

May 23, 2013

Comments from Germany on the Revised CTF Investment Plan for Colombia

Dear Patricia,

as discussed during the CTF meeting, pls find attached detailed comments to the rev IP for Colombia.

Kind regards
Annette

Division for Climate Policy and Climate Financing
senior political advisor
Federal Ministry for Economic Cooperation and Development

4. CTF/TFC.11/4 Revised CTF Investment Plan for Colombia

General comments

Demonstration Potential at Scale/ Implementation Potential:

- Within the context of looking for alternative (non-bank) FIs to complement Bancolombia in the Green Guarantee Mechanism (GGM), we are not sure whether the newly targeted FIs are fully suitable alternatives given that in most cases, their respective networks and customer bases are likely to be much smaller than those of Colombian commercial banks;
- The revisions mention re-focusing on ESCOs as viable alternative ultimately resulting in luring commercial banks back into the game. However, the proposal also rightly mentions that the Colombian ESCO market is rather weak/in its infancy. To our knowledge, there are only 2 ESCOs operating in Colombia, none (primarily due to small size) are structurally able to invest into relevant technologies on a larger scale. This seems to indicate that the perspective of ESCOs crowding in Colombian commercial banks might be a rather optimistic expectation (at least within the timeframe targeted by the CTF);
- Assuming that working with ESCOs is a suitable solution, we feel that the proposed shift of focus would necessarily entail re-designing the programme to meet the very different needs of non-bank FIs (e.g. more TA for necessary regulatory/institutional reforms, start up grants for ESCO business incubation, etc.) rather than a mere reallocation of budget and wider scope of FIs involved;
- Within this context, the IDB's MIF already seems to be addressing the development needs of the ESCO market through the project "Development of an ESCO Market and the Relative Insurance Instruments for SMEs in the Service Sector in Colombia". Consequently, we would like to underline the importance of dovetailing the new IDB proposal regarding the reallocation USD 5Mio. from the C-SEF program into the set of ongoing CTF activities with a view to re-designing the program rather than merely shifting the focus.

Budget:

- The revision involves a reallocation of 11MM towards "non conventional RE (NCREs)" (page 22 of the revised IP). From the text, these NCREs will supposedly benefit from reforms that are still under discussion;
- To our knowledge, the current regulatory framework in Colombia does not provide for the necessary conditions to develop grid-connected NCREs on a commercial scale. The respective regulatory discussions (e.g. whether, wind energy shall feature among technologies eligible for capacity payments) have been going on for several years;
- Hence, though there might be a strong technical and business case for grid-connected NCREs, the necessary meaningful regulatory reforms seems far from certain in the short term;
- Given this context, it appears questionable whether the reallocated funds will yield the "same potential to demonstrate and exemplify how to overcome the institutional, financial, knowledge and regulatory barriers

than with the original CTF IP” as stated in the IP revision. Hence we feel that a slightly more conservative representation of project deliverables might be expedient.