

# CLIMATE INVESTMENT FUNDS

CTF/TFC.11/18  
April 26, 2013

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Meeting of the CTF Trust Fund Committee  
Washington D.C.  
May 2-3, 2013

Agenda Item 5

## **PROPOSED AMENDMENTS TO THE COLOMBIA SUSTAINABLE ENERGY FINANCE PROGRAM**

## **PROPOSED DECISION**

Recalling its approval in December 2010 of USD 17.5 million in CTF funding for the program entitled, *Colombia Sustainable Energy Finance (C-SEF)*, submitted jointly by the Inter-American Development Bank and the International Finance Corporation, and recognizing its endorsement of a revised investment plan for Colombia, the Trust Fund Committee approves the document CTF/TFC.11/18, *Proposed Amendments to the Colombia Sustainable Energy Finance Program*, submitted by IDB and IFC, including:

- a) cancellation of USD 4.6 million in CTF funding for investments to be implemented by IFC;
- b) cancellation of USD 0.05 million in CTF funding for the associated IFC implementation and supervision budget; and
- c) modification of the scope of the investment component to be implemented by IDB so that the beneficiaries will include not only commercial banks but also other financial intermediaries, such as investment funds or facilities, financial trusts, leasing companies, asset managers, energy service companies (ECOs), and insurance companies.

**Inter-American Development Bank**

**International Finance Corporation**

**Proposed Amendment to the Colombian Sustainable Energy Finance Program (C-SEF)  
approved by the CTF TFC on December 7<sup>th</sup>, 2010**

**April 2013**

## **Background**

On December 7<sup>th</sup>, 2010, the Clean Technology Fund (CTF) Trust Fund Committee approved the Colombian Sustainable Energy Finance Program (C-SEF), a proposal consistent with the Colombia's Country Investment Plan (CIP), which was endorsed by the CTF Trust Fund Committee on March 15<sup>th</sup>, 2010. C-SEF was submitted jointly by the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC). The CTF Trust Fund Committee allocated to both multilateral development banks a combined amount of USD17.5 million in funding, USD15 million of which is earmarked for the support of at least three private commercial banks in Colombia to spur energy efficiency and cleaner production by lending to local SMEs and corporate clients (5M via IDB, and 10M via IFC). The remaining USD2.5 million is dedicated as non-reimbursable resources to provide technical assistance and program-related knowledge management activities, and as implementation and supervision budget (1.39M to IFC, and 1.11 to IDB).

The C-SEF is a comprehensive initiative to help develop a market for private-sector financing of energy efficiency and cleaner production (EE/CP) in Colombia funded by the CTF and other sources, such as IDB's and IFC's own resources, and local financial intermediaries. This objective will be accomplished by supporting local financial intermediaries, technical intermediaries, and end-users and addressing the main barriers (i.e., behavioral, financial, technical) to implementing EE/CP projects for small and medium-sized enterprises (SMEs) on a programmatic basis. More specifically, the interrelated barriers for increasing EE/CP investments and activities include: (i) the absence of activities specifically targeted towards supporting EE/CP efforts, and in particular the lack of a services market to support companies interested in using energy more efficiently, such as energy service companies (ESCOs); (ii) lack of information on improved technologies; (iii) lack of awareness among private enterprises as to the economic benefits of EE/CP; and (iv) absence of financial intermediaries (FIs) that act as promoters of investments in EE/CP.

To complement C-SEF, IDB approved in June 2011 a Colombian Financial Intermediaries Sustainable Energy Facility (the "Facility"), which entails financing up to USD90 million (or its equivalent in local currency) to promote EE/CP investments by end-users in Colombia. The objective of the Facility is to increase access to finance and build capacity and awareness for related investments. The Facility will provide a direct long-term financing, a credit enhancement to bond issuances or a risk sharing mechanism that will support a portfolio of sub-projects investing in EE/CP initiatives. The Facility is expected to be executed by 3 to 4 FIs in Colombia – each FI being considered a Project under the Facility.

