

# CLIMATE INVESTMENT FUNDS

CTF/TFC.11/4  
April 16, 2013

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

Agenda Item 5

**REVISED CTF INVESTMENT PLAN FOR COLOMBIA**

## PROPOSED DECISION

Recalling its endorsement in March 2010 of the *CTF Investment Plan for Colombia*, the Trust Fund Committee reviewed document CTF/TFC.11/4, *Revised CTF Investment Plan for Colombia*, submitted by the Government of Colombia, in collaboration with the Inter-American Development Bank and the World Bank Group. The Committee takes note of the proposed revisions to the *CTF Investment Plan for Colombia* and the proposed reallocation of funding (see table below), including:

- a) increasing by USD 1 million the indicative CTF allocation under the Sustainable Urban Transport System Program for implementation by IBRD;
- b) decreasing by USD 11 million (USD 0.24 million IDB and USD 10.76 million IFC) the indicative CTF allocation under the Energy Efficiency Program from USD 50 million in the original plan to USD 39 million in the revised plan; and
- c) adding a Non-conventional Renewable Energy Program with an indicative CTF allocation of USD 10 million for implementation by IDB.

The Trust Fund Committee endorses the revisions as a basis for the further development of the proposed activities for CTF funding notes that the total indicative allocation after the revisions remains at USD 150 million in CTF funding, and recalls that the approval of CTF funding by the Committee is dependent upon the submission of high quality project or program proposals.

The Committee further takes note of the intention of the Government of Colombia to submit all remaining programs to the Trust Fund Committee under the revised plan for funding approval by September 2014 and requests the MDBs to work closely with Colombia to expedite the development of the programs for timely submission to the Committee.

Program	CTF Funding (IP Endorsed March 2010) (USD Million)	CTF Funding Reallocation (USD Million)			CTF Funding (Revised IP for Endorsement May 2013) (USD Million)
		IDB	IBRD	IFC	
Sustainable Urban Transport System	100		(+) 1		101
Energy Efficiency	50	(-) 0.24		(-) 10.76	39
Non-conventional Renewable Energy Program	0	(+) 10			10
Total	150	(+) 9.76	(+) 1	(-) 10.76	150

REVISED  
CLEAN TECHNOLOGY FUND  
INVESTMENT PLAN FOR COLOMBIA

April 2013

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## ACRONYMS

Bancoldex	<i>Banco de Comercio Exterior de Colombia</i> (Foreign Trade Bank of Colombia)	IIC	Inter-American Investment Corporation (part of IDB Group)
BAU	business as usual	IP	Investment Plan
BRT	bus rapid transit	LCD	Low Carbon Development
CCI	Clinton Climate Initiative	LAC	Latin America and the Caribbean
CNG	compressed natural gas	LFI	local financial institution
CO <sub>2</sub>	carbon dioxide	M	million
CO <sub>2</sub> e	carbon dioxide equivalent (A unit used to measure the climate effects of all GHG; it is calculated by multiplying the quantity of a GHG by its global warming potential)	MDB	multilateral development bank
		MIF	IDB's Multilateral Investment Fund
		Mt	million tons
CONPES	<i>Consejo Nacional de Política Económica y Social</i> (National Council for Economic and Social Policy)	NCRE	non-conventional renewable energy
		PM	particulate matter
		PND	Plan Nacional de Desarrollo (National Development Plan)
COP	Colombian Peso	PNTU	<i>Política Nacional de Transporte Urbano y Masivo</i> (National Urban Transport Policy)
CREG	<i>Comisión Reguladora de Energía y Gas</i> (Energy and Gas Regulatory Commission)	POT	<i>Plan de Ordenamiento Territorial</i> (land-use plan)
CTF	Clean Technology Fund	PPA	power purchase agreement
CTIMCC	<i>Comité Técnico Intersectorial de Mitigación de Cambio Climático</i> (Inter-sectoral Technical Committee on Climate Change Mitigation)	PPP	Alianzas público privadas (private-public partnerships)
		RE	renewable energy
DNP	<i>Departamento Nacional de Planeación</i> (National Planning Department)	SETP	<i>Sistemas Estratégicos de Transporte Público</i> (Strategic Public Transport Systems) (for medium-sized cities)
ECDBC	<i>Estrategia Colombiana de Desarrollo Bajo en Carbono</i> (Colombian Low-Carbon Development Strategy)	SIN	Sistema Interconectado Nacional (National Interconnected System)
		SITM	<i>Sistemas Integrados de Transporte Masivo</i> (Integrated Mass Transit Systems) (for large cities)
EE	energy efficiency	SITP	<i>Sistema Integrado de Transporte Público</i> (Integrated Public Transport System)
ENSO	El Niño-Southern Oscillation	SMEs	small and medium-sized enterprises
EPM	<i>Empresas Públicas de Medellín</i> (Medellín Utilities)	t	ton
ESCO	energy services company	TDM	travel demand management
GDP	gross domestic product	UNFCCC	United Nations Framework Convention on Climate Change
GHG	greenhouse gases		
GoC	Government of Colombia	Uniandes	Universidad de los Andes
IBRD	International Bank for Reconstruction and Development (World Bank)	UPME	<i>Unidad de Planeación Minero-Energética</i> (Mining and Energy Planning Unit)
IDB	Inter-American Development Bank		
IDEAM	<i>Instituto de Hidrología, Meteorología y Estudios Ambientales</i> (Institute of Hydrology, Meteorology, and Environmental Studies)	ZNI	<i>Zonas No Interconectadas</i> (Non-Interconnected Zones)
IFC	International Finance Corporation		

## EXECUTIVE SUMMARY

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This note revises the Clean Technology Fund (CTF) Investment Plan (IP) for Colombia. The Trust Fund Committee (TFC) of the CTF endorsed the CTF Investment Plan for Colombia in the meeting held in March 15 – 16, 2010, with an envelope of up to US\$150 million in CTF funding.

These CTF funds will finance and catalyze greater investments in sustainable urban transport systems and energy efficiency projects, as well as in non-conventional renewable energy. As of April 2013, US\$37.7625 million of CTF funding have been committed by the TFC.

The areas of intervention (two priority sectors) of the original CTF Investment Plan for Colombia remain unchanged. However, the GoC proposes to bring in the first phase of the IP the non-conventional renewable energy sector as a third priority. This third sector was presented in the original CTF IP as a priority sector for a possible second phase of the IP. This priority will be financed through the reallocation of CTF first phase IP resources. The GoC's intention is to commit the US\$150 million CTF total funding by Q3-2014. The impact of the revised programs on CTF objectives is expected to be comparable to the one envisioned in the original CTF Plan.

- *Program 1 – Sustainable Urban Transport (IBRD, IDB):* The first project approved by TFC (August 2011) was the support to Strategic Public Transport Systems (SETPs) in seven of Colombia's medium-sized cities. It is expected that the SETPs project will receive its first disbursement on Q1-2014 out of the US\$ 20 million CTF approved loan. Bogotá's Integrated Public Transport System (SITP) US\$ 40 million IDB project has been under preparation and will be presented for TFC approval by Q3-2013. Finally the remaining US\$ 40 million CTF funds, originally allocated exclusively for the IBRD Bogotá's SITP project (plus US\$ 1 million proposed by GoC to be reallocated to this project) will be applied to a select group (one or two) of Colombia's largest cities as a way to accelerate the implementation of their respective SITPs, and possibly to achieve additional greenhouse gas (GHG) reductions.
- *Program 2 – Energy Efficiency (IDB, IFC):* The US\$ 17.5 million IDB/IFC Colombia's Sustainable energy Finance Program (C-SEF) was approved by the TFC in December 2010 (first TFC project approval for Colombia's IP). In November 2012 a US\$ 262,500 Preparation Grant for Bancoldex Energy Efficiency Financing Program was approved by TFC. In April 2013, the US\$ 10.7875 million CTF-IDB Energy Efficiency Financing Program for the Services Sector (the Bancoldex Energy Efficiency Financing Program) was submitted for approval to the TFC. **Other two energy efficiency projects (one addressing the residential sector, and the other the energy services companies, or ESCOs)** are in preparation. Finally, GoC proposes to reallocate US\$ 11 million of this Program. These resources is proposed to be assigned as follows: (i) US\$ 1 million to the Sustainable Urban Transport Program, and (ii) US\$ 10 million to a third Program, proposed in this Revision Note to the TFC by the GoC, for interventions in the third priority sector on non-conventional renewable energy. Even though a reallocation of resources is proposed, the Energy Efficiency Program is expected to have the same original program results.
- *Program 3 – Non-conventional Renewable Energy (IDB):* This GoC's proposed new Program is aimed to promote a larger presence in the energy market for non-conventional renewable energy (NRCE) sources. CTF funds, blended with other sources, will contribute to investments that will provide information and the experience required to catalyze a larger adoption of a particular NCRE technology. It will also help to overcome the information barriers that prevent a larger presence in the market of NCRE and serve the purpose to position alternative energy generation

sources contributing to keep the countries power matrix in a relatively low-level of GHG emissions.

## Expected Results Indicators

The summary of expected results is presented on Table 1, while the expected results by program are presented on Table 2 (Sustainable Urban Transport), Table 3 (Energy Efficiency), and

Table 4 (Non-Conventional Renewable Energy).

Estimated cost-effectiveness values for the three programs are as follows:

- For Sustainable Urban Transport: US\$45.39/ton for the entire financing, or about US\$4.32 of CTF resources/ton.
- For Energy Efficiency: US\$30.04/ton for the entire financing, or about US\$7.96 of CTF resources/ton.
- For Non-Conventional Renewable Energy (20MW wind powered plant): US\$115.79/ton for the entire financing, or about US\$26 of CTF resources/ton.
- For Non-Conventional Renewable Energy (20MW + 413MW (possible expected additional)): US\$5.42/ton for the entire financing, or about US\$ 1.23 of CTF resources/ton.

