May 17, 2013

Comments from Germany on Approval by Mail: Colombia: Energy Efficiency Financing Program for the Services Sector (IDB)

Dear Columbia CTF Team,

thank you very much for a well written and argued proposal. We have a request for clarification (pls. see attachment) and would be grateful if you could provide an answer for our question. We are certain that we will be able to approve the project proposal following this clarification.

All the best
Annette

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COLOMBIA CTF-IDB ENERGY EFFICIENCY FINANCING PROGRAM FOR THE SERVICES SECTOR (CO-L1124) <u>and</u> NON-REIMBURSABLE TECHNICAL COOPERATION MITIGATION OF GHG EMISSIONS THROUGH ENERGY EFFICIENT INVESTMENTS IN HOTELS AND CLINICS/HOSPITALS (CO-T1332)

Comments from Germany 17th May 2013

Proposed decision:
=> GER approves both proposals subject to the below request for clarification (see general comments).

General comments:

⇒ <u>Leverage/co-funding:</u> The proposal suggest that an additional USD 10mio. will be provided through a new IDB lending operation that is yet to be approved, while it provides only very little detail on the actual co-funding to be provided by Bancoldex itself. Given the substantial degree of concessionality proposed for the combined loan and grant contributions, and the importance the CTF results framework places on co-funding and financial leverage, we would appreciate a more detailed/itemized estimation of anticipated cofunding by IDB, Bancoldex, as well as partner LFIs/insurers and if applicable equity contributions by final borrowers (i.e. hotels).

Consistency w/ CTF Investment Criteria:

(a) <u>Potential for GHG Emissions Savings:</u>
- Overall GHG Emission reductions of 14k tons of CO2e/yr have been estimated by means of a comprehensive and credible market study;
- Estimates have been computed following accepted CDM methodologies and official emission factors;
- Estimates appear conservative and based on reasonable assumptions.

(b) <u>Cost-effectiveness</u>
- The abatement cost of USD 143 per tCO2e appears very high, but (by following the current rather makeshift methodology for CTF monitoring framework) has not been not calculated as marginal cost and does not account for the potentially very significant cost savings hotels and hospitals are likely to achieve in the medium term by participating in the program. If these were considered, the abatement cost would likely be much smaller and in some cases even negative.

(c) <u>Demonstration Potential at Scale</u>
- The proposal rightly argues that the demonstration/replication potential is likely to be very significant, both in the targeted sectors as well as in other areas of the services industry and construction/building sectors.

(d) <u>Development Impact</u>
- The development impact of the project follows from 3 key impacts: (i) efficiency gains through reductions in energy intensity per unit of GDP; (ii) reduction of

energy supply costs of important public service providers; (iii) Environmental benefits of greening one of the fastest growing Columbian industries;
- The proposal also mentions other benefits (contributions to MDGs, gender benefits), that are somehow less directly attributable.

(e) Implementation Potential
- Project in line with IP and official government LED-strategy;
- Project hinges on improvements of the legal framework and development of the ESCO market;

⇒ Dependence on a single insurance company for the development and roll-out of the performance guarantee scheme appears a likely to become a major bottleneck for wider replication of the project. Consequently, we are concerned that transformational impact might remain far below expectations, if this issue is not addressed more directly and from the outset with additional measures and efforts to extend the scale and scope of involved public and private FIs (in particular insurers). Within this context, the proposal mentions that Bancoldex will be supported in the promotion of the program to LFIs. However, (i) recent experience with the limited replication across other FIs of Bancolombia's Green Guarantee Mechanism, (ii) the "asset-based lending approach" of LFIs and unlikelihood of the latter changing their business practice to accept cash-flows from EE investments as collateral, suggest that more comprehensive efforts might be necessary to secure uptake and replication by a wider spectrum of FIs.

(f) Additional Costs and Risk Premium
- Once market barriers have been overcome, the rate of return is likely to be substantially above the normal market threshold. However, from the perspective of partner FIs, both risk premium as well as transaction/opportunity cost of entering into the entirely business field is very high. Hence the CTF funding is justified.