So far, IDB and IFC (using CTF and its own resources) have supported Bancolombia, a financial institution in Colombia, as the first project under the C-SEF through an IDB-IFC-CTF-Bancolombia Green Guarantee Mechanism (the "GGM") that seeks to support EE/CP projects in Colombia. In this operation, IFC used USD 5.4M of reimbursable CTF resources leveraging other USD 100M in co-financing, including resources from IFC and IDB's own accounts. The Project aims to increase the financing available to support EE/CP projects in Colombia by encouraging a first mover financial institution – Bancolombia - to develop its lending business. The project consists of a risk sharing facility to cover a portfolio of sustainable assets originated

by Bancolombia of up to COP 200,000 million (USD 100 million). Under this facility, IFC, CTF and the IDB will cover a percentage of credit risks on a loan portfolio which is currently being built by Bancolombia.

In addition to the investment project, IFC has channeled \$1.07 million of CTF funds for the C-SEF Advisory Services Project. The project aims to expand access to finance for EE/CP related projects. It is addressing a number of market barriers that currently limit the availability of EE/CP financing in Colombia, including: (i) lack of awareness amongst private enterprises on the availability and economic benefits of EE/CP technologies; (ii) financiers' perceived risk associated with EE/CP lending, due to limited experience; and (iii) financiers' lack of technical expertise to enter the EE/CP market. Thus far, IFC has completed a regulatory analysis that has identified a series of regulatory related barriers and has proposed possible reforms to overcome these obstacles. In addition, IFC has carried out training and technical assistance to some 80 technical service providers operating in the country that can support the identification, analysis and development of EE/CP related projects for subsequent financing.

### **Statement of Issue**

The Investment Component of the C-SEF was designed to support at least three important private commercial banks in Colombia to stimulate and help scale up their EE/CP lending activity to local SMEs and corporate clients. However, beyond the Bancolombia GGM project, engagement with other potential commercial banks has been challenging. Since the approval of C-SEF, experience has shown that targeting only commercial banks with financial and/or technical resources is not enough to overcome the main barriers to increasing EE/CP investments and activities in the Colombian economy. In order for the C-SEF to have a broader impact and address the identified market barriers, there is a need to focus on financial innovation not only through commercial banks but also through other financial intermediaries such as Energy Service Companies (ESCOs), investment funds and facilities, special purpose vehicles, or insurance companies. By expanding C-SEF beneficiaries, it is possible to ensure that: (i) a portfolio of successful EE projects are developed, in most cases following an ESCO model financing scheme; (ii) demonstrate the economic viability of EE/CP projects in Colombia, and (iii) attract the attention of Colombian commercial banks with concrete examples of EE/CP projects already financed. This expansion of eligible partners will help develop and standardize the methodology for the identification and evaluation of EE/CP projects, which is expected to have a demonstrational effect for commercial banks to then tap into this new market niche, while reducing the perceived performance, provider and technology risk.

### **Proposed amended CTF C-SEF Program**

#### **1. Investment Component:**

- a) IFC does not foresee short term investment opportunities under the C-SEF program and in order to accelerate the execution of CTF resources following the new targets to enhance CTF operations, IFC is making its unused USD 4.6M available to be allocated to other priority programs or projects as specified by the government of Colombia on the Colombia Investment Plan Revision Note. An additional amount of USD 50,000, originally allocated to the implementation and supervision budget, is also made available.

- b) With regards to the USD 5 million allocated to IDB, this C-SEF amendment proposal expects to expand the beneficiaries of the C-SEF Investment Component to include other financial intermediaries, in addition to commercial banks, such as investment funds or facilities, financial trusts, leasing companies, asset managers, ESCOs and insurance companies.

**2. Technical Assistance Component:**

The C-SEF technical assistance activities being implemented by both IFC and IDB will retain their original financial request but will be modified to cover the broader scope of financial intermediaries, as described in the investment component.