**Table 1. Summary of Revised Expected Result Indicators**

<b>Summary Result Indicators</b>	<b>Target Value (Original CTF IP)</b>	<b>Target Value (Revised CTF IP)</b>
Co-financing of CTF funding (US\$ million)	150	150
Leveraged co-financing (\$US million)	2.879,8	1.103,3
GHG emissions savings (Mt/CO <sub>2</sub> e)/year)	77	36,42
CTF Cost Effectiveness (CTF US\$/tCO <sub>2</sub> e reduction over 20 years)	1.95	4,1



**Table 2. Expected Result Indicators for the Sustainable Urban Transport Program**

Indicators	Baseline	Investment Program Results <sup>1</sup>
Implementation of integrated public transit systems (SITM) <sup>(2)</sup>	3 SITMs implemented (2010 baseline)	Bogotá's SITP fully implemented targeting a population of 7 million. One or two SITPs fully implemented in Colombia's largest cities targeting a population of 1.5 million <sup>(3)</sup> SETPs implemented in seven cities, targeting a population of 2.4 million
Annual GHG emissions from the transport sector in target areas	21.8 Mt CO <sub>2</sub> per year	Annual emission at 20.6 Mt CO <sub>2</sub> per year, reflecting a 1.2 Mt CO <sub>2</sub> e reduction per year. Cumulative (avoided) reductions of 23.4 Mt CO <sub>2</sub> e by 2030 (46.8 Mt CO <sub>2</sub> e by 2050) <ul style="list-style-type: none"> <li>• Bogotá's SITP annual emission reductions of 0.4Mt CO<sub>2</sub>e</li> <li>• One or two SITPs (out of seven SITPs) annual emission reductions: One SITP of 0.06 Mt CO<sub>2</sub>e or Two SITP of 0.08 Mt CO<sub>2</sub>e<sup>(4)</sup></li> <li>• Seven SETPs annual emission reductions of 0.1 Mt CO<sub>2</sub>e</li> <li>• Initial implementation of low-carbon bus technology in the SITP and SETPs contributing to additional reductions of 0.2 Mt CO<sub>2</sub> per year</li> </ul> Additional reduction of 0.39 Mt CO <sub>2</sub> e per year is expected from replication and scale-up in SITPs (four or five remaining cities after selection)
Introduction of low-carbon bus technologies in the transit systems	Standard diesel buses	Bogotá's SITP and SETPs start initial implementation of an advanced hybrid fleet, or other low-carbon bus technologies
Modal shift from private vehicles to public transit systems	Increased ownership and use of private vehicles	Modal share of public transport grows or remains stable

- (1) The final figures of investment results column are based on calculation of MT and DNP and the on-going Low Carbon Development Study LCDS of World Bank and DNP, as well as the Uniandes (Grupo SUR) and Clean Air Institute. 2012 Study. "Estrategias Ambientales Integradas para una Movilidad Sustentable in Bogotá, and the Uniandes (Grupo SUR) + Secretaria de Ambiente de Bogotá. 2010 Study "Plan Decenal de Descontaminación del Aire de Bogotá"
- (2) Integrated public transit system concept builds on implemented SITM and SETP to reorganize public transport integrating all other transport modes of a large city/ metropolitan area.
- (3) This targeted population corresponds to a possible selection of 2 cities out of seven largest cities with the least CO<sub>2</sub>e potential, in order to remain conservative in the analysis. The target depends on the final city selection.
- (4) Selection of one or two SITPs will be done after expected CTF approval. Calculations for one SITP with 0.06 MtCO<sub>2</sub>e abatement target corresponds to the average abatement potential of the six SITPs (six largest cities). Calculations for two SITPs with 0.08 Mt CO<sub>2</sub>e abatement target corresponds to a possible selection of the cities with least abatement potential.

**Table 3. Expected Result Indicators for the Energy Efficiency Program**

Indicators	Baseline	CTF Efficiency Program Results
National electricity consumption	117,000 GWh per year (2030)	115,916,6 GWh per year (2030)
CTF Cost-effectiveness (CTF US\$/t CO <sub>2</sub> e reduction over 20 years)	n/a <sup>1</sup>	7,96
GHG emissions from electricity generation	36 Mton CO <sub>2</sub> e per year (2030)	35.76 Mton CO <sub>2</sub> e per year (2030)

<sup>1</sup> Abbreviation for not applicable

**Table 4. Expected Result Indicators for the Non-Conventional Renewable Energy Project**

	<b>Indicators</b>	<b>Baseline</b>	<b>CTF NCRE Project Results</b>
Co-financing of CTF funding (US\$ million)		0	10
Leveraged co-financing (\$US million)		n/a	34
RE installed capacity (MW)		0	20
GHG emission reductions (MtCO <sub>2</sub> e/year)		0	0,019
GHG emissions savings (Mt/CO <sub>2</sub> e) over 20 years (2030)		n/a	0,38
CTF Cost-effectiveness (CTF US\$/t CO <sub>2</sub> e reduction over 20 years)		n/a	26
Additional possible potential GHGs reduction by substituting a 300MW coal thermal plant:	Wind powered plants (MtCO <sub>2</sub> e/year)	n/a	0,32
	Wind powered plants (MtCO <sub>2</sub> e over 20years (2030))	n/a	7,74
	RE/wind installed capacity (MW)	n/a	413
	Geothermal powered (MtCO <sub>2</sub> e/year)	n/a	0,32
	Geothermal powered plants (MtCO <sub>2</sub> e over 20 years (2030))	n/a	6,16

## Revised Financing Table and Approval Calendar

Table 5 summarizes the allocations by MDB. Table 6 shows the revised financing plan, including co-financing. Finally, Table 7 shows the allocations and milestone dates for each project.

**Table 5. Proposed Reallocation of CTF Resources. April 2013 Revision**

<b>CTF Program</b>	<b>CTF Funding (CTF Plan Endorsed March 2010)</b>	<b>CTF Funding Reallocation</b>			<b>CTF Funding (Revised CTF IP, April 2013)</b>
		<b>IDB</b>	<b>IBRD</b>	<b>IFC</b>	
Colombia Sustainable Urban Transport System	100		(+) 1		101
Energy Efficiency	50	(-) 0.24		(-) 10.76	39
Non-conventional Renewable energy Program	0	(+) 10			10
<b>Total</b>	<b>150</b>	<b>(+) 9.76</b>	<b>(+) 1</b>	<b>(-) 10.76</b>	<b>150</b>

Figures in US\$ million

**Table 6. Colombia Revised CTF IP, April 2013 - Indicative Financing Plan**

<b>Financing Source</b>	<b>Sustainable Urban Transport</b>	<b>Energy Efficiency</b>	<b>Non-Conventional Renewable Energy</b>	<b>TOTAL</b>
CTF executed by IDB	60.0	32.26	10.0	<b>102.26</b>
CTF executed by IBRD	41.0	--	--	<b>41.0</b>
CTF executed by IFC	--	6.74	--	<b>6.74</b>
<b>CTF total</b>	<b>101.0</b>	<b>39.0</b>	<b>10.0</b>	<b>150.0</b>
IDB loans	300.0	10.00	10.0	<b>320.0</b> *
IBRD loans	100.0	--	--	<b>100.0</b> *
IFC loans	--	24.7	--	<b>24.7</b>
IDB grants	5.8	--	--	<b>5.8</b>
IBRD grants	--	--	--	--
KfW	--	--	--	--
Carbon finance	30.0	--	--	<b>30.0</b>
Other	--	--	--	--
GoC			--	--
Bogotá DC		--	--	--
Municipalities	100.0	--	--	<b>100.0</b>
Private sector	425.30	73.50	24.0	<b>522.80</b>
<b>TOTAL</b>	<b>1,062.10</b>	<b>147.20</b>	<b>44.0</b>	<b>1,253.30</b>

Figures in US\$ million

\*IDB and IBRD loans are included in the country pipelines and in the medium fiscal framework.

**Table 7. Colombia Revised CTF IP, April 2013 – Project Allocations and Approval Calendar**

CTF Program / Project Title	MDB	TFC Approval Date	MDB Board Approval Date	Effectiveness Date/ Contract Date	First Disbursement Date	Original CTF Funding (US\$ million)	Reallocated CTF Funding (US\$ million)	Leveraged Funding (US\$ million)
<b>Program 1: Colombia Sustainable Urban Transport</b>						<b>100</b>	<b>101</b>	<b>961.10</b>
1.1 Bogotá's SITP	IDB	Q2-2013*	Q3-2013*	Q3-2013*	Q4-2013*	40	40	
1.2 Bogotá's SITP (and other major cities): Prep Grant	IBRD	Q3-2013*					1	
1.2 Bogotá's SITP (and other major cities): Loan	IBRD	Q3-2014*	Q4-2014*	Q1-2015*	Q2-2015*	40	40	
1.3 SETPs	IDB	Q3-2011	Q3-2011	Q2-2013*	Q1-2014*	20	20	
<b>Program 2: Improving Energy Efficiency</b>						<b>50</b>	<b>39</b>	<b>108.20</b>
2.1 EE in the residential sector	IDB	Q3-2013*	Q4-2013*	Q4-2013*	Q4-2013*	10	10.58	
2.2 EE in the Services Sector: Prep Grant	IDB	Q4-2012				0.2625	0.2625	
2.2 EE in the Services Sector: Program	IDB	Q2-2013*	Q2-2013*	Q3-2013*	Q1-2014*	10.7375	10.7875	
<b>2.3 Development of an ESCO market in Colombia</b>	<b>IDB</b>	<b>Q4-2013*</b>	<b>Q1-2014*</b>	<b>Q2-2014*</b>	<b>Q2-2014*</b>	<b>5.39</b>	<b>4.52</b>	
2.4 C-SEF: Loan 2	IDB		Q3-2013*	Q1-2014*	Q1-2014*	5	5	
2.4 C-SEF: IDB Technical Cooperation and fees	IDB					1.11	1.11	
2.4 C-SEF: Bancolombia loan	IFC		Q2-2011	Q3-2011	Q3-2011	5.4	5.4	
2.4 C-SEF: Remaining loan balance	IFC					4.6	0	
2.4 C-SEF: IFC Technical Cooperation and fees	IFC		Q1-2011	Q1-2011	Q1-2011	1.39	1.34	
2.5 EE private sector project	IFC					6.11	0	
<b>Program 3: Non-Conventional Renewable Energy</b>						<b>0</b>	<b>10</b>	<b>34</b>
3.1 Non-Conventional Renewable Energy Program	IDB	Q4-2013*	Q1-2015	Q2-2015	Q3-2015	0	10	
<b>TOTAL</b>						<b>150</b>	<b>150</b>	<b>1,103.30</b>

\* Planned

## INTRODUCTION

The Clean Technology Fund (CTF) Colombia Investment Plan (IP) is a “business plan” owned by the Government of Colombia (GoC), and prepared in cooperation with the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB) and the International Finance Corporation (IFC), in order to provide support for the low-carbon objectives contained in Colombia’s National Development Plan (2006 – 2010) discussed and adjusted by Colombian civil society through the National Planning Council, defined for this purpose by law. The IP identifies the programs that are proposed to be co-financed by the CTF jointly with the IBRD, IDB and IFC, and private sector.

