NIZs) have large percentages of indigenous and

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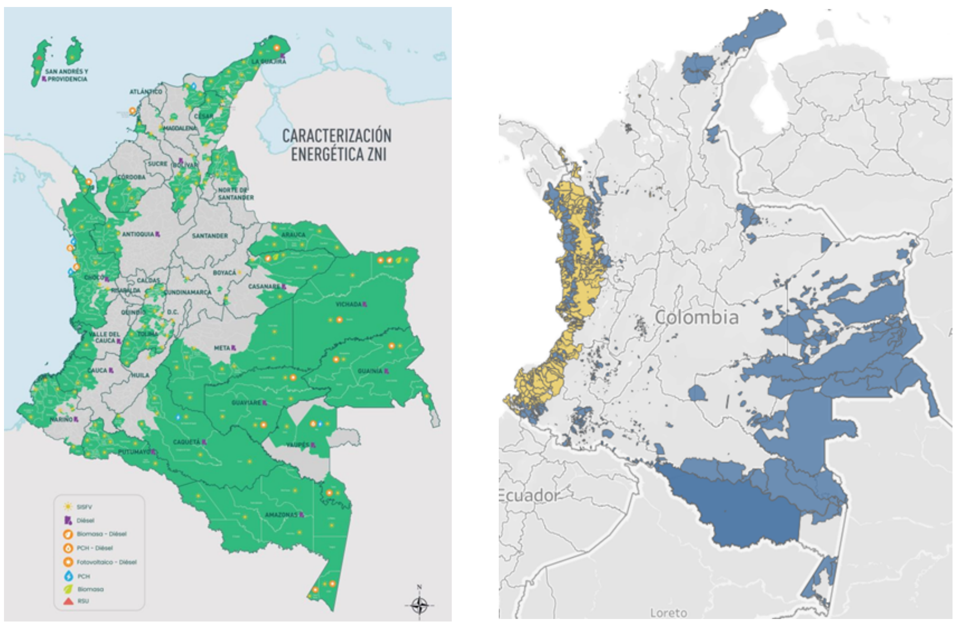
Afro-descendent populations that could benefit from possible subprojects financed by the program. Many NIZs cross through indigenous reserves and land belonging collectively to Black communities (see Figure 1b). Lack of access to energy affects women in particular, since they are often responsible for the household's energy resources which, in turn, increases their workloads and poses health risks.[37] With regard to the use of NCRES, the government's base diagnostics for JET[38] stress the need to acknowledge women's specific electric power requirements, since they are over-represented in groups that do not have access. The diagnostics also point out that it is necessary to educate civil society and communities (including ethnic groups) on the JET. Here, it is also fundamental to promote community energy or energy communities as a mechanism that permits these groups to band together to decide independently on what kind of energy to use.

Figure 1. (a) Map of NIZs and (b) Map of Colombian indigenous reserves and land collectively-owned by Black communities

(a) **(b)**



Source: IPSE, (2023).

Source: The authors. Indigenous reserves (blue) and land collectively-owned by Black communities (yellow).

1.10 The country also suffers from high labor segregation in the energy sector[39] where just 33% of jobs are held by women, compared to 67% for men. This is related to the lesser inclusion of women in areas connected to the sector such as science, technology, engineering, and mathematics (STEM)[40] and may also be associated

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with violent or discriminatory environments that are unfavorable to women.[41] Major challenges exist regarding access and employability for persons with disabilities. This population's participation in the labor force is 40 percentage points lower than persons without disabilities, and persons with disabilities hold just 8% of jobs in the transportation and energy sectors.[42] Although progress has been made in regulations, challenges persist in implementing standards for accessibility in public transportation vehicles and infrastructure, and in the absence of training for and company disinterest in hiring persons with disabilities.[43]

1.11 **Proposed intervention.** To address the challenges described and tap the potential of private financing, the government has selected this program as part of its national efforts to accelerate the JET. This intervention will help FDN to: (i) increase the supply of financing for at least five JET-related subprojects, for a catalytic effect that will speed up decarbonization of the economy; (ii) prepare itself to access the green debt market, which will facilitate financing for JET-related subprojects in the long term; (iii) enable the subprojects financed under the operation to attain long-term sustainability by adopting higher environmental and social standards than those required by local legislation (this includes improvements in policies, procedures, and management of labor, gender and diversity, social and environmental, and climate change considerations, complying with the principles common to climate finance by MDBs); and (iv) boost the capacity to identify and design portfolios of climate investments and improve climate MRV, which are relevant considerations for making headway toward potential green debt issuance.

1.12 **NDBs such as FDN are essential for mobilizing and channeling private investment in sustainable infrastructure.[44]** In Latin America and the Caribbean, NDBs are key players in providing long-term financing (13 years on average, which is three years more than private finance and close to the terms offered by development agencies), in local currency (81% of the total, which is higher than the private sector figure of 54%, and the 31% for multilateral agencies),[45] with flexible amortization profiles and specialized risk mitigation products tailored to specific market needs and helping to mobilize private investors. They are also crucial for mobilizing capital through green debt markets, which is an attractive source of financing for climate-oriented investments in infrastructure. By issuing green bonds, the NDBs can access *greenium*-type financing and rewards on a larger scale or step-down coupon reductions, for compliance with key performance indicators. This allows for larger scale financing, potentially at lower cost (optional link 4).

1.13 **FDN plays a key role in promoting the JET and attracting financing from green debt markets.** In 2019, it extended its reach to the energy sector, supporting projects that contribute to Colombia's decarbonization targets. Specialized in financing and structuring infrastructure projects, FDN manages risks and facilitates the entry of financing from private banks and institutions such as

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IDB Invest. FDN finances projects with high social returns but which bring lower financial ones and entail high risk, whose positive externalities are not adequately valued by the private sector.[46] It also facilitates private investment mobilization through blended financing credit solutions and offers tools that help mitigate the risks, such as lines of liquidity, guarantees, and subordinated debt to financially enable projects that would otherwise not be viable. Its sustainability policy[47] stresses the need to structure and finance projects that mitigate GHG emissions, support adaptation to climate change, close gender gaps, and promote economic inclusion. Its gender, diversity, and inclusion policy (adopted in 2023) seeks to gradually influence all of its clients to adopt those approaches.[48] However, to increase its impact and to be able to access green debt markets, FDN needs to boost implementation of this policy and strengthen its green business lines (paragraph 3.15), as well as its capacity to identify and design climate investment portfolios (paragraph 3.15) and develop better climate MRV systems (paragraph 3.15).[49] This strengthening will be coordinated with the efforts of the Ministry of Mines and Energy (MME) to implement a MRV system for PIGCCme 2050, working to obtain as many synergies as possible and generating a demonstration effect so other entities can implement these systems.

1.14 **Synergies with IDB Invest and IDB Lab.** Synergies exist among the three windows particularly in public and private investments to promote projects to decarbonize the economy, including: (i) cofinancing for NCRES or electromobility and (ii) nonreimbursable financing for young enterprises with innovative solutions such as green financing pilot projects to promote community renewable energy solutions for productive purposes. The CIF's REI investment plan establishes that, as a minimum, the CIF's SCX-REI concessional resources must have a leveraging ratio of 1:6, i.e., US$408 million.[50] Thus, it is expected that strong participation and mobilization of resources from the private sector and other multilateral and bilateral banks will be forthcoming. Permanent communication and coordination is maintained with them through the Energy Transition Subgroup of the International Donor's Group in Colombia (GRUC).[51] In innovation, synergies between the IDB and IDB Lab exist in: (i) the promotion of partnerships between the public and private sectors, academia, and entrepreneurs; and (ii) financing for companies that seek to improve the quality of life of individuals through sustainable energy solutions.

1.15 **Innovation and digitalization.** This program will promote innovation and digitalization in the country's energy sector by financing investments in new technologies or incipient ones such as green hydrogen, offshore wind energy, electromobility, and storage. In digitalization the operation may finance the installation of advanced metering infrastructure to digitalize the electric grid and

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48 Optional link 6 [44].

49 The MME has been working to implement a MRV system to track the indicators established in PIGCCme 2050.

50 Since the US$72 million from the IDB's Ordinary Capital counts as part of the leveraging required by the REI, the minimum leveraging needed from other sources is US$336 million.