The IP was submitted to the CTF Trust Fund Committee in March, 2010, as a two-phase process. The first phase addresses the implementation of abatement measures in two key sectors - energy efficiency and urban transport -, which have been identified as ready for the scaling-up of investment through use of CTF resources, and as exhibiting high potential for transformational change in terms of shifting investment patterns onto a lower carbon path. It was proposed that, as the Government took further steps toward creating an enabling environment for renewable energy, there would be opportunities for investing in this sector as part of a possible second phase of the IP, which could include as well further programs on energy efficiency and transport.

**This note presents a revision of the original CTF Investment Plan of Colombia, which was endorsed by the CTF Trust Fund Committee in the TFC meeting held in March 15 – 16, 2010. Specifically,**

this note provides an update of the status of project implementation under the original IP, and proposes reallocating funds within the priority sectors of urban transport and energy efficiency, and including non-conventional renewable energy sector as part of the current phase I IP for Colombia<sup>2</sup>. Assessment of the impact of the proposed changes on achieving objectives and targets of the initial investment plan will be presented as well.

The originally selected CTF co-financing activities included the following:

- *Program 1 – Urban Sustainable Transport (IBRD, IDB)*: the proposed CTF co-financing will support Colombia in transitioning to the next generation of urban transport investments, by scaling up its hitherto successful efforts in promoting investments in BRTs and preventing a reversal in the strong gains in modal share of public transport. The GoC is proposing to use CTF co-financing for two discreet activities to:
  - a) accelerate low-carbon-related investments in Bogotá’s Integrated Public Transport System (SITP), with the largest potential for GHG emissions reduction; and
  - b) accelerate low-carbon-related investments in the Strategic Public Transport Systems (SETPs) for at least seven (of the twelve) medium-sized cities, and increase measures for reduction of GHGs within these plans, as well as indirectly leading to similar investments in a further five cities.
- *Program 2 – Energy Efficiency (IFC, IDB)*: the proposed CTF Energy Efficiency Program sought to strategically deploy CTF financing through a series of private and public sector interventions, using technical assistance, investment financing, and performance-based incentives to systematically reduce the barriers (financial, regulatory and knowledge) that stand in the way of scaling-up energy efficiency investments throughout the economy.

## **STATUS OF ORIGINAL INVESTMENT PLAN IMPLEMENTATION**

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**The commitment of CTF funding under the CTF Investment Plan for Colombia has been slower than anticipated.** The GoC celebrates the decision of bringing down the required minimum of leveraged loan funds which for Colombia was too high and became a strong barrier for initiating with more speed implementation, due to the difficulty to include the resulting high amounts in the national budget programmed accordingly Colombia’s medium term fiscal framework. As of April 2013, the Trust Fund Committee has committed US\$37.7625 million out of US\$150 million originally endorsed for Colombia (equivalent to 25% of the total endorsement).

The following table shows the status of project approval and financing allocation of the original CTF IP endorsed in March 2010.

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<sup>2</sup> The non-conventional renewable energy sector was presented as possible second phase of the original IP, if resources became available and a better government driven environment was achieved.

**Table 8: Financing Allocation and Status of Project Approvals (CTF Plan - Endorsed March 15, 2010)**

CTF Program / Project Title	MDB	TFC Approval Date	MDB Board Approval Date	Effectiveness Date/ Contract Date	First Disbursement Date	Original CTF Funding (US\$ million)	Leveraged Funding (US\$ million) <sup>3</sup>
<b>Program 1: Colombia Sustainable Urban Transport</b>						<b>100</b>	<b>2,225.8</b>
1.1 Bogotá's SITP	IDB	Q2-2013*	Q3-2013*	Q3-2013*	Q4-2013*	40	
1.2 Bogotá's SITP (and other major cities): Prep Grant	IBRD	Q2-2013*					
1.2 Bogotá's SITP (and other major cities): Loan	IBRD	Q3-2014*	Q4-2014*	Q1-2015*	Q2-2015*	40	
1.3 SETPs	IDB	Q3-2011	Q3-2011	Q2-2013*	Q1-2014*	20	
<b>Program 2: Improving Energy Efficiency</b>						<b>50</b>	<b>620</b>
2.1 EE in the residential sector	IDB	Q3-2013*	Q4-2013*	Q4-2013*	Q4-2013*	10	
2.2 EE in the Services Sector: Prep Grant	IDB	Q4-2012				0.2625	
2.2 EE in the Services Sector: Program	IDB	Q2-2013*	Q2-2013*	Q3-2013*	Q1-2014*	10.7375	
2.3 Development of an ESCO market in Colombia	IDB	Q4-2013*	Q1-2014*	Q2-2014*	Q2-2014*	5.39	
2.4 C-SEF: Loan 2	IDB		Q3-2013*	Q1-2014*	Q1-2014*	5	
2.4 C-SEF: IDB Technical Cooperation and fees	IDB					1.11	
2.4 C-SEF: Bancolombia loan	IFC		Q2-2011	Q3-2011	Q3-2011	5.4	
2.4 C-SEF: Loan 3	IFC					4.6	
2.4 C-SEF: IFC Technical Cooperation and fees	IFC		Q1-2011	Q1-2011	Q1-2011	1.39	
2.5 EE private sector project	IFC					6.11	
<b>TOTAL</b>						<b>150</b>	<b>2,879.8</b>

\* Planned

## Program 1: Colombia Sustainable Urban Transport Program (IBRD, IDB)

### General Description

The original CTF Investment Plan for the priority urban transport sector proposed a CTF co-financing support for Colombia in transitioning to the next generation of urban transport investments, by scaling up its hitherto successful efforts in promoting investments in BRTs and preventing a reversal in the strong gains in modal share of public transport. The GoC proposed to use CTF co-financing for two discreet activities to:

- accelerate low-carbon-related investments in Bogotá's SITP (the largest of 7 SITP's cities), with the largest potential for GHG emissions reduction; and
- accelerate low-carbon-related investments in SETPs for at least seven (of the twelve) medium-sized cities, and increase measures for reduction of GHGs within these plans, as well as indirectly leading to similar investments in a further five cities.

The proposed CTF investments were planned to include several components, which would enhance the existing Government and municipality plans for Bogotá's SITP and for the SETPs in seven cities. These CTF supported components were all aimed at increasing (or maintaining) the modal share of public and non-motorized transport and improving the efficiency of the system (services and fleet) in order to maximize the reduction of GHG emissions associated with the plans for the SITP and SETPs. The components, which are being defined during the on-going detailed program design and project

<sup>3</sup> The leveraged fund indicated here are from those calculated in the original CTF IP. This table presents the status of projects corresponding to the information on the original CTF IP.

development, include: (i) investments and measures for modal shift toward low-carbon transport alternatives, (ii) scrapping displaced vehicles, and (iii) setting the stage for the introduction of new low-carbon bus technologies.

## **Program Rationale**

The program rationale presented in the original CTF IP was as follows:

CTF resources can help to overcome cost and institutional barriers to the realization of modal shift towards sustainable, low-carbon urban transport systems. These barriers include the following.

- City-wide transport systems, such as the SITP, require massive public sector investment from the local and national government, which may not be readily available given the multiple demands for public funds in social sectors and the high cost of transit infrastructure. The availability of CTF financing would lead to integration of low-carbon technologies within urban transport systems, resulting in the scaling-up of investments. Blending CTF resources with IDB and IBRD loans and other financing sources would therefore facilitate integration of low-carbon technologies within the SITP and SETPs.
- Institutional barriers are also present, with regulatory authorities that are weak, resistant to change existing conditions, and sometimes co-opted by the incumbent private operators. The MDBs will continue providing technical assistance to ensure successful implementation of the CTF Transport Program, as well as for introduction of travel demand management (TDM) measures. These measures, while representing significant reductions in carbon intensity over the long run, face strong institutional and political economy barriers, requiring fiscal measures that may not prove popular in the absence of financial and regulatory incentives;
- Scrapping programs are also capital intensive, involving the purchase of many old vehicles, large transaction costs and institutional capacity for management and enforcement, and
- Adoption of low-carbon technologies, such as hybrid or compressed natural gas (CNG) drives, which are more capital intensive than conventional diesel buses (approximately 50%), even though it is thought their use would typically reduce maintenance expenditures by a similar margin. These upfront capital costs constitute a significant barrier which CTF concessional finance could overcome

## **Progress**

Under this Program, IDB and IBRD supported the design and implementation of the SITP and the SETP for medium-sized cities through 3 projects as follows:

### **1.1 CTF co-financed investments in Bogotá's SITP through IDB**

The “Financing Program for the Technological Transformation of the Integrated Public Transport System (SITP)-CTF IADB” (CO-L1096) aims to improve public transport in Bogotá and reduce emissions of local pollutants and GHG. As shown on Table 7, it is scheduled to be submitted to the CTF TFC for approval in June 2013 and to the IDB Board for approval on August 2013. The expected date for first disbursement is December 2013.

The program will finance the replacement of obsolete vehicles by clean technology buses as part of the Integrated Public Transport System implementation. To achieve this, a credit line will be designed with concessional resources from CTF (US\$ 40M) and offered through intermediary financial institutions, with attractive conditions for local operators. The CTF resources will be used to finance the purchase of buses with clean technologies. With the implementation of the project, between 220 and 345 hybrid or electric buses of medium capacity (up to 80 passengers) will be financed, according to specifications and final market price. The project expects the following results: (i) reduction in operating costs, (ii) local pollutant

emission reduction, (iii) GHG emissions reduction. Finally, this intervention is expected to have transformational impacts and serve as a model to replicate in other cities.

### **1.2 CTF co-financed investments in Bogotá's SITP through IBRD**

After the approval of the CTF IP for Colombia on March 2010, the GoC initiated the definition of a new National Development Plan (2010 – 2014), and, as mentioned for SETPs, municipalities initiated the design and approval through municipal councils of their own development plans (2012 -2016). Based on these results, the new revealed opportunities, and the relatively slow definition of the project, the GoC decided to utilize the US\$40 million CTF funds more effectively in the way of incentivizing the implementation of SITPs in Colombia's largest cities and generating additional GHG emission reduction than those expected in the original IP. Detailed explanation of this decision is developed in the Chapter on "Proposed Changes in the Investment Plan". The general result of the proposal is to reallocate the US\$40 million within Bogotá's SITP or to other (one or two) large cities implementing SITP projects.

### **1.3 CTF co-financed investments in SETPs through IDB.**

The "Strategic Public Transport Systems (SETP)" US\$ 20 million project was approved by the CTF Trust-Fund Committee in August 2011 and by the IDB Board in September 2011. The GoC decided that, in order to review the scope of the project and ensure its long-term sustainability through a flow of earmarked yearly fiscal transfer *vigencias futuras* mechanism, prior to the signing of the loan contract, it was necessary to renegotiate the financing agreements with the new municipal administrations (based on their Municipal Development Plans 2012 – 2016, approved by municipal councils during 2012), a process that was completed in the first quarter of 2013. The GoC will now request the authorization of the Parliamentary Committee on Public Credit (to be held on April 2013) to sign the loan agreement with the Bank, programmed for May 2013 (table 4). The expected date for first disbursement is the first quarter of 2014.

#### **Next Steps**

During the following months it is a priority for this Program to accelerate project implementation concentrating initial efforts on seeking TFC and Board approvals for the IDB/CTF SITP project, and contract signature for the IDB/CTF SETP project.

Next steps for the IBRD/CTF project (US\$40 million), as well as the related proposed changes, are presented in the next chapter. Assuming TFC's endorsement of the IP, it is programmed that the IBRD project will be submitted for TFC approval on Q3-2014, as shown on Table 7.

Finally, it is very important to highlight that no changes have been made in relation with the general rationale of the Sustainable Urban Transport Program of the original CTF IP. The project design of SETPs and Bogotá's SITP projects respond in all senses to the Program rationale and are expected to contribute to the CTF objectives as established in the original CTF IP.

## **Program 2: Colombia Improving Energy Efficiency Program (IDB, IFC)**

### **General Description**

As mentioned in the original CTF IP, Colombia possesses significant opportunities for scaling up the implementation of energy efficiency for both electricity and thermal end-uses across all sectors of the economy. This can include the introduction of efficient technologies and processes, end-use renewable energy technologies (in particular solar water heating), and cogeneration systems. A CTF-funded effort would focus on the three main energy consuming sectors, namely industrial, commercial and residential.



According to a study by Uniandes, mitigation costs for energy efficiency are actually “negative”, meaning that, from an economy-wide perspective, energy efficiency interventions, rather than having a cost, yield positive net benefits to the economy - in this case a benefit of US\$ 3.4 per ton of CO<sub>2</sub>e abated (such a ‘negative cost’ is common for energy efficiency). These results, however, only consider the costs of the investments themselves against the energy savings. They exclude the costs of removing the financial, regulatory and knowledge barriers for energy efficiency opportunities to be utilized.

A recent study by McKinsey<sup>4</sup> found that while efficiency investments across an entire economy offer tremendous potential for reducing energy emissions, these savings are dispersed across millions of relatively small and diverse measures, in every sector of the economy. Therefore, transactional costs are relatively high per unit of savings, and form a barrier to emissions reduction. For instance, an industrial plant may require 12 different technology upgrades, which are difficult for both financial institutions and companies to assess and process without technical expertise. The knowledge and transactional costs involved in researching each technology are often perceived to outweigh possible energy savings benefits, and so no action is taken. In this environment, efficiency programs that reduce knowledge and transactional costs for both financial institutions and consumers in a programmatic manner are crucial. As programs are established and consumers and financiers gain experience in the sector, the transaction costs are reduced and more of the financial benefits associated with implementing energy efficiency investments can be realized.

Increasing energy efficiency in the Colombian economy needs to confront a number of interrelated knowledge, financial and regulatory barriers. These pertain to three main market actors: financial institutions, energy end-users, and government, along with a more generalized barrier that is transversal across these actors. Amongst these barriers the following are the most important.

#### General

A lack of experience in energy efficiency across the economy and lack of information about existing energy efficiency experiences in other countries as well as poor information flow between market players. This has impeded the growth of strong energy efficiency institutions and programs, and the proper alignment of incentives.

#### Financial institutions

A dearth of domestic efficiency finance availability, which is due to insufficient familiarity in the financial sector. The lack of relevant expertise and capacity amongst financial intermediaries in terms of how to market, analyze and appropriately structure energy efficiency deals typically results in relatively high transaction costs for the financial institution and high interest rates for the consumer. This in turn discourages potential borrowers by deteriorating the cost benefit of the energy-efficient project. The high initial investment cost of these products can also be a significant financial hurdle in itself. For individuals the high upfront costs and a lack of access to credit can make these investments impossible even if they have attractive returns.

This same lack of knowledge expresses itself as an inflated perception of risk. Financial institutions are uncertain about the returns and loss expectations for energy efficient projects because such loans have not been systematically made and monitored in their markets to date. This discourages them from developing new and unproven lines of business/products. Inflated risk perceptions due to lack of familiarity also puts additional stress on the often weak credit profiles of customers. This is currently a significant barrier given that most energy-efficient equipment has weak collateral value, which focuses the risk analysis even more strongly on a company’s or person’s financial position and not on the merits of the energy efficient project/investment.

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<sup>4</sup> Choi-Granade, H., et. al., 2009. *Unlocking Energy Efficiency in the US Economy*. McKinsey and Company. [tiny.cc/USEE](http://tiny.cc/USEE).

### Energy end-users

A lack of end-user knowledge of the economic benefits of more efficient equipment and processes forms a barrier on the demand side of the market. While companies and people may understand conceptually that more efficient equipment can save them money, many - especially those in charge of making investment decisions - do not know the scale of those savings or how to execute the right measures, and have insufficient information to make reasonable investment decisions.

The knowledge barrier amongst end-users also manifests itself as perceptions of a high opportunity cost for initial investments. When choosing amongst investments in fixed capital, managers may prefer to invest in larger projects which have a lower project return but a larger absolute impact on the company's financials because benefits appear greater in the short term. This barrier for companies disappears consistently with better education.

There is also a lack of experienced technical service providers in the economy, who could otherwise contact clients and facilitate and implement energy efficiency measures. These agents normally operate in tandem with efficiency programs, but because there is not enough information on the benefits of such programs, the private sector has not sufficiently developed them.

### Government

Under the current regulatory framework, distribution companies have a disincentive to foster energy efficiency among their clients, because the resulting reduction in total energy consumption (and reduction in sales) would cause them to forego earnings. This can be addressed by "decoupling" approaches. Moreover, there are other impediments related to the sale of excess energy by companies that affect cogeneration opportunities, among other obstacles.

On the public sector side, there is insufficient coordination among national programs that manage the informational and technical aspects of energy efficiency investments and connect the consumer with financing.

As indicated above, most of these barriers are intertwined together and are related to knowledge and financial aspects that can be addressed with scaled informational and financial programs directed at the private sector, though policy-making support would also be useful. Colombia's market structure also offers a unique opportunity to "fast-track" behavioral change across many sectors simultaneously because the country's private sector is led by seven major conglomerate groups or affiliations. Each economic group has historically included affiliations with financial institutions, as well as major industrial and commercial companies. As a result, the opportunity exists for the MDBs, through the CTF Efficiency Program, to obtain the "buy-in" from one or two of these groups for efficiency programs (if only as a competitive advantage) to further catalyze the "up-take" of efficiency programs across many sectors at the same time. The following actions are envisaged as key elements of the CTF Efficiency Program in order to directly address the above barriers.

### Financial institutions

Barriers amongst financial intermediaries can be addressed in two ways. Firstly a technical assistance program is required to educate institutions about the risks, benefits and characteristics of efficiency finance. Technical assistance resources can be targeted to include capacity building and knowledge sharing from other global or regional financial institutions, which have developed energy efficient lending programs, as well as support in creating appropriate financial models for these investments, and structure for efficiency lending tools. As banks are better able to assess and incorporate the financial benefits of energy-efficient projects into their credit decisions, and as interest rates decline for these products, the client base for efficiency financing products is expected to grow.

Secondly, the financial intermediary barrier can be addressed with direct financial assistance and guarantees to banks, which help mitigate their overall risk perceptions regarding these investments that results from inadequate experience on the part of domestic lenders. CTF finance is more suited to accept these risks and catalyze financial institutions to enter into this new market. CTF funds can be used to provide financial institutions with “risk cushions” or “first loss” coverage while a track record is being established for the new portfolio.

### Energy end-users

The knowledge barrier amongst end-users (who create demand for and implement the efficiency investments) can be addressed by scaled-up efficiency programs that educate consumers directly, or train the technicians and industry groups that will in turn educate consumers and execute efficiency measures. This knowledge dissemination is necessary to create capacity and demand, thereby catalyzing the adoption of energy-efficiency technology. The programs should provide the education and assessments to consumers regarding measures, and facilitate the execution of their intervention programs by connecting them to the trained technicians that can execute the measures, and the financing programs that can finance them.

One specific and indispensable tool for educating consumers and initiating the process of equipment upgrades is energy audits. These help companies understand the level of savings that can be achieved through technology improvements, and the payoffs of making the high initial equipment expenditures.

Another envisaged tool that is both knowledge-based and financial would be the establishment of private sector performance-based incentives programs, whereby stakeholders would be educated and rewarded for their actions conducive to efficiency improvements. Such a program would also serve to create awareness of efficiency programs and assistance, improve the penetration rates of these programs, and serve to facilitate the involvement of industry partners and government.

Even given the dissemination of knowledge about the potential savings to be achieved by energy efficient equipment, financial barriers can remain for the consumer, which may simply not have enough cash to cover the high initial investment cost of these products. Increasing access to capital for individuals and small and medium-sized enterprises (SMEs) through the banking programs described above, and utilizing programmatic intermediaries, could help to enable investment in these sectors.