51 The GRUC Energy Transition Subgroup, in which the IDB acts as the technical secretariat, has 18 members from countries and multilateral and bilateral organizations active in the energy sector.

generate advanced analytical data and tools. The IDB's technical support and assistance will facilitate the identification and analysis of this type of project for potential financing. In addition, the IDB support through different technical cooperation operations supports regulatory considerations for the adoption of new technologies such as green hydrogen and NCRES in general.

1.16 **IDB experience in the energy sector in Colombia and the region.** The Bank has extensive knowledge of the sector thanks to the technical and financial support it has provided for more than 30 years in Colombia. It is currently implementing two investment loans related to the sustainable energy transition: 5738/OC-CO, which is financing the implementation of efficient energy management measures in the Caribbean region, and 3610/OC-CO, which is financing access to energy in remote communities in the Colombian Pacific. It has also executed seven technical cooperation projects to support the energy transition: (ATN/PI-19633-CO, ATN/OC-18768-CO, ATN/SX-19191-CO, ATN/OC-20244-CO, ATN/OC-19687-CO, ATN/OC-20217-CO, and ATN/OC-20173-CO). IDB Lab is executing three rural and community energy projects with NCRES (SP/OC-23-61-CO, GRC/TC-20512-CO, and GRC/TC-20515-CO), and IDB Invest has financed four renewable energy and electromobility projects in the last three years (ATN/LE-19355-RG, ATN/KS-19382-RG, ATN/LE-19335-RG, and ATN/MC-19446-RG).

1.17 In the region, the IDB also has experience in financing digitalization and smart operations projects in Brazil (2700/OC-BR) for US$218 million, Mexico (ATN/IM-13935-ME) for US$145 million, Ecuador (3494/CH-EC and 3494/OC-EC) for US$90 million, Dominican Republic (3182/OC-DR) for US$78 million, and Suriname (3059/OC-SU) for US$30 million, among others. It has also supported access to electricity in remote areas, including projects in Haiti (4900/GR-HA) for US$38 million, Nicaragua (1435/OP-NI, 2342/BL-NI, 2342/BL-NI-1, 2342/BL-NI-2, 2342/BL-NI-3, and 2342/BL-NI-5-3) for US$30 million, and Suriname (4931/OC-SU, 4931/OC-SU-1 and 4931/OC-SU-2) for US$30 million, among others.

1.18 **Lessons learned.** This will be the first IDB operation with FDN. However, the operation has been designed considering the lessons learned from other operations that developed long-term financing solutions for sustainable energy projects through NDBs, including projects in Mexico (2631/TC-ME) and Brazil (3866/OC-BR), and operations with other NDBs in Colombia, such as operations CO-X1007, CO-O0004, 5459/OC-CO, and 3661/TC-CO, whose main lessons learned are presented in optional link 7. These experiences have demonstrated the need to support the NDBs in evaluating their subprojects to ensure that international environmental and social management standards are incorporated to maximize their positive impact and minimize conflicts in their area of influence. The lessons learned from electromobility projects financed by the Bank, such as 5249/OC-PE in Peru and 5183/OC-EC in Ecuador, have been taken into account, especially those related to the need to consider the limitations affecting market conditions and the limited public infrastructure to promote investments of this kind. These lessons were used to conduct an analysis of the local electromobility market, to gain an idea of demand for projects of this kind (optional link 2). The IDB also has solid experience in promoting sustainable financial flows that made it possible to identify two required improvements: (i) access to financing with higher concessionality levels; and (ii) closer coordination among the institutions responsible for issuing debt, climate and biodiversity policies, and other sector ministries.

1.19 **IDB value added: Complementarity with technical support.** The program is supported by technical-cooperation projects, including: (i) ATN/OC-18070-RG and ATN/PI-19633-CO which supported an analysis of FDN's institutional capacity to finance projects with IDB resources, an economic analysis of investing in NCRES, storage systems, distributed energy resources, advanced metering infrastructure, and electromobility, and a technical analysis for the integration of renewable energies; (ii) ATN/PI-19384-CO which supported FDN in overcoming barriers that stand in the way of the bankability of sustainable projects; (iii) ATN/AC-18933-RG which analyzed climate risks and resilient solutions for FDN's infrastructure portfolio; and (iv) ATN/OC-20073-CO which supported the formulation and revision of the gender policy recently approved by FDN and its implementation. FDN will also benefit from a technical-cooperation project (ATN/OC-21192-CO) for operational support, associated with the IDB CLIMA Pilot Program.[52]

1.20 **IDB Group strategy in Colombia.** The operation is aligned with the IDB Group's Country Strategy with Colombia 2024-2027 (GN-3238), since it contributes to the strategic objective of supporting decarbonization of the energy matrix and the transportation sector.

1.21 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (i) reducing poverty and inequality through the democratization of and increased access to energy in rural and remote areas; (ii) addressing climate change by financing projects that help mitigate GHG emissions, diversify the matrix, and are resilient to climate change; and (iii) bolstering sustainable regional growth, since it will finance sustainable infrastructure projects. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality and inclusion of diverse population groups; (iii) institutional capacity, rule of law, and citizen security; (iv) productive development and innovation; and (v) sustainable, resilient, and inclusive infrastructure. The program is consistent with the Energy Sector Framework (GN-2830-8), the Climate Change Sector Framework (GN-2835-13), the Employment Action Framework with a Gender Perspective (GN-3057), and the Long-term Financing Sector Framework (GN-2768-12). It is also aligned with the sustainable infrastructure and connectivity pillar of the IDB's Amazon Forever program, since it promotes access to electricity in urban and rural parts of the Colombian Amazon, and with the bioeconomy pillar, since it promotes inclusion of the region's sustainable productive system.

1.22 **Complementarity of the IDB CLIMA Pilot Program.** This Pilot Program is strategic for FDN, since it will enable it to build its capacities to be able to access green debt markets in the future and expand its financing offering to JET projects. At the same time, this pilot operation under the IDB CLIMA Pilot Program meets the eligibility criteria established in document AB-3386 and its Operational Guidelines (GN-3168-6). It reflects climate ambition through combined biodiversity

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[52] IDB CLIMA's pilot projects will benefit from US$1 million in nonreimbursable technical-cooperation financing that will be distributed starting with US$400,000, with an additional US$600,000 contingent on fulfillment of milestones.

and climate financing of at least 60% of investments under the loan,[53] and the activities are in line with the thematic areas of biodiversity and climate ambition, and MRV compliance for debt market readiness. The program's general objective is aligned with the IDB CLIMA Pilot Program's General Objective, and it includes at least three specific objectives aligned with the Specific Objectives of the IDB CLIMA Pilot Program (optional link 4). Component I contributes to Specific Objective 1 of the IDB CLIMA Pilot Program by financing a just energy transition and directly supporting Specific Objectives 2 and 3 of the IDB CLIMA Pilot Program by improving FDN's capacity to design projects with a climate and biodiversity approach and MRV systems.

1.23 **Alignment with the objectives and targets of the CIF-REI.** This operation will have funds from the Investment Plan approved by the CIF for Colombia in February 2023 under its REI program in the framework of the SCX Fund. In particular, the types of subprojects that will be eligible for financing under this Global Credit program (paragraph 1.28) will contribute to the integration of renewable energy and the electrification of transportation, furthering the objectives of the CIF-REI and, in general, the decarbonization climate targets.

1.24 **Climate financing.** The analysis shows that climate financing corresponds to 93.61% of the operation's resources, as defined in the Joint Methodology of the Multilateral Development Banks for Estimating Climate Finance (optional link 4).

1.25 **Alignment with the Paris Agreement.** This operation has been analyzed using the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1). It has been found to align with the adaptation and mitigation goals of the Paris Agreement, using a simplified analysis with a focus on transactions for operations with financial intermediaries (optional link 4).

1.26 **Consistency with the Bank's Public Utilities Policy (GN-2716-6) (required link 3).** The operation is also consistent with this IDB policy because: (i) the electricity rate covers all the costs of the service and strives to provide the service at the lowest possible cost; (ii) the regulatory and institutional framework promotes the reliability, quality, and efficiency of the service, including a mechanism to ensure that generating projects are selected on the lowest-cost basis; (iii) it promotes environmental sustainability by diversifying the energy matrix with NCRES; and (iv) it has a specific strategy for managing environmental and social risks (paragraph 2.7). The operation also complies with the policy conditions by ensuring that: (i) it will be financially viable, since it will be carried out through a public financial institution that requires financial sustainability as an eligibility criterion for each subproject; and (ii) it will be economically viable as demonstrated in the economic analysis of the operation (paragraph 1.34).

B. Program objectives, components, and cost

1.27 **Program objectives.** The program's general objective is to support decarbonization of the Colombian economy by accelerating the financing of JET projects and strengthening the capacities and instruments of FDN that contribute to eventual access to thematic green capital markets at the necessary scale. The program's specific objectives are to: (i) increase financing for NCRES projects

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53 According to the Joint Methodology of the Multilateral Development Banks for estimating climate finance.

in the SIN and the NIZs, as well as for the scaling up of enabling technologies for their deployment to contribute to the fulfillment of the sector decarbonization targets; (ii) strengthen FDN's technical capacity for the identification, design, and management of its climate project portfolio; and (iii) improve FDN's climate MRV capabilities to contribute to national climate reporting efforts and support eventual green debt issuance.

1.28 **Component I. Financing for NCRES projects and technologies that promote the integration of NCRES (US$138.5 million; IDB OC loan of US$72 million and IDB SCX-REI loan of US$66.5 million).** This component will finance three major types of interventions focused on: (i) support for financing JET projects; (ii) support for strengthening the technical capacities of FDN to identify, design, and manage a climate project portfolio; and (iii) support for the improvement of FDN's climate monitoring, reporting, and verification capacities. With respect to the first type of intervention, FDN will use Ordinary Capital and SCX-REI resources administered by the IDB to grant subloans to at least five eligible subprojects. The minimum for each subloan will be US$2.5 million and the types of eligible subprojects are: (i) NCRES solutions in the SIN[54] and the NIZs, energy communities,[55] and energy storage;[56] (ii) production, management, transportation, and use of green hydrogen; (iii) deployment of advanced metering infrastructure; (iv) solutions that provide flexibility for the SIN (transmission lines, distributed energy resources, etc.); and (v) infrastructure and assets for electromobility that boost the demand for NCRES,[57] such as the procurement of electric vehicles for: (i) mass or integrated public transportation systems; (ii) private transportation services for companies or public utilities operators; (iii) individual passenger transportation (taxis); and (iv) freight transport.

1.29 With respect to the second type of intervention, FDN will use the loan with Ordinary Capital resources to finance training and the contracting of specialists to provide support in FDN.

1.30 Regarding the third type of intervention, FDN will use the loan with Ordinary Capital resources to finance the strengthening of systems for the management of the green portfolio and climate MRV for FDN, in line with the specific objectives of the IDB CLIMA Pilot Program (optional link 4). This component will also finance external audits, midterm evaluations, and the project completion report.

1.31 **Component II. Institutional strengthening financed with nonreimbursable financing (SCX-REI, US$1.4 million).** Using SCX-REI nonreimbursable financing (CO-G1056), this component will finance the following activities: (i) structuring of projects that can be financed by the operation; (ii) strengthening of policies and plans and execution of activities aimed at promoting gender and diversity inclusion in FDN and among its subborrowers, to promote jobs and participation by women,

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54 If located in the SIN, they can only be financed with the IDB's Ordinary Capital.

55 The subprojects in NIZs and energy communities may cover areas including the Colombian Amazon to close gaps in access and promote the energy transition.

56 At least 50% of the subprojects financed under this component will have a gender and diversity plan in line with the actions stipulated in Component II and will reach a minimum of female and ethnic beneficiaries.

57 Subprojects may also be included for the procurement of fleets of electric vehicles, rolling stock, and infrastructure to charge electric vehicles, electric projects and systems for mass passenger transport and other infrastructure such as stations, railway lines, work yards and shops, and other works related to delivery of those services.

persons with disabilities, and the indigenous and Afro-descendent populations, as well as the prevention of gender violence in energy projects. The component will finance: (a) design of an action plan to implement FDN's diversity, equity, and inclusion policy; (b) construction of guidelines and support for designing gender, diversity, and inclusion plans in the renewable energy subprojects; (c) implementation of activities that actively promote the inclusion of women in technical and leadership roles, including a pilot training plan in employability areas related to renewable energy targeted to women, such as the installation and maintenance of renewable systems, etc.; and (d) a pilot training program for women and indigenous and Afro-descendent groups in the use of renewable energy in the areas of influence of the subprojects; (iii) coverage of the cost of currency swaps from the loan using SCX-REI resources to local currency; and (iv) the cost of contracting one environmental and one social specialist, and a financial management specialist.

C. Key results indicators

1.32 **Expected outcomes.** The operation seeks to: (i) reduce GHG emissions ($TCO_2eq.$); (ii) increase installed (MW) and generating capacity (MWh) with NCRES; (iii) provide supporting infrastructure for integrating NCRES (advanced metering infrastructure, substations, grids, batteries, etc.); (iv) mobilize capital in line with the principles common to climate finance; (v) promote social inclusion and close gender and diversity gaps; (vi) upgrade FDN's management tools, including in the areas of MRV/impact reporting and identifying portfolios of climate projects to reach scale; and (vii) strengthen FDN's technical capacities.

1.33 **Subborrowers and beneficiaries.** The subborrowers in this operation will be the promotors and developers (public and/or private sector) of eligible subprojects. The beneficiaries will be the end users of the electric infrastructure incorporated into the system, such as industries, enterprises, commercial users, and households, which will also benefit from a more reliable and diversified service. All Colombians will also benefit indirectly from the positive externalities associated with the operation's environmental and economic impacts, higher local income, and reduced pollution.

1.34 **Economic evaluation (optional link 1).** The economic analysis estimates the benefits of the operation through the estimated flows of economic value from CO_2 emissions avoided thanks to the operation's subprojects. Subtracting the costs of these investments and discounting future flows at a rate of 12%, the result is a net present value of US$20.1 million and an internal rate of return of 14.6%. A sensitivity analysis was also performed which demonstrates that the operation is solid in the event that extreme changes occur in key parameters such as investment costs, the cost of coal, etc.

1.35 **Sustainability.** The program is designed in keeping with FDN's strategic plan, and therefore it is expected that it will continue to be a priority for that institution. Program sustainability will also be assured by: (i) KPI-1, whose target is to increase the installed capacity of NCRES in the national grid by 125 MW, which is fully aligned with one of the main indicators of the CIF-REI, and FDN has a pipeline of projects with installed capacity of close to 140 MW; (ii) IDB CLIMA's KPI-2, which seeks to enable FDN to increase its financing for sustainable infrastructure projects in future; and (iii) FDN has established a new sustainability management office that will be responsible for compliance with the KPIs under the IDB CLIMA Pilot Program.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

2.1 **Instrument and modality.** Component I of the program will be financed with investment loans (OC and SCX-REI) under the Global Credit modality since they will provide financial intermediation for the developers and promotors of eligible projects. The program's Component II will be financed by nonreimbursable financing from the SCX-REI. The program totals US$139.9 million, financed as follows: (i) up to US$138.5 million through a loan comprising the following sources of financing: (a) up to US$72 million from the Bank's OC resources (IDB (OC) loan); and; (b) up to US$66.5 million with the CIF's SCX-REI concessional funds administered by the Bank as the implementing entity of the SCX (IDB (SCX-REI) loan); and (iii) up to US$1.4 million through nonreimbursable financing from the CIF's SCX-REI, administered by the Bank as the implementing entity of the SCX (SCX-REI nonreimbursable financing). FDN will use the loan proceeds to grant subloans to subborrowers for eligible subprojects through its first tier line and for the other activities stipulated in this program (paragraph 1.28). The characteristics of the subprojects eligible for financing under this operation are described in paragraph 3.7 and the Credit Regulations (optional link 5).