### Government

CTF or other resources can and should also be used to support government planning and help it create the market conditions whereby a robust energy efficiency industry can take root. Such resources can assist in strengthening the institutional frameworks of public entities, impart best practices in efficiency regulation, and help the government examine options for aligning regulatory incentives with efficiency objectives.

In sum, CTF resources, through both private and public sector operations, can play a key role in overcoming knowledge, financial, and regulatory barriers to the adoption of low-carbon technologies by providing advisory assistance, investment support, and performance-based incentives. Existing programs offering some of these tools have been successful in demonstrating the potential of certain components of an efficiency market in Colombia but are currently too small to catalyze scaled-up energy efficiency investments. Additional resources are required to scale up these efforts and utilize international best practices to build strong national efficiency programs. If market components are aligned and scaled up in a coordinated and strategic fashion, the connection between supply and demand for efficiency services can be established.

## Proposed Transformation in Energy Efficiency

The proposed CTF Efficiency Program seeks to strategically deploy CTF financing through a series of private and public sector interventions, using technical assistance, investment financing, and performance-based incentives to systematically reduce the barriers that stand in the way of scaling-up energy efficiency investments throughout the economy.

Through the specific interventions in the targeted three consuming sectors (industrial, commercial and residential), it is estimated that the CTF Efficiency Program would save 4.9 Mt CO<sub>2</sub>e over a 20 year period with a total program cost of US\$147.2 million. The cost of abatement is therefore US\$30.04/Mt CO<sub>2</sub>e. This figure includes the investment required for these measures as well as corresponding programmatic and transaction costs.

Together, the various financial and non-financial products of the MDBs and the CTF, each leveraging funding from bilateral cooperation agencies, the government, and the private sector, provide a programmatic response to the specific challenges posed by the Colombian economy.

## Program Rationale

CTF financing is necessary to address capacity, cost and risk barriers among financial institutions, increase end user demand, and build local technical expertise among key stakeholders in order to scale up energy-efficient investments in a systematic and sustainable way in Colombia. The CTF program would coordinate existing small, balkanized policies programs and actors in energy efficiency, as well as unlock latent financial resources which are currently constrained by risk perceptions. Because the benefits of efficiency technologies have not been demonstrated in this market sufficiently, and because the technical capacity required does not exist sufficiently in the market, scaled investment in an efficiency market under current conditions will not take place. Launching such a coordinated effort will require significant financial resources and know-how, which are not currently being mobilized in the market. CTF resources could grow, and serve as a center of gravity and coordinating mechanism for all of the individual players within the sector. Previous attempts to solve only a single barrier have been unsuccessful. It is only through this programmatic approach for addressing regulatory, knowledge and financial barriers that the market can be transformed and that the proposed potential of emissions reductions can thus be realized.

The net abatement cost for energy efficiency investments in Colombia is estimated at -3.4 US\$/t CO<sub>2</sub>e, including the consideration of energy savings. This calculation does not capture, however, the complexity and cost of gathering and delivering information on potential energy savings, changing risk perceptions, changing engrained behavior, reducing transaction costs, or implementing an energy efficiency program. Many energy efficiency investments generate a positive return, but until the financiers and end-users understand – through the experience of their competitors or their own firsthand experience – that energy efficiency investments are good business, those returns will not be generated. The use of CTF funds for technical assistance and concessionary finance, such as loans and guarantees, or seed capital for the national energy efficiency fund, provides the necessary catalyst to engage the stakeholders to implement energy efficiency investments. In the absence of such a source of funds, Colombia - as well as many other countries - is expected to remain as it has been: a country of significant, but untapped, energy efficiency potential. In addition CTF funds can make possible a set of programs that will build a comprehensive and coordinated efficiency market, allowing Colombia to adopt best-of-industry practices and avoid wasting valuable resources through the trial and error of isolated pilot programs.

The role of the CTF as a catalyst extends further to re-directing existing funding sources and generating new funding sources for this energy efficiency program. As a result of the CTF Efficiency Program, a portion of the already approved US\$200 million line of credit from IDB to Bancoldex for SME competitiveness (US\$10 million), will become available for SME energy efficiency investments. CTF

funding will also directly leverage financing from IDB (technical cooperations) and the IFC, as well as private sector funding.

## **Progress**

The following 4 projects address the above cited barriers to promote EE markets. Project design has been elaborated with the support of the IDB bank and the IFC. As it is shown in table 4, 2 out of the 4 projects have already been presented to the TFC approval and the third one will be presented during the following months. The progress of these projects is as follows:

### **2.1 Energy Efficiency in the Residential Sector**

The GoC is planning to focus CTF US\$10 million financing towards reduction of energy consumption in Non-Interconnected Zones (ZNI) through a program that incorporates appropriate financial structures and capacity building activities. Due to the high reliance on diesel power generation, the relative high cost of energy and the low income of the majority of the population in ZNI, the GoC expenditure in subsidies for power service tariffs in those areas is close to US\$20 million a year. Therefore investment in energy efficiency in ZNI represents a great potential for poverty reduction and a direct impact in GHG reduction. The program could be implemented through the local distribution companies in similar manner to the financing options already implemented in some cities of the National Interconnected System or through alternative schemes adapted to the particular conditions of ZNI. US\$580,000 of CTF grant resources will be used to prepare the project.

The preparation grant proposal will be submitted to TFC approval by Q2-2013. The investment program will be submitted to TFC approval by Q4-2013.

### **2.2 Energy Efficiency in the Services Sector**

The goal of the “CTF-IDB Energy Efficiency Financing Program for the Services Sector” is to support Colombia’s efforts to enhance the competitiveness of the services sector, while reducing GHG emissions, through the piloting of an innovative financing model for energy efficiency projects. The model’s objectives would be: (i) increasing EE investments in hotels and clinics/hospitals; and (ii) build up the capacities of Bancoldex, local financial institutions (LFI) and other relevant market actors on the structuring, financing, monitoring and evaluation of competitiveness-enhancing, EE projects.

The financing model includes: i) a credit line that will be provided by Bancoldex to eligible LFIs so that they, in turn, can offer sub loans at adequate terms and conditions to eligible hotels and clinics/hospital interested in financing eligible EE investment projects; ii) Technical advice and support from energy services providers to beneficiary firms and iii) Risk management tools such as performance insurance policies, performance-based payment systems for technical services providers, and technical verification standards and processes.

The funding of the program includes a US\$10 million loan from CTF complemented with another US\$10 million from an IDB loan for the credit line; and a technical cooperation of US\$787,500 from CTF to support market structuring and capacity building efforts.

A preparation grant of US\$262,500 for this Program was approved by the CTF TFC in Q4-2012. The program proposal was submitted to the TFC by IDB on April 8<sup>th</sup>, 2013.

### **2.3 Development of an ESCO Market and the Relative Insurance Instruments for SMEs in the Service Sector**

The IDB's Multilateral Investment Fund (MIF) and the Inter-American Investment Corporation (IIC, part of the IDB Group) intend to use US\$4.52 million for loans and grants for technical cooperation from the CTF, plus matching funds, to develop the project "Development of an ESCO Market and the Relative Insurance Instruments for SMEs in the Service Sector in Colombia", with the aim of fostering the use of energy efficiency technologies by SMEs in Colombia. This will be done through: i) the development of an ESCO market; ii) the development of innovative financial instruments to support the new ESCO market; and iii) the development of insurance instruments to reduce barriers to energy efficiency technologies uptake, and (iv) technical cooperation activities building on the IIC's GreenPyme program.

This program is scheduled to be submitted to the TFC for approval by Q4-2013. Expected date for the first disbursement is May 2014.

### **2.4 Colombian Sustainable Energy Finance (C-SEF) Program**

The Objective of Colombian Sustainable Energy Finance (C-SEF) Program is to promote the development of the market for financing energy efficiency and cleaner production (EE/CP) in Colombia, supporting and addressing market barriers for Financing Institutions on a programmatic basis. The program was submitted jointly by the IFC and the IDB (the IDB component includes in turn several activities to be carried out by IIC). The CTF TFC approved \$17.5 million for the program, which includes both investment and advisory service components.

#### *Investment Components*

In September 2011, IFC implemented a first operation under the C-SEF Program, using US\$ 5.4M of reimbursable CTF resources leveraging another US\$25 million from IFC and US\$25 million from the IDB, along with resources from Bancolombia. IFC's project is currently under execution and aims to increase the financing available to support EE/CP projects in Colombia by supporting a first mover financial institution – Bancolombia to develop its EE/CP lending business. The project consists of a risk sharing facility to cover an up to COP 200,000 million (US\$100 million) portfolio of sustainable assets originated by the Bancolombia. Under this facility, IFC and the IDB will cover the risk of 50% of that portfolio (25% each). Bancolombia is currently building its EE/CP lending portfolio.

At this point, IFC does not have any short term investment opportunities that are in accordance with the terms articulated in Colombia's Investment Plan. Experience has shown that targeting only commercial banks with financial and/or technical resources is not enough to overcome the main barriers to further develop EE/CP investments and activities in a country such as Colombia. Therefore, in order to broaden the results and impact of the CTF program following the new targets to enhance CTF operations, IFC is making its unused US\$ 4.65 million<sup>5</sup> available to be allocated to other priority programs or projects as determined by the GoC.

The IDB intends to use US\$5 million from the CTF C-SEF program to increase the financing available to support EE/CP projects in Colombia. It intends to match funds from the Energy Efficiency operation led by IDB's Multilateral Investment Fund Office. For this purpose, IDB will submit to the TFC a proposal to enhance the scope for the type of entities that can access the C-SEF facility.<sup>6</sup> The project is scheduled to be presented for IDB board approval in Q4-2013.

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<sup>5</sup> This amount includes 4.6M originally allocated to the investment component, plus 0.05M originally allocated to fees.

<sup>6</sup> Such proposal will be submitted in parallel to this IP Revision document.