2.2 **IDB CLIMA nonreimbursable financing.** As part of the IDB CLIMA Pilot Program, this operation includes nonreimbursable financing (OC-J0018) for up to US$3.6 million from the IDB Grant Facility, equivalent to 5% of the IDB (OC) loan, provided compliance with the targets for the KPIs established in paragraph 3.15 is independently verified and the disbursement conditions established in Section III.C are fulfilled. If the IDB (OC) loan amount is reduced during the original disbursement period or any extension thereof, IDB CLIMA's nonreimbursable financing will be reduced proportionately to maintain the 5% level. FDN will be the beneficiary of IDB CLIMA's nonreimbursable financing.

2.3 **Cost.** The program's costs are presented in Table 1.

Table 1. Estimated costs (US$ millions)[1]

Component	IDB (OC) loan	IDB (SCX-REI) loan	SCX-REI nonreim-bursable financing	Total	%
Component I. Financing for NCRES projects and technologies that promote the integration of NCRES	**72.00**	**66.50**	**0**	**138.50**	**99**
Support for financing just energy transition projects	71.20	66.50	0	137.70	

Table 1. Estimated costs (US$ millions)[1]

Component	IDB (OC) loan	IDB (SCX-REI) loan	SCX-REI nonreim-bursable financing	Total	%
Support for strengthening the technical capacities of FDN to identify, design, and manage a climate project portfolio	0.27	0	0	0.27	
Support for the improvement of FDN's climate monitoring, reporting, and verification capacities	0.53	0	0	0.53	
Component II. Institutional strengthening financed with nonreimbursable financing	**0**	**0**	**1.40**	**1.40**	**1**
Total	**72.00**	**66.50**	**1.40**	**139.90**	**100**

2.4 **Disbursement schedule.** The loan proceeds (sourced from both the OC and SCX-REI) and the nonreimbursable financing (SCX-REI) will be disbursed over five years (Table 2) as of the effective dates of the respective loan and nonreimbursable financing contracts.[58] It is proposed that eligible expenditures be disbursed from FDN resources for eligible subborrowers as established in paragraph 3.7, the stipulations of the Credit Regulations, and the terms of the subloan contracts for eligible subprojects. The IDB CLIMA nonreimbursable financing will be disbursed as established in paragraph 3.19.

[58] The commitment period for the loan proceeds for subborrowers will be five years as of the effective date of the loan contract. The proceeds will be deemed committed as of the date on which FDN and the subborrowers have signed the respective subloan contracts.

Table 2. Tentative disbursement schedule (US$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	15	10	5	21	21	72
SCX-REI	4	15,1	17,8	11	20	67.9
Total	19	25,1	22,8	32	41	139.9
	13.6%	18.0%	16.3%	22.8%	29.3%	100%

B. Environmental and social risks

2.5 According to the Environmental and Social Policy Framework, and given that the financing structure involves the provision of funds through a financial intermediary (FDN), the project has been classified as an F1 operation. The environmental and social risk classification is substantial since the subprojects will mainly be executed in NIZs in Colombia where land exists belonging to indigenous people and to the community councils of Black communities, as well as natural parks. However, FDN has superior environmental and social performance and experience in implementing the social and environmental standards of the International Finance Corporation.

2.6 Given the types of subprojects to be financed and the restrictions established by the nature of the funds, the following have been identified as environmental and social impacts in the construction phase: (i) soil contamination due to inadequate debris disposal; (ii) changes in water resources due to inadequate debris disposal; (iii) changes in noise levels; (iv) temporary impact on the landscape; (v) temporary wildlife displacement; (vi) changes in plant cover; and (vii) air pollution from combustion emissions and particulate matter. In the operating stage, the potential impacts are: (i) soil contamination due to inadequate waste disposal; (ii) changes in water resources due to inadequate waste disposal; and (iii) changes in noise levels.

2.7 A due diligence analysis was performed in fulfillment of the Environmental and Social Policy Framework involving: (i) the environmental and social policies and procedures and institutional capacity of FDN; (ii) the country's environmental and social legislation applied by FDN to the projects and subprojects; (iii) environmental and social considerations relating to the existing portfolio and the potential future portfolio; and (iv) measures needed to strengthen the existing social and environmental risk and impact management system (SARAS). The analysis concluded that the SARAS and the legal framework applicable to the preidentified types of subprojects is the functional equivalent of Environmental and Social Performance Standards (ESPS) 1, 2, 3, 4, 5, 6, 7, 8, and 10, and partly equivalent to ESPS 9 on gender equality, a gap that will be closed when FDN adopts its gender policy. An environmental and social action plan was agreed upon with FDN to provide a classification tool that filters out Category A projects that cannot be financed by this operation and projects that could have moderate or significant negative impacts on indigenous or Afro-descendant territories or critical habitats. Moreover, since the projects include the purchase or installation of solar panels, a procedure has been included for due diligence on solar panel providers aligned with the IDB Group Measures to Address Risk of Forced Labor in the Supply Chain of Silicon-based Solar Modules (GN-3062-1). In addition, it was agreed that the Credit Regulations (optional link 5) will contain a requirement that the Bank give its ex ante no objection to the inclusion of subprojects that could pose contextual risks such as: (i) presence in the direct or indirect area of influence of a subproject of legally-protected, indigenous land, or Black community-owned land; (ii) physical involuntary resettlement activities; and (iii) administrative processes related to removal of forest reserves or environmental licensing or where: (i) FDN's clients or their subexecuting agencies do not have experience in executing projects under multilateral bank standards; (ii) have little or no institutional capacity for environmental and social management; and/or (iii) have limited funds allocated to environmental and social supervision. The risk of natural disasters has been classified as moderate, since although the risk of landslides, rising sea levels, earthquakes, volcanic eruptions, tsunamis, and river flooding ranges from moderate to high, the vulnerability of the types of subprojects to be financed ranges from low to moderate. The report on the results of the gap analysis was published on the Bank's website on 12 March 2024 prior to the analysis mission.

C. Other key issues and risks

2.8 A risk management analysis was conducted and is presented in Table 3.

Table 3. Other risks

Risk description	Taxonomy	Level	Mitigation strategy
Should averse climate conditions or natural events arise such as flood, rains, cyclones, or earthquakes, it could temporarily halt execution of the projects financed by FDN under the program, which would impact the achievement of the objectives on the established timeline.	Execution/natural environment	Medium-high	For approval of projects by the FDN Board of Directors, the projects should include the instruments necessary to promote participation by groups of society stakeholders and will include the agreements or preliminary agreements necessary to manage possible pressure from the identified stakeholder groups, their communication and financing plan, which will be validated by the respective environmental and social professional. This definition will be included in the Credit Regulations.
If subprojects are financed in remote areas, there may be delays in execution of works due to hard-to-access locations, cost overruns in the transportation of materials, and a limited number of contractors interested or with the ability or experience to execute projects in those areas.	Execution/social environment	Medium-high	Considering that the selection processes of project intervention areas include the necessary approval filters, such situations will be avoided. Nonetheless, should such a case arise during execution, it would be a sufficiently isolated situation that would not compromise the program's results. In its due diligence process, the executing agency will review the experience of the developer in executing projects in hard-to-access areas and its capacity to manage this type of risk.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 **Borrower, executing agency, and guarantor.** FDN[59] will be the program's borrower and executing agency. The Republic of Colombia will be guarantor of the borrower's financial obligations (including payment of principal, interest, and fees). FDN meets the eligibility requirements established in the Bank's Eligible Borrowers Policy (OP-301).[60] FDN is a Colombian national infrastructure development bank, established as a mixed-ownership institution with links to the Ministry of Finance and Public Credit. FDN's majority shareholder is the Colombian government through Grupo Bicentenario, which owns 73.37% of its shares.[61] FDN has its own legal identity and assets. It is overseen by Colombia's Financial Superintendent, is a member of the Colombian Securities Market Self-regulator, and is subject to fiscal oversight by the Comptroller General of the Republic. FDN has the organizational structure and staff necessary to manage infrastructure projects and broad experience in executing projects with bilateral and multilateral banks.

3.2 **Program execution arrangement.** FDN will designate a general coordinator and a financial management specialist to take charge of program execution and the preparation of work plans, progress reports, special-purpose financial statements, management of the special account and its monthly reconciliation in the forms established in IDB policies. FDN's Vice Presidency for Structured Finance, with support from FDN's Vice Presidency for Legal Affairs and FDN's Vice Presidency for Credit and Risks, will be responsible for originating and contracting subloans for subprojects eligible for financing. Pursuant to an institutional capacity assessment of FDN, its capacity in environmental and social areas will be strengthened by contracting two specialists.

3.3 **Partial waiver of the Bank's Policy on Guarantees Required from the Borrower (OP-303/GP-104-2).** The Board of Executive Directors is asked to approve a partial waiver of the Policy on Guarantees Required from the Borrower (OP-303/GP-104-2) to allow the Republic of Colombia's guarantee to apply only to the borrower's financial obligations (including principal, interest, and fees) but not to the borrower's local contribution or the performance obligation. This request is justified by the provisions of Decree 1068 of 2015,[62] amended by Decree 1575 of 2022,[63] which establishes that the Republic of Colombia's guarantee can only cover the payment obligations of other government entities, pursuant to Article 40 of Law 80 of 1993.

3.4 **Conditions precedent to the first disbursement of the IDB (OC) and IDB (SCX-REI) loans and the SCX-REI nonreimbursable financing. FDN has submitted evidence of the following to the Bank's satisfaction: (i) approval**

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[59] According to Fitch Ratings, FDN's long- and short-term ratings are AAA(col) and F1+(col), respectively, which are the highest possible. Its long term outlook is stable (Fitch Ratings, 2023).

[60] OP-301 defines a public-sector borrower as a company in which the government has a proprietary interest of more than 50% or when the government or a public institution appoints the majority of the members of the board.

[61] The Ministry of Finance and Public Credit owns 99.99% of Grupo Bicentenario (MinHacienda, 2021).

[62] Article 2.2.1.1.1. of Decree 1068.

[63] Article 5 of Decree 1575.

and entry into force of the Credit Regulations for the operation, with the Bank's prior no objection, which will include the criteria and procedures for selecting eligible subprojects, as well as the environmental and social requirements and incorporate the social and environmental risk and impact management system and the environmental and social action plan; and (ii) designation of a general coordinator and a financial management specialist on FDN's program execution team. The first condition is justified because the Credit Regulations will include details on the types of subprojects that are eligible under the operation, the socioenvironmental conditions (required link 4), and the fiduciary requirements described in Annex III. The second condition is essential for ensuring the Bank that FDN will have a suitable core team for initiating program execution.

3.5 **The Credit Regulations** will include all the procedures to be followed during program execution and may be modified with the Bank's written no objection. The Regulations (optional link 5) will include, as a minimum: (i) the execution conditions, with reference to the specific characteristics of eligible JET projects; (ii) the environmental and social management requirements; (iii) the fiduciary obligations and requirements for monitoring and evaluation; (iv) rules and procedures for administrative and financial management; and (v) the measures, actions, and procedures established in the Environmental and Social Action Plan. The Credit Regulations will also include the monitoring and evaluation plan (required link 2) for the program, including the verification protocol for the KPIs for the IDB CLIMA nonreimbursable financing (paragraph 3.16).

3.6 **Maintenance.** FDN will include in the subloan contracts the obligation for subborrowers to maintain the works and assets included in the program in accordance with generally accepted technical standards. FDN will submit, to the Bank's satisfaction, during the first quarter of each calendar year and throughout the disbursement period or any extension thereof, a report as established in the Credit Regulations for the works and goods included in the program, which will include, among other considerations set forth in the Credit Regulations, information on the status of the program's works and goods, the operation and maintenance program undertaken, and the sustainability measures taken. The first report will be submitted to the Bank in the year in which the first of the program's works is completed.

3.7 **Eligibility requirements for subprojects under Component I.** To be eligible, the subprojects must fall into one of the following financing categories: (i) NCRES projects in the SIN; (ii) interventions that enable or facilitate the insertion of renewables into the SIN; (iii) electromobility; (iv) technologies that are not yet commercially viable; and (v) NCRES projects in NIZs and energy communities (optional link 2). The minimum number of eligible subprojects to be financed with funds from Component I is five and the minimum amount is US$2.5 million. Subprojects classified as Category A in accordance with the Environmental and Social Policy Framework or those with moderate or significant negative impacts on indigenous or Afro-descendent territories or groups, or in critical habitats may not be financed. Nor will projects be financed that involve prohibited practices, as determined by the Bank. The other eligibility criteria for subprojects will be described in the Credit Regulations.

3.8 **Retroactive financing.** The Bank may retroactively finance from the loan proceeds eligible expenditures incurred by the borrower prior to the loan approval date, to finance disbursements to eligible subborrowers and activities envisaged in Component I for up to US$14.4 million of the IDB (OC) loan and US$13.6 million of the IDB (SCX-REI) loan (20% of each loan, respectively), provided that requirements substantially similar to those established in the respective loan contract have been met. The expenditures will have been incurred on or after 8 March 2024, and in no event will expenditures incurred more than 18 months prior to the loan (OC and SCX-REI sources) approval date be recognized.

3.9 **Procurement of works, goods, and nonconsulting services and contracting of consulting services.** Considering that this program is structured, for Component I, as an investment loan under the global credit modality (financial intermediation), the procurement and contracting to be financed with the subloans under Component I of the program will be subject to the specific provisions contained in paragraphs 3.13 and 3.15 (Procurement in Loans to Financial Intermediaries/Commercial Practices) of the Policies for the Procurement of Goods and Works financed by the Bank (GN-2349-15) and the Policies for the Selection and Contracting of Consultants financed by the Bank (GN-2350-15), respectively. Other procurement and contracting envisaged in the program and identified in the procurement plan (required link 5) will be carried out in accordance with the Policies for the Procurement of Goods and Works and those for the Selection and Contracting of Consultants financed by the Bank (GN-2349-15 and GN-2350-15) or subsequent updates thereof.

3.10 **Financial statements and audits.** FDN will include specific budget and accounting coding for the subloans financed under the program in its financial management system. External audit services will be performed by FDN's institutional auditor, provided it is a Bank-eligible firm. The amendment to the institutional audit contract to include the loan among the auditor's services must obtain the Bank's no objection, which is also a requirement for the financial report on IDB CLIMA's nonreimbursable financing (paragraph 3.22). The institution's general audit report will be complemented with a note describing the status of budget execution of the loan (OC and SCX-REI sources), the subloans made in the period, and the SCX-REI nonreimbursable financing, and the note will fulfill the auditing clause set forth in the loan contract. The cut-off date will coincide with FDN's fiscal year and the audits will be submitted within 150 days afterward. FDN will submit to the Bank the auditor's assurance report for the IDB CLIMA nonreimbursable financing mentioned in paragraph 3.22.

B. Summary of arrangements for monitoring results

3.11 **Monitoring.** This program will be governed by the Bank's general procedures for the monitoring and evaluation of investment operations, based on the indicators in the Results Matrix and the contents of paragraph 3.20 for the IDB CLIMA Pilot Program. The operation will be monitored through semiannual program progress reports prepared by the executing agency, which will cover the monitoring costs. The executing agency will contract an independent engineer to support field supervision of the progress and targets attained by the eligible subprojects. The Bank will conduct periodic visits to monitor execution of the operation, including the requirement on leveraging SCX-REI-related resources.

3.12 **Evaluation.** FDN will perform a midterm evaluation using a PCR format once 50% of the program resources have been disbursed or justified, or 36 months after the first loan disbursement, whichever occurs first; and a final evaluation when 90% of the program resources have been disbursed. The final evaluation will indicate compliance with the indicators in the Results Matrix and will be submitted before the financial close of the operation. It will provide the information that the Bank requires to generate a project completion report, based on Bank policies. The proposed evaluation method will be based on an ex post cost-benefit analysis of the operation, which will permit the value of the operation's impact indicators to be analyzed (required link 1).

3.13 **Information.** FDN will compile and maintain all the information, indicators, and parameters necessary to prepare the PCR and any ex post evaluation that the Bank wishes to perform.

C. Requirements related to the IDB CLIMA Pilot Program

3.14 **IDB CLIMA roadmap.** A summary of the roadmap**,** prepared together with FDN and validated by Colombia's Ministry of Finance and Public Credit has been included in optional link 4.