### Advisory Services Components

**IFC:** The regulatory analysis work included workshops with stakeholders to identify key barriers as well as workshops to present and discuss the proposed solutions. The final report on the regulatory analysis was completed in October 2012 and presented to the relevant authorities in November (Ministry of Energy, Ministry of Environment, Energy Regulator, etc.). For the technical service providers support component, a total of eight training sessions for Technical Service Providers (TSP) and three training sessions for Technology Vendors were organized across different cities in the country. The objective of these sessions was to help companies from different areas of the EE/CP business in Colombia including energy auditing firms, equipment suppliers, energy service providers, engineering firms and consultancy firms, among others. This component also include additional one-on-one technical assistance support to a select group of TSP and Technology Vendor companies to help them prepare bankable proposals for consideration of financial institutions. For the work with financial institutions, IFC, together with the Banking Association of Colombia (Asobancaria), is organizing an event in May 2013 to discuss the challenges of financing sustainable energy projects and to present innovative national and international experiences in the area. Finally, a program coordinator for IFC components was contracted in April 2011 and has been involved with the implementation of the activities indicated above.

**IDB:** The process to carry out a market study and to hire a coordinator for all the activities within the program started in March 2013. A proposal for an interactive web platform along a communication strategy to highlight the key messages of the sustainable energy program is in progress for the Knowledge Management subcomponent.

**IIC:** The hiring process for a contractor to carry out the energy audits and the end users' support, as well as for the coordinating agency, started in March 2013. A conference for service providers, technology providers, financial intermediaries and potential clients will take place on November 2013, as part of the Market Awareness subcomponent.

## **CIRCUMSTANCES AND RATIONALE FOR INVESTMENT PLAN REVISION**

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The overall rationale for CTF intervention remains unchanged. The revisions to the IP reflect adjustments, circumstances, refinements, and the evolution of relevant national policies and priorities, especially through the National Development Plan (PND) 2010 – 2014, adopted by law 1450 of 2011.

The following arguments/statements are considered by the GoC as a basis to request modification of the original CTF IP:

### **1. On-going design of the National Low Carbon Development Strategy**

The GoC has renewed its commitment to further reduce GHG emissions, as established in the National Development Plan (PND) 2010 – 2014, ordering the design and adoption of the Colombian Low-Carbon Development Strategy (ECDBC). This strategy shall be designed under the guidelines of a National Policy adopted by the National Economic and Social Council (CONPES)<sup>7</sup> in July 14, 2011, that contains an Institutional Strategy for the Coordination of Climate Change Policies and Actions.

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<sup>7</sup> See <http://bit.ly/conpes3700>. CONPES – headed by the Republic of Colombia's President with the support of the Technical Secretary of this Council, the National Planning Department).

## 2. New environment for a Non-Conventional Renewable Energy Sources Program

The PND 2010 - 2014 gives priority to the definition of incentives for investments in generation capacity through “alternative energy sources” and, for the first time, as a source for the national interconnected system (SIN). One of the most significant steps toward the implementation of the PND 2010 – 2014 in these topics was taken by the Energy and Gas Regulatory Commission (CREG), issuing the 148<sup>th</sup> resolution (in October 21, 2011) and establishing a methodology to determine the “energy firmness”<sup>8</sup> of wind power plants. This methodology is the basis for an already defined “higher tariff” for energy producers that are able or have the technical capacity to provide on-demand energy.

This is considered to be an evolution in the right direction towards opening real possibilities for NCREs in the SIN, since concerns about the stability of the network and the capacity to deal with intermittency of NCREs have been raised in the face of the possibility of a bigger participation of such technologies in the energy matrix. Consequently, the regulatory framework has been more likely to maintain a high capacity share of hydropower complemented with a more carbon-intensive energy resource mix (likely reliant on abundant coal reserves and gas). Nonetheless, the PND 2010 – 2014, orders to work on NCREs as mentioned above. Additionally, in order to fulfill energy sector objectives, the PND orders a profound institutional reform in the energy sector. This reform is still under discussion and topics on NCRE could have an opportunity for enhanced institutional support.

Finally, as a result of GoC’s evaluation of the evolution of the implementation of the EE program, the projects that are already underway have the same potential to demonstrate and exemplify how to overcome the institutional, financial, knowledge and regulatory barriers than with the original CTF IP allocation. Consequently, a reallocation of US\$ 11 million is proposed, to take advantage of what GoC considers, as above mentioned, an opportunity to promote the NCREs in Colombia. In the next chapter a detailed description of the reallocation is presented.

The next section presents a complementary context for the proposed IP changes to include the NCRE Program.

### Energy generation context in Colombia<sup>9</sup>

As compared to many countries, Colombia’s domestic energy generation is quite clean.<sup>10</sup> During the last decade an average of 78% of electricity generation was based on hydropower. In terms of energy sector emissions, Colombia ranked 48<sup>th</sup> in the world and fifth in Latin America in 2005. Nevertheless, 36.6 percent of Colombia’s total emissions are produced from energy production and consumption (IDEAM, 2008), and as Colombia is a major regional exporter of fossil fuels, the role of fugitive emissions from fossil fuel production (accounted in the total energy sector’s emissions) accounts for at least 5 percent of total national emissions (IDEAM, 2008)<sup>11</sup>. The economy of Colombia has become less carbon intensive during the last two decades, and currently stands at 0.43 kg CO<sub>2</sub>e per US\$ of GDP (compared to a Latin American average of 0.52 and a global average of 0.73). Current socioeconomic and resource factors

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<sup>8</sup> Colombia has developed a financial mechanism to produce an economic signal to investors as a price premium on reliable installed power capacity.

<sup>9</sup> Almost all the ideas and text in this section “Energy generation context in Colombia” and in the next section “Hydropower and Firm Energy in Colombia” are extracted from Background Report on the Energy Sector, prepared for the ongoing Colombia Low-Carbon Development Study”, DNP and the World Bank, Dec 2012, and modified for the purpose of the IP revision.

<sup>10</sup> Extracted from: “Background Report on the Energy Sector, prepared for the ongoing Colombia Low-Carbon Development Study”, DNP and the World Bank, Dec 2012.

<sup>11</sup> Ibid



indicate that this trend is set to be reversed under a BAU scenario of increasing investment in transport and electricity generation characterized by higher carbon intensities.

To deal with this scenario, a first phase IP presented by Colombia and approved by the CTF included an **energy efficiency program**. As stated in the original CTF IP background, a reduction in the total amount of energy demanded by the existing system (through efficiency measures, or through the generation of electricity from renewable energy sources) can have a significant emissions reduction impact because the last marginal units of power utilized are often fossil-fuelled and have the highest emission factor. At the same time, this reduction in consumption can prevent or delay building new generation capacity which is currently slated to include a 150% increase in coal-fired capacity over the next 12 years, from the current 700 MW coal-fired generation capacity to 1,750 MW.

A possible second phase IP was intended to deal, in a complementary manner, from the supply side, with GHG emissions reductions in energy generation.

## Hydropower and Firm Energy in Colombia

Similar to Brazil, Colombia's predominant source of electricity power production comes from hydropower.<sup>12</sup> Unlike the Brazilian system, however, only 6 percent of Colombia's hydropower plants have reservoirs with multi-year storage capacity. In fact, 15 percent of Colombian plants have run-of-river reservoirs that can be depleted in a single day, and 55 percent have reservoirs that allow monthly regulation. This modest overall storage capacity makes the system vulnerable to hydrological risks (World Bank Electricity Auctions: An Overview of Efficient Practices. 2011). In a single season, actual production of hydropower can range from 45 to 95 percent. Particularly during periodic droughts, this can pose a major problem for energy production<sup>13</sup>. A projected increase in the intensification of the water cycle and the possible intensification of extreme events (associated with El Niño-Southern Oscillation [ENSO] and La Niña) may raise the vulnerability of the power sector by affecting the reservoir capacity of hydropower-based plants. Early evidence of impacts of extreme events in the hydrology of major basins in Colombia is already documented by IDEAM.

In an effort to increase stability and reliability of the service the regulatory framework has incentivized the expansion of the generation capacity based mainly on large hydro and fossil fuel power sources. The Colombian government introduced a concept of "firm energy" under their energy auctions. Firm energy is basically a higher tariff given to those energy producers that are able/have the technical capacity to provide on-demand energy when it's needed most (i.e. when the water isn't running). Over the long-run, the GoC expects to increase system reliability while enabling competitive prices (by auctioning the credits). Unfortunately, under a short-term span, problems such as unexpected droughts have made the government to directly intervene, risking undermining the firm energy market. Firm energy regulation currently rewards, in the form of an "extra" subsidy, fossil fuels and discourages renewable energy development.

However, because of the above mentioned new policy directions, and with the mindset to maintain the principle of reliability", the GoC is searching for alternatives that could be more cost-effective in the future, as well as complementary to hydropower while keeping the country on a track of LCD.

This search took the government to propose in the PND 2010 – 2014 to study and give priority to non-conventional renewable energy sources. Some of the most relevant studies are mentioned below.

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<sup>12</sup> Ibid

First, the mentioned 2012 LCD Study offers an initial interesting analysis as to the viability of investing in a wind power or geothermal powered plant. The Study proposes interventions consisting of the replacement of coal and natural gas-fired generating plants, as follows:

- Wind park in La Guajira: (i) 413 MW in 2021 to replace the generation from a 300 MW coal plant, and (ii) 480 MW in 2022 to replace the generation of a 300 MW gas plant
- A and Geothermal generation in Nariño and Huila Power (i) 175 MW in 2021 to replace the generation of a 300 MW coal plant, and (ii) 79 MW in 2022 to replace the generation of a 300M MW gas plant

Also the “Wind Energy in Colombia: a framework for market entry” (World Bank, 2010) study was developed. According to the study complementary wind and water resources have been identified in the country. Additionally the report, during times of extreme drought associated with the El Niño phenomenon, wind generation potential of the northern part of the country would be above the historical average. The study also analyzed the joint operation of a wind park and a hydropower plant of equal size, and found that the firm energy of the joint operation is greater than that of the isolated operation. The study recommended that these opportunities for joint operation be taken into consideration, which would make it possible to leverage the entry of wind parks in the electricity generation system.

In summary, the advantages that a wind park in Colombia can offer include:

- Diversification of energy generation, since it would incorporate a new technology and a new resource in electricity generation capacity;
- Complimentarily with hydroelectric generation at critical times of water supply;
- Release of non-renewable domestic energy resources (natural gas, coal and petroleum) for international markets;
- Potential for domestic technology development; and
- Evolution and development of regulatory and market schemes to promote new electricity generating technologies.