3.15 **Key performance indicators (KPIs).** The KPIs, which are the final results indicators subject to 100% compliance by FDN in order to access disbursement of the nonreimbursable financing, are the following: (i) that the installed capacity of NCRES in the SIN increases by 125 MW; (ii) that 20.7% of FDN's portfolio, measured by the number of projects, is aligned with the country's green taxonomy; and (iii) that 60% of the projects in FDN's portfolio have been reported annually under the standards of the Task Force on Climate-Related Financial Disclosures (TCFD).

3.16 **Protocol for verification of the KPIs.** Each of the three KPIs has a verification protocol defined in the monitoring and evaluation plan that will be part of the Credit Regulations. The protocol includes: (i) definition of the KPIs (ii) the targets against which compliance with the KPIs will be assessed; (iii) a verification timeline consistent with the periods at which data will become available; (iv) terms of reference for verification of compliance with the KPIs; and (v) other pertinent methodological information.

3.17 **Independent external verification of the KPIs.** FDN will contract a firm or independent individual consultant (the Reviewer) in accordance with terms agreed upon in advance with the Bank and the Policies for the Selection and Contracting of Consultants financed by the IDB (GN-2350-15) to verify compliance with the targets of the three KPIs (paragraph 3.15). This verification will be performed in the final year of the original disbursement period of the IDB (OC) loan or extensions thereof, provided that the Bank has disbursed 90% of the IDB (OC) loan. The Reviewer will also verify the conditions indicated in paragraph 3.18.

3.18 **Conditions precedent to disbursement of the IDB CLIMA nonreimbursable financing.** The conditions precedent to disbursement of the IDB CLIMA nonreimbursable financing will be that FDN has submitted to the Bank: (i) information on the bank account into which the IDB CLIMA nonreimbursable financing will be deposited; (ii) an independent verification report by the Reviewer on the KPIs indicating 100% compliance with the targets of the three KPIs; (iii) the indicative action plan mentioned in paragraph 3.20; and (iv) evidence that the operation has combined climate and biodiversity financing equivalent to at least 60% of the IDB (OC) loan, determined using Bank calculation methods.

3.19 **Disbursement of the IDB CLIMA nonreimbursable financing.** The IDB CLIMA nonreimbursable financing will be disbursed during the final year of the original disbursement period for the IDB (OC) loan or extensions thereof, in a single tranche.

3.20 **Use of the IDB CLIMA nonreimbursable financing.** FDN will use the IDB CLIMA nonreimbursable financing in interventions related to biodiversity, climate change, and/or sustainability, as established in the indicative action plan to be prepared in a format provided by the Bank. FDN will not use the IDB CLIMA nonreimbursable financing to directly or indirectly fund interventions related to projects or subprojects included in Annex I of the Environmental and Social Policy Framework (IDB Environmental and Social Exclusion List) or to finance activities that involve a prohibited practice as determined by the Bank.

3.21 **Monitoring.** During the original disbursement period of the IDB (OC) loan or extensions thereof, the Bank will continuously monitor: (i) progress in implementing the KPIs; (ii) progress in combined financing for biodiversity and climate under the program; and (iii) compliance with the contractual provisions associated with the IDB CLIMA nonreimbursable financing. The work will be based on FDN's existing monitoring system and according to the monitoring and evaluation plan.

3.22 **Audit and ex post supervision.** FDN will retain documents and records related to interventions performed using IDB CLIMA's nonreimbursable financing for three years after the end of the original disbursement period or extensions thereof. FDN will submit an audited assurance report to the Bank on the use of the IDB CLIMA nonreimbursable financing within up to two years after its disbursement. The report will be prepared by FDN's institutional auditor responsible for producing the final audited financial statement of the IDB (OC) loan (paragraph 3.9).

Development Effectiveness Matrix		
Summary	CO-L1287	
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	**-Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure -Productive development and innovation through the private sector**	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	**GN-2972**	**Stimulate innovation and business and agricultural development, as well as the cross-cutting issue of climate change**
Country Program Results Matrix	**GN-3207-3**	**The intervention is included in the 2024 Operational Program.**
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	**7.8**	
3.1 Program Diagnosis	**2.3**	
3.2 Proposed Interventions or Solutions	**1.6**	
3.3 Results Matrix Quality	**4.0**	
4. Ex ante Economic Analysis	**10.0**	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	**1.5**	
4.2 Identified and Quantified Benefits and Costs	**3.0**	
4.3 Reasonable Assumptions	**2.5**	
4.4 Sensitivity Analysis	**2.0**	
4.5 Consistency with results matrix	**1.0**	
5. Monitoring and Evaluation	**8.4**	
5.1 Monitoring Mechanisms	**2.8**	
5.2 Evaluation Plan	**5.5**	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	**Medium Low**	
Environmental & social risk classification	**FI**	
IV. IDB´s Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	**Yes**	**Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.**
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note:

The general objective is to support the decarbonization of the economy, accelerating the financing of just energy transition projects and strengthening the capacities and instruments of the FDN that contribute to its eventual access to thematic green capital markets on the necessary scale. The specific objectives are: (i) to increase financing for both Non-Conventional Renewable Energy Sources (FNCER) projects in the National Interconnected System (SIN) and Non-Interconnected Zones (ZNI), as well as for scaling up enabling technologies for their deployment, in line with sectoral decarbonization goals; (ii) to strengthen the technical capacities of the FDN for the identification, design, and management of climate project portfolios; and (iii) to improve the FDN's climate Monitoring, Reporting, and Verification (MRV) capabilities to contribute to national climate reporting efforts and support potential green debt issuances.

In general, the diagnosis is adequate, with a well-identified problem and a clear explanation of the determinants on which the project focuses. The diagnosis could be strengthened by including empirical evidence on the effectiveness of the proposed interventions. In the case of the IDB CLIMA Pilot, it is understood that, given the novel nature of the intervention, there is no evidence about the effectiveness of the proposed solutions.

The results matrix exhibits vertical logic, with clear specific objectives and SMART outcome indicators that allow demonstrating their fulfillment. The economic analysis consisted of estimating the net benefits of the program through a Cost-Benefit Analysis (CBA) based on typical projects to be financed, where most of the net benefits of the program come from the increased availability of renewable energy and the environmental benefits associated with the reduction of greenhouse gas emissions.

The program has a Monitoring and Evaluation Plan that specifies: (i) the methodology for measuring indicators; (ii) the attribution of project results; (iii) data requirements; (iv) those responsible; and (v) the estimated budget. The evaluation of the results will be done with a before and after analysis for the indicators of the results matrix, where the attribution of the results depends on the link between the specific products of each component and the associated results.

RESULTS MATRIX

Project objective:	The general objective is to support decarbonization of the Colombian economy by accelerating the financing of just energy transition (JET) projects and strengthening the capacities and instruments of FDN that contribute to eventual access to thematic green capital markets at the necessary scale. The specific objectives are to: (i) increase financing for projects involving nonconventional renewable energy sources (NCRES) in the national interconnected system (SIN) and non-interconnected zones (NIZs), as well as for the scaling up of enabling technologies for their deployment, in order to contribute to sector decarbonization goals; (ii) strengthen FDN's technical capacity for the identification, design, and management of its climate project portfolio; and (iii) improve FDN's climate monitoring, reporting, and verification (MRV) capabilities to contribute to national climate reporting efforts and support eventual green debt issuance.

GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline value	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective: To support decarbonization of the Colombian economy by accelerating the financing of JET projects and strengthening the capacities and instruments of FDN that contribute to eventual access to thematic green capital markets at the necessary scale.							
I.1 GHG emissions reduced or avoided through the subprojects financed by the operation	Tons of CO_2 eq	0	2024	2029	200,000	Annual reports by FDN based on the independent engineering reports	Methodology: required link 2
I.2 Number of program beneficiaries (broken down by gender and ethnic origin) in the NIZs	Number	0	2024	2029	24,000 (10,800 women and 9,600 indigenous and Afro-descendent beneficiaries)	Annual reports by FDN	Methodology: required link 2
I.3 Jobs created directly and indirectly (broken down by gender)	Number	0	2024	2029	500 direct and 100 indirect, (150 women)	Annual reports by FDN	Methodology: required link 2

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Specific development objective 1: Increase financing for NCRES projects in the SIN and the NIZs, as well as for the scaling up of enabling technologies for their deployment, in order to contribute to sector decarbonization goals											
R1.1 Volume of financing mobilized by the program	US$ million	0	2024	0	16	60	150	110	336	Annual reports by FDN	Methodology: required link 2
R.1.2 Volume of program resources lent by FDN portfolio to finance projects to integrate NCRES	US$ million	0	2024	18.9	24.7	21.8	31.5	40.7	137.5	Annual reports by FDN	Methodology: required link 2
R1.3 NCRES installed capacity in the SIN	MW	0	2024	0	5	20	75	25	125	Annual reports by FDN	Methodology: required link 2
R1.4 NCRES installed capacity in the NIZs	MW	0	2024	0	1	1	0	2	4	Annual reports by FDN	Methodology: required link 2
R1.5 Energy production (SIN/NIZs) of the projects financed/ enabled by the operation (cumulative)	MWh	0	2024	0	10,000	45,000	195,000	271,000	271,000	Annual reports by FDN	
R1.6 Installed energy storage capacity for NCRES projects (cumulative)	MWh/day	0	2024	0	0.75	1.5	1.5	3.5	3.5	Annual reports by FDN	
R1.7 Number of smart monitoring and control systems (advanced metering infrastructure) installed in the NIZs	Number	0	2024	0	1,200	1,200	1,200	2,400	6,000	Annual reports by FDN	
Specific development objective 2: Strengthen FDN's technical capacity for the identification, design, and management of its climate project portfolio											
R2.1 Percentage of FDN's portfolio measured as the number of projects aligned with the country's green taxonomy	%	9	2024	9	10	12	15	17	20,7	Annual sustainability reports by FDN	Methodology: required link 2
Specific development objective 3: Improve FDN's climate MRV capabilities to contribute to national climate reporting efforts and support eventual green debt issuance											
R3.1 Percentage of projects in FDN's portfolio that report annually under the standards of the Task Force on Climate-Related Financial Disclosures (TCFD)	%	0	2024	0	5	15	25	40	60	Annual sustainability reports by FDN	Methodology: required link 2

OUTPUTS

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
Component I: Financing for NCRES projects and technologies that promote the integration of NCRES											
P1. Number of projects financed	Number	0	2024	0	1	1	1	2	5	Annual reports by FDN	Methodology: required link 2
P2. Study of gaps in technical, human, and instrumental capacity to manage the portfolio of projects aligned with FDN's green taxonomy, and their reporting under TCFD standards	Number	0	2024	0	1	0	0	0	1	Study approved by FDN's internal sustainability committee	
P3. Training to strengthen human resources in the identification, design, and management of the portfolio of projects aligned with the country's green taxonomy	Number	0	2024	0	1	0	1	0	2	Reports on training results	
P4. Training to strengthen human resources in monitoring and reporting under TCFD standards	Number	0	2024	0	1	0	1	0	2	Report on training approved by FDN's international sustainability committee	
P5. Guide published with methodologies and improved processes for project monitoring	Number	0	2024	0	0	1	0	0	1	Guide published on FDN's website	
P6. IDB CLIMA roadmap developed and coordinated with the document on institutional sustainability	Number	0	2024	0	1	0	0	0	1	FDN's sustainability policy that reflects coordination with IDB CLIMA's roadmap submitted by the institution	
Component II: Institutional strengthening											
P7. Action plan for the diversity, equity, and inclusion policy being implemented	Number	0	2024	0	0	1	0	0	1	Action plan approved by FDN's internal sustainability committee	
P8. Subprojects financed that have a gender, diversity, and inclusion plan designed and approved for implementation	Number	0	2024	0	1	0	1	1	3	Annual reports by FDN	Methodology: required link 2

Indicator	Unit of measure	Baseline value	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Means of verification	Comments
P9. Guidelines designed on gender, diversity, and inclusion	Number	0	2024	0	1	0	0	0	1	Guidelines approved by FDN's internal sustainability committee	Methodology: required link 2
P10. Women trained in jobs related to renewable energy under a pilot project	Number	0	2024	0	50	0	0	0	50	Annual reports by FDN	Methodology: required link 2
P11. Pilot project for training in the use of renewable energy targeted to women and the indigenous and Afro-descendent population	Number	0	2024	0	1	0	0	0	1	Annual reports by FDN	

Country: Colombia **Division:** INE **Operation:** CO-L1287 **Year:** 2024

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Executing agency: Financiera de Desarrollo Nacional (FDN) [National Infrastructure Development Bank]

Operation name: IDB CLIMA: Energy Transition Support Program

I. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY

1. Use of country systems in the operation[1]

♦ Budget	♦ Reports	♦ Information system	♦ National Competitive Bidding (NCB)
♦ Treasury	♦ Internal audit	♦ Shopping	○ Other
♦ Accounting	♦ External control	○ Individual consultants	○ Other

2. Fiduciary execution mechanism

♦	Special features of fiduciary execution	**Applicable procurement rules:** ▪ Considering that this program is structured, for Component I, as an investment loan under the global credit modality (financial intermediation), the procurement and contracting to be financed with the subloans under Component I of the program will be subject to the specific provisions contained in paragraphs 3.13 and 3.15 (Procurement in Loans to Financial Intermediaries/Commercial Practices) of the Policies for the Procurement of Goods and Works financed by the Bank (GN-2349-15) and the Policies for the Selection and Contracting of Consultants financed by the Bank (GN-2350-15), respectively. Other procurement and contracting envisaged in the program and identified in the procurement plan (required link 5) will be carried out in accordance with the Policies for the Procurement of Goods and Works and those for the Selection and Contracting of Consultants financed by the Bank (GN-2349-15 and GN-2350-15) or subsequent updates thereof. **Use of country systems**: ▪ The IDB Board of Executive Directors approved the use of the Colombian Public Procurement System (SCCPC) for Bank-financed operations (GN-2538-25 and GN-2538-26); the scope of use is defined in the aide-memoire signed between the IDB and the Colombia Compra Eficiente (CCE) National Public Procurement Agency.

[1] Any system or subsystem approved subsequently may be applicable to the operation pursuant to the Bank's terms of validation.

		▪ FDN is a majority State-owned mixed capital entity operating under a private-sector regime. Its contracting is governed by Manual MD-GCC-02-09 and the SCCPC does not apply. In this regard, Manual MD-GCC-02-09 is being reviewed by the Bank to validate the compatibility of its procurement procedures and documents with IDB policies. Nonetheless, FDN successfully completed execution of regional technical-cooperation operation RG-T3600 through application of the aforementioned manual.

3. **Fiduciary capacity**

Fiduciary capacity of the executing agency	FDN has an organizational structure and the experience needed to receive, administer, and channel the resources of multilateral agencies and has the capacity to execute the program.

4. **Fiduciary risks and risk response:** N/A

5. **Policies and guidelines applicable to the operation:** Documents GN-2811-1 (OP-273-12), GN-2349-15, and GN-2350-15, or subsequent updates thereof. Document GN-2259-1, Bank Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement.

6. **Exceptions to policies and guidelines:** Not applicable.

II. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE LOAN CONTRACT

Special condition precedent to the first disbursement: None.
Exchange rate: For the purposes of Article 4.10 of the General Conditions, the parties agree that the exchange rate to be used will be the rate stipulated in Article 4.10(b)(i). For the purpose of determining the equivalency of expenditures incurred in local currency chargeable against the local contribution and for reimbursement of expenditures chargeable against the loan, the exchange rate will be the rate in effect on the date on which the borrower, the executing agency, or any other person or corporation with delegated authority to incur expenditures makes the respective payments to the contractor, vendor, or beneficiary.
Type of audit: Report on FDN's audited financial statements, containing a note that describes the status of budget, accounting, and treasury execution of the loan (OC and SCX-REI sources), the subloans granted in the period, and the SCX-REI nonreimbursable financing contribution. FDN's institutional auditor must be a Bank-eligible firm. The content and structure of the note will be agreed upon with the Bank. The cut-off date will coincide with the close of FDN's fiscal year and the term for submission will be 150 days after that date.

III. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

♦	Recurring expenses	The recurring expenses necessary for the project will be financed following the executing agency's administrative procedures, provided they do not violate the principles of economy, efficiency, and competition. Such procedures will be acceptable to the Bank.
♦	Projects with financial intermediaries	Contracts between the executing agency, its financial intermediaries, and their end beneficiaries will include the Bank's clauses on integrity and eligibility. Should it be impossible or impractical given the project's circumstances to include those clauses in the contracts, the project team may study other mechanisms for adopting acceptable controls and duly bind the pertinent third parties to the Sanctions Procedures. The design of such mechanisms will be coordinated with the Office of Institutional Integrity, and will be supported by the Bank's Legal Department and included in the Credit Regulations.
♦	Advance procurement / retroactive financing	The Bank may retroactively finance from the loan proceeds eligible expenditures incurred by the borrower prior to the loan approval date, to finance disbursements to eligible subborrowers and activities envisaged in Component I for up to US$14.4 million of the IDB (OC) loan and US$13.6 million of the IDB (SCX-REI) loan (20% of each loan, respectively), provided that requirements substantially similar to those established in the respective loan contract have been met. The expenditures will have been incurred on or after 8 March 2024, and in no event will expenditures incurred more than 18 months prior to the loan (OC and SCX-REI sources) approval date be recognized.
♦	Records and files	FDN will maintain a complete, up-do-date electronic file of the documentation relating to loan execution (credit analysis, approvals, contracts, promissory notes, accounting and treasury receipts, etc.) and will make them available for review by the Bank for a minimum of three years after the contractual date of the last disbursement of the loan.

Main procurement items

Description	Selection method	New procedures / tools	Estimate date	Estimated amount (US$ thousands)
Firms				
Training plan (3 contracts)	Selection based on consultants'	N/A	From Q3-2025	100
Development of methodologies and improved			From Q3-2024	100

Description	Selection method	New procedures / tools	Estimate date	Estimated amount (US$ thousands)
processes for managing climate projects (2 contracts)	qualifications (SCQ)			
External audits of the program (covers 5 years)			Q4-2024	125
Midterm evaluation and final report on the operation (2 contracts)			Q2-2027	50
Preinvestment studies for years 1, 2, 3, and 4 (4 contracts)			From Q1-2025	750
Development and implementation of an action plan for FDN's diversity, equality, and inclusion program			Q4-2025	150
Development and implementation of pilot projects for women and ethnic communities			Q1-2026	150
Individual				
Financial specialist, environmental and social specialist with a gender focus, and an environmental and social specialist	Individual consultant's qualifications (3 CVS)	N/A	Q2-2025	350
Specialist to support preparation of reports on climate projects under IDB CLIMA (4 contracts)			From Q3-2025	300
Goods				
Annual procurement of software for institutional strengthening (5 contracts)	Shopping	N/A	From Q3-2025	300

Link to the Procurement plan.

IV. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

♦	Programming and budget	Subloan programming and budgeting will be performed in accordance with FDN's budgeting manual. Operations and expenditures financed from the loan will be identified with specific coding. The budget on income from interest accrued on the balances of disbursed subloans will have similar coding to facilitate identification.
♦	Treasury and disbursement management	The plan for making subloans will be prepared with a 12-month rolling horizon, according to the business plan for loan execution and will serve as the basis for estimating the periodic disbursements to be received from the IDB. FDN's treasury system will be used, which is supported by the institution's respective SAP ERP resource planning module. Disbursements will be made into a designated account in Banco de la República that FDN will open for this purpose. Local treasury movements related to loan execution will be controlled through a specific accounting subaccount in FDN's bank account. The disbursement mechanism will be electronic, through the financial module in the IDB's Client Portal. The currency for financial reporting is the U.S. dollar. The exchange rate will be the rate in effect on the date the currency of approval or currency of disbursement is converted into local currency. Option (b)(i) of Article 4.10 of the General Conditions of the loan contract will apply. Any exchange differential will be covered or in favor of FDN. Financial periods will be four months long, in line with FDN's regular procedures. The preferred disbursement method will be advances of funds. The operation will justify 70% of the unjustified cumulative balances before a new advance will be made. This flexibility is justified by the complex nature of the investments to be financed by the subloans, which require due diligence of credit, technical, environmental and social considerations that may demand lengthy processes.
♦	Accounting, information systems, and reporting	FDN uses the International Financial Reporting Standards (IFRS) to record its transactions. It will use the same standards for the operation as well as the SAP ERP accounting module. Movements related to execution of the loan will be reported in a specific cost center. The reports will be issued by SAP ERP and include the status of the sub-bank account for the loan and the auxiliary account for movements from the cost center assigned to the IDB financing. Resource allocations from the loan will be made in accordance with the Credit Regulations.
♦	Internal control and internal audit	FDN's internal auditor will include semiannually in its work plan specific control procedures for loan execution. The report on findings and recommendations will be shared with the IDB as soon as it is approved by appropriate body of FDN.

♦	External control and financial reports	The external audit will be performed by FDN's institutional auditor, provided the Bank considers the firm eligible. The institutional auditor's contract will be amended to include audit services for the loan, and must receive the Bank's no objection. The content of the note describing the status of financial execution of the loan (OC and SCX-REI sources), the subloans, and the SCX-REI nonreimbursable financing contribution may be adjusted during the life of the loan if circumstances so require. The cutoff date will coincide with FDN's financial close and the note will be submitted with 150 days thereafter.
♦	Financial supervision of the operation	The operation requires annual ex post financial supervision. The financial specialist will also be responsible for on-site and desk reviews and support at intervals warranted by the circumstances.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24 and DE-__/24

Colombia. Loan ____/OC-CO and Nonreimbursable Financing ____/GR-CO to Financiera de Desarrollo Nacional (FDN). IDB CLIMA: Energy Transition Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with Financiera de Desarrollo Nacional (FDN), as borrower, and with the Republic of Colombia, as guarantor, for the purpose of granting the former: (1) a financing to cooperate in the execution of the program “IDB CLIMA: Energy Transition Support Program” for the amount of up to US$72,000,000 from the resources of the Bank’s Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal; and (2) a nonreimbursable financing subject to the achievement and verification of key performance indicators, in accordance with the requirements established in the “Results-Driven Pilot Program that Rewards Development Effectiveness in Biodiversity and Climate Investment Loan Operations (IDB CLIMA Pilot Program)” (documents AB-3386 and GN-3168-6). Such nonreimbursable financing will be for the amount of up to US$3,600,000 from the resources of the IDB Grant Facility, and will be subject to the Terms and Financial Conditions and the Special Contractual Conditions in the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2024)

LEC/SGO/CAN/EZIDB0000366-1274791288-26474
CO-L1287 (OC) and CO-J0018

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Colombia. Loan ____/SX-CO to Financiera de Desarrollo Nacional (FDN)
IDB CLIMA: Energy Transition Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, acting as implementing entity of the Renewable Energies Integration Program (REI) of the Strategic Climate Fund (SCX) ("Fund") to enter into such contract or contracts as may be necessary with Financiera de Desarrollo Nacional (FDN), as borrower, and with the Republic of Ecuador, as guarantor, for the purpose of granting the former a financing aimed at cooperating in the execution of the program "IDB CLIMA: Energy Transition Support Program". Such financing will be for the amount of up to US$66,500,000, from the resources of the Fund, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ___ ____________ 2024)

LEC/SGO/CAN/EZIDB0000366-1274791288-26470
CO-L1287 (SCX-REI)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Colombia. Nonreimbursable Investment Financing GRT/SX-____-CO
Support for Implementation of the Energy Transition Support Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, acting as implementing entity of the Renewable Energies Integration Program (REI) of the Strategic Climate Fund (SCX) ("Fund"), to enter into such agreement or agreements as may be necessary with Financiera de Desarrollo Nacional (FDN), for the purpose of granting it a nonreimbursable investment financing for a sum of up to US$1,400,000 chargeable to the resources of the Fund, and to adopt any other measures as may be pertinent for the execution of the project proposal contained in document PR-____.

(Adopted on ___ ____________ 2024)

LEC/SGO/CAN/EZIDB0000366-1274791288-26472
CO-G1056