Finally, the above mentioned 2012 LCD (DNP and IBRD study) regarding geothermal energy mentions that Colombia does not have any installed geothermal capacity. However, ISAGEN has signed an agreement with the Inter-American Development Bank (IDB) to begin in 2012 the exploration of geothermal fields of the Nevado del Ruiz. The advantages of developing these projects in the country include:

- Diversification of energy generation with a resource that is considered to be renewable, highly firm, and independent of climatic variables;
- Low operating and overall costs (with leveled costs less than coal);
- High capacity factors (above 90 percent);
- The waste produced is minimal and have a smaller environmental impact than those stemming from thermal plants that use coal or natural gas.

The study concludes that “despite high installation costs, substituting geothermal plants for thermal is cheaper than substituting with wind. This is because geothermal provides a more constant supply, which is favored in a system that favors “firm energy” (i.e. constant, reliable energy during droughts when hydro is not available. Given there is an incomplete assessment for Colombia’s geothermal potential, it might not be feasible to construct plants with a MW capacity needed. If this is the case, the needed energy could be provided by wind resources”<sup>14</sup>.

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<sup>14</sup> Ibid.

Taking into account these recent studies, among other reasons mentioned above, the GoC's decision to prioritize NCRE in the last PND need to be accompanied by investments that will provide additional information and the experience required to catalyze a larger adoption of a particular NCRE technology, and overcome informational barriers that prevent a larger presence in the market of NCRE, allowing the country to keep its power matrix in a relatively low-level of GHG emissions.

Finally, as has been stated, recent GoC activities and decisions for prioritizing NCRES in the SIN are considered a relevant and positive new environment for NCRES. The GoC believes that there is an opportunity, through CTF's support in funding and promoting NCRE technology, to overcome the still standing barriers.

The proposed general concept and the transformation potential of the NCRE program are presented in Annex 1.

### **3. Sustainable Urban Transport Program**

The GoC as stated in the PND 2010 – 2014, identified the need to extend the resulting social, economic and environmental benefits to traditional collective public transport and other modes, for municipalities and/or metropolitan areas whose population exceeds 600.000 inhabitants, through the new SITP mechanism. For this purpose GoC, through DNP, with support of the Transport Ministry, ordered the development of an SITM ex-post impact evaluation (using a World Bank's methodology), for 4 cities (Pereira, Cali, Barranquilla, Bucaramanga)<sup>15</sup>, to inform and quantify the economic, social and environmental impacts of SITMs, and to identify lessons learned. Continued support for SITM initiatives, as a first stage of these SITPs, is prioritized in the Plan, as well as continued support for the SETPs. Additionally, the PND 2010 – 2014, indicates the need to continue working in the preparation of the Sustainable Urban Transport program as part of the CTF IP for Colombia and promoting CTF concessional funding objectives.

The GoC considers that the above mentioned create an opportunity to further influence and incorporate low-carbon strategies in these initiatives.

The changes proposed to the Program are directed to increase this influence and therefore suggests that the remaining US\$ 40 million of CTF funds, originally allocated exclusively for the Bogotá's SITP IBRD project, should be applied to a selected group (one or two) of Colombia's largest cities as a way to accelerate the implementation of their respective integrated public transit systems, and to eventually achieve additional GHGs reductions. The following most relevant arguments were considered:

- The previously identified Bogotá's IBRD/SITP project called "Green Corridor" was planned to be developed on a main street in Bogotá. As a result of the new development plan for Bogotá, approved by the municipal council, and the new elected major of the city, who took office in January 2012, the initial vision and concept of the project's transport mode and technology, was discussed and reoriented, in favor of a tramway associated to urban sustainable development and low carbon issues, as well as to an innovative implementation strategy through public-private partnerships (PPPs)<sup>16</sup>. Bogotá is specially concentrated on this last topic, in other words, financing its new project entirely through 100% private participation, taking advantage of the recently approved PPP law (law 1508/2012). With this in mind, the GoC considers that there is a strong possibility that Bogotá will develop its own SITP project, sometime in the near future, without any national government's or other agencies' support, including the additional CTF funds

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<sup>15</sup> The GoC had already done an impact evaluation of Bogotá's SITM

<sup>16</sup> This is an on-going discussion.

(meaning without the US\$ 40 million IBRD/CTF funds) to those already scheduled to be presented for TFC approval next June 2013 (CTF funded US\$ 40 million IDB Project). The IDB/CTF project will support Bogotá's low-carbon SITP through co-financing the technological transformation of the Bus related projects of the Integrated Public Transport System. Consequently, Bogotá's GHG reduction target is expected to be fulfilled.

- Furthermore, the proposed changes, directed to include an additional selection of one or two of the largest cities in applying for the remaining US\$ 40 million, does not exclude Bogotá city: Bogotá would be included in the possible selected one or two cities if its new project offers additional GHG reductions, vis-à-vis those expected for Bogotá in the original CTF IP. Additional GHG reductions would also be achieved if any one or two of the other six largest cities are selected.
- The reorientation of the above mentioned IBRD/CTF project will accelerate low-carbon decisions for the selected SITPs and strengthen influence over the other cities<sup>17</sup>.

After the TFC's expected approval of IP changes, the Ministry of Transport will define, as soon as possible which of the largest cities will be in the group of one or two selected ones. Based on this selection IBRD will initiate project preparation of the US\$40 million SITP project. To enforce project quality and accelerate preparation, an additional US\$ 1 million support is proposed to be reallocated to a CTF project Preparation Grant for this IBRD project.

In general, it is considered that the rationale of the Program will not be changed and additional GHG emissions reduction, to those presented in the original CTF IP will most certainly be achieved.

However, according to new available data and recent studies, the potential for emissions reduction in the urban transport sector have been recalculated. Table presents the general differences:

**Table 9. Expected result indicators of the Original and the Revised CTF IPs**

Indicators	Original CTF Investment Plan for Colombia (March 2010)		Revised CTF Investment Plan for Colombia (April 2013)
	Baseline	Investment Program Results	Investment Program Results <sup>1</sup>
Implementation of integrated public transit systems	3 SITMs implemented	Bogotá's SITP fully implemented targeting a population of 7 million.  SETPs implemented in seven cities, targeting a population of 2.4 million	Bogotá's SITP fully implemented targeting a population of 7 million.  One or two SITPs fully implemented in Colombia's largest cities targeting a population of 1.5 million <sup>(3)</sup>  SETPs implemented in seven cities, targeting a population of 2.4 million
Annual GHG emissions from the transport sector in target areas	21.8 Mt CO <sub>2</sub> per year	Annual emission at 19.0 Mt CO <sub>2</sub> per year, reflecting a 2.8 Mt CO <sub>2</sub> e reduction per year. Cumulative (avoided) reductions of 56 Mt CO <sub>2</sub> e by 2030 (112 Mt CO <sub>2</sub> e by 2050)  Bogotá's SITP annual emission reductions of 2.0 Mt CO <sub>2</sub> e  Seven SETPs annual emission reductions of 0.3 Mt CO <sub>2</sub> e	Annual emission at 20.6 Mt CO <sub>2</sub> per year, reflecting a 1.2 Mt CO <sub>2</sub> e reduction per year. Cumulative (avoided) reductions of 23.4 Mt CO <sub>2</sub> e by 2030 (46.8 Mt CO <sub>2</sub> e by 2050)  Bogotá's SITP annual emission reductions of 0.4Mt CO <sub>2</sub> e  One or two SITPs (out of seven SITPs) annual emission reductions: One SITP of 0.06 Mt CO <sub>2</sub> e or Two SITP of 0.08 Mt CO <sub>2</sub> e <sup>(4)</sup>  Seven SETPs annual emission reductions of 0.1 Mt CO <sub>2</sub> e

<sup>17</sup> The remaining not selected ones.

		Initial implementation of low-carbon bus technology in the SITP and SETPs contributing to additional reductions of 0.2 to 0.5 Mt CO <sub>2</sub> per year  Additional reduction of 1.5 Mt CO <sub>2</sub> e per year is expected from replication and scale-up in SITMs (seven cities) and SETPs (12 cities)	Initial implementation of low-carbon bus technology in the SITP and SETPs contributing to additional reductions of 0.2 Mt CO <sub>2</sub> per year  Additional reduction of 0.39 Mt CO <sub>2</sub> e per year is expected from replication and scale-up in SITMs (four or five remaining cities)
Introduction of low-carbon bus technologies in the transit systems	Standard diesel buses	Bogotá's SITP and SETPs start initial implementation of an advanced hybrid fleet, or other low-carbon bus technologies	Bogotá's SITP and SETPs start initial implementation of an advanced hybrid fleet, or other low-carbon bus technologies
Modal shift from private vehicles to public transit systems	Increased ownership and use of private vehicles	Modal share of public transport grows or remains stable	Modal share of public transport grows or remains stable

By 2030 the cumulative emission reductions resulting from a sustainable low-carbon transport strategy implementation in Colombia could result in about 1.2 Mt CO<sub>2</sub>e per year abatement. The emission reductions that would result from Bogotá's SITP are estimated at 0.4 Mt CO<sub>2</sub>e per year, serving about 5 million passengers per day. Expected abatement of 0.08Mt CO<sub>2</sub>e per year corresponds to a selection for SITP projects for two out of the seven largest cities. This target corresponds to a possible selection of the two cities with the least GHG abatement potential. Moreover, the seven SETPs are expected to abate up to 0.1 Mt CO<sub>2</sub>e per year, serving an aggregate of one million passengers per day. Emission reductions brought by the SITP and SETPs will come in part by investing in dedicated infrastructure, optimizing and rationalizing bus transit services (with better technology), removing redundant vehicles (oversupply), and enabling fare and operational integration among different transit modes. Additional 0.2 Mt CO<sub>2</sub>e per year in reductions could be achieved if low technology vehicles are implemented in the SITP and SETPs. An additional reduction of 0.39 MtCO<sub>2</sub>e per year is expected from replication and scale-up in existing SITMs (seven cities).

Subject to the approval of this revised IP by the TFC, the next steps for this program would be as follows:

- The Ministry of Transport communicates the selected one or two cities for SITP support by CTF.
- IBRD supports project design and preparation.
- Project is presented to the TFC for approval as indicated on table 1 (Q3-2014).

#### 4. Energy Efficiency Program

As mentioned above, it is considered that reallocating US\$11 million to finance the proposed third priority Program, the Non-Conventional Renewable Resources Program, will yield the same already underway have the same potential to demonstrate and exemplify how to overcome the institutional, financial, knowledge and regulatory barriers than with the original CTF IP allocation.

However, according to new available data and recent studies, the potential for emissions reduction in the energy efficiency sector have been recalculated. Table presents the general differences:

**Table 10. Expected result indicators of the Original and the Revised CTF IPs**

<b>Indicators</b>	<b>Baseline</b>	<b>Original CTF IP (March 2010) Program Results</b>	<b>Revised CTF IP (April 2013) Program Results</b>
National electricity consumption	117,000 GWh per year (2030)	112,000 GWh per year (2030)	115,916.6 GWh per year (2030)
CTF Cost-effectiveness (CTF US\$/t CO <sub>2</sub> e reduction over 20 years)	n/a <sup>18</sup>		7,96
GHG emissions from electricity generation	36 Mton CO <sub>2</sub> e per year (2030)	34.4 Mton CO <sub>2</sub> e per year (2030)	35.76 Mton CO <sub>2</sub> e per year (2030)

## 5. Summary

Considering the combined new opportunities for GHG abatement in the sustainable urban sector and in NCRE technologies, the following general changes in the original CTF IP for Colombia are requested (the changes will be detailed in the next chapter):

1. Add to the prioritized sectors of the original CTF IP a third priority sector: NCREs.
2. Modify the project for the remaining US\$ 40 million of CTF funds, originally allocated exclusively for the IBRD Bogotá's SITP project, to enable it to be applied to a select group (one or two) of Colombia's largest cities, as a way to accelerate the implementation of their respective integrated public transit systems, and possibly to achieve additional GHG reductions.
3. Finance the above mentioned activities by reducing the allocation in the energy efficiency sector.

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<sup>18</sup> Abbreviation for not applicable

## PROPOSED CHANGES TO THE INVESTMENT PLAN

As mentioned before the original CTF IP for Colombia was presented and endorsed as a two-phase process. The first phase addressed the implementation of abatement measures in two key sectors, energy efficiency and urban transport, which had been identified as ready for the scaling-up of investment through use of CTF resources, and as exhibiting high potential for transformational change in terms of shifting investment patterns onto a lower carbon path. Additionally, it was proposed that, as the Government would take further steps toward creating an enabling environment for renewable energy, there would be opportunities for investing in this sector as part of a possible second phase of the IP, which could include as well programs on energy efficiency and transport.

The GoC proposes to bring in to the first phase, as a third priority sector, the non-conventional renewable energy sector (NCRE), as well as to initiate project preparation of the US\$40 million IBRD CTF Bogotá's SITP modified as to enable other, one or two selected large cities (more than 600,000 inhabitants) to utilize these CTF resources.

The proposed general changes to the original CTF Colombia Investment Plan are expressed on Table . The required resources for the NCRE program is US\$ 10 million<sup>19</sup> (details presented in Annex1), and the required additional resources for CTF/IBRD modified SITP project preparation is US\$1 million. The GoC proposes to finance the above mentioned through the reallocation of resources of the Energy Efficiency Program.

**Table 10. Proposed Reallocation of CTF Resources. April 2013 Revision (US\$ million)**

CTF Program	CTF Funding (CTF Plan Endorsed March 2010)	CTF Funding Reallocation			CTF Funding (Revised CTF IP, April 2013)
		IDB	IBRD	IFC	
Colombia Sustainable Urban Transport System	100		(+) 1		101
<b>Energy Efficiency</b>	<b>50</b>	<b>(-) 0.24</b>		<b>(-) 10.76</b>	<b>39</b>
Non-conventional Renewable energy Program	0	(+) 10			10
<b>Total</b>	<b>150</b>	<b>(+) 9.76</b>	<b>(+) 1</b>	<b>(-) 10.76</b>	<b>150</b>

Figures in US\$ million

As a result of this requested change, the Colombia Revised CTF IP would be as follows (Table 8):

<sup>19</sup> Annex 1 presents the project on “Promotion of Privately Operated, Medium Scale Commercial Non-Conventional Renewable Energy (NCRE) Power Generation plant”.

**Table 8. Colombia Revised CTF IP, April 2013 - Indicative Financing Plan**

<b>Financing Source</b>	<b>Sustainable Urban Transport</b>	<b>Energy Efficiency</b>	<b>Non-Conventional Renewable Energy</b>	<b>TOTAL</b>
CTF executed by IDB	60.0	32.26	10.0	<b>102.26</b>
CTF executed by IBRD	41.0	--	--	<b>41.0</b>
CTF executed by IFC	--	6.74	--	<b>6.74</b>
<b>CTF total</b>	<b>101.0</b>	<b>39.0</b>	<b>10.0</b>	<b>150.0</b>
IDB loans	300.0	10.00	10.0	<b>320.0</b> *
IBRD loans	100.0	--	--	<b>100.0</b> *
IFC loans	--	24.7	--	<b>24.7</b>
IDB grants	5.8	--	--	<b>5.8</b>
IBRD grants	--	--	--	--
KfW	--	--	--	--
Carbon finance	30.0	--	--	<b>30.0</b>
Other	--	--	--	--
GoC	--	--	--	--
Bogotá DC	--	--	--	--
Municipalities	100.0	--	--	<b>100.0</b>
Private sector	425.30	73.50	24.0	<b>522.80</b>
<b>TOTAL</b>	<b>1,062.10</b>	<b>147.20</b>	<b>44.0</b>	<b>1,253.30</b>

Figures in US\$ million

\*IDB and IBRD loans are included in the country pipelines and in the medium fiscal framework.



## POTENTIAL IMPACTS OF PROPOSED CHANGES ON INVESTMENT PLAN OBJECTIVES

### CTF Investment Criteria

The overall impact expected from the proposed Revised CTF IP, is comparable to the impact expected in the original CTF Plan. Effects of the proposed changes are shown on Table 9 and Table 10, according to the criteria established in the original CTF IP.

**Table 9. Assessment of Proposed Changes, Sustainable Urban Transport**

CTF Investment Criteria	Original CTF IP (March 2010)	Revised CTF IP (April 2013)
<i>Transformative impact</i>	The transformative impact of the CTF Transport Program will be achieved through combining policy reform and institutional capacity development packages, alongside CTF co-financing aimed at reducing the cost of measures for reducing GHG emissions within urban transport investment plans. As the success of these approaches is demonstrated, there should be a further integration of low-carbon investments within the National Urban Transport Policy (PNTU), ensuring that future plans and investments support low-carbon development of the sector. Over the 20-year lifetime of the Program investments, the cumulative reductions of the CTF investment program could be around 56 Mt CO <sub>2</sub> e.	The transformative impact of the Revised CTF Transport Program will be achieved in the same way as in the original CTF Transport Program. Over the 20-year lifetime of the Revised Program investments, the cumulative reductions of the CTF investment program were recalculated and could be around 23.4 Mt CO <sub>2</sub> e.
<i>Cost-effectiveness</i>	Cost effectiveness of reductions is estimated at US\$38.8/ton for the entire financing, or about US\$1.8 of CTF resources/ton.	Cost effectiveness of reductions is estimated at US\$45.30/ton for the entire financing, or about US\$4.32 of CTF resources/ton.
<i>Potential for GHG Emissions Savings</i>	According to available data, by 2030 sustainable, low-carbon transport strategies in Colombia could result in about 2 Mt CO <sub>2</sub> e per year of abatement.	According to recent available data, by 2030 sustainable, low-carbon transport strategies in Colombia could result in about 1.2 Mt CO <sub>2</sub> e per year of abatement.
<i>Replication and scalability potential.</i>	The implementation of Bogotá's SITP at the proposed scale can stimulate a second generation of urban transport systems in Colombia, both in the SITMs (of seven large cities) and in the SETPs (of 12 medium-sized cities). The proposed CTF co-financing for the Bogotá SITP and SETPs in seven cities will leverage local public funding and multilateral debt financing. The impact of the CTF investments will therefore have a replication effect on the SITMs of other large cities, as well as the SETPs of five other medium-sized cities. Successful integration of low-carbon measures into the initial implementation of these seven SETPs will positively influence the PNTU and encourage the Government to introduce similar measures into all urban investment plans in the future. The implementation of these measures will have a transformation effect on all new urban areas within Colombia expected to grow over the coming decades and subject to implement a sustainable urban transport system under the PNTU.	The proposed changes will enforce the replication and scalability potential estimated for the original CTF Plan, considering that new SITP projects in one or two of the largest cities will increase replication and scalability potential adding on Bogotá's SITP as well as the programmed SETPs. Information on this experience has been asked for by other Latin-American countries and other countries as Egypt, Turkey, South Africa, Indonesia and Vietnam.

Implementation Potential	<p>In the larger cities, there is a strong and long track record of implementing SITMs among the national and local governments. Since 2005, the IBRD and the IDB have supported the implementation of SITMs by providing more than one billion dollars of investment loans. While there will no doubt be significant implementation challenges in implementing SETPs in medium-size cities, the capacity already built in Colombia to address these challenges is significant. Technical and feasibility studies for Bogotá's SITP are almost completed and have been financed, in part, through IDB technical cooperation operations. The IDB is also supporting the development of an integrated land-use and transport planning strategy for the city, including the reformulation of the regulation that establishes the financial and management land-based instruments. Furthermore, design and feasibility studies for seven SETPs are under execution with IDB support.</p>	<p>Proposed changes have the same implementation potential.</p>
<i>Development Impact and other co-benefits</i>	<p>Promoting more sustainable transport systems, such as those envisioned in the SITMs and SETPs, can provide substantial co-benefits in addition to climate change mitigation, including reductions in traffic congestion (from reduced travel time) and improvements in public health (from reduced air pollution, noise, accidents, sedentarism, and stress). Bogotá and other large cities that have implemented SITMs (Pereira and Cali) have demonstrated the potential to reduce exposure to airborne pollutants.<sup>20</sup> In Bogotá, the operation of TransMilenio has resulted in an 80% reduction in accidents along the BRT corridors, and a 3-10 decibels reduction in noise levels, as well as other development benefits.<sup>21</sup> The support for additional activities such as the scrapping of old buses prevents transferring these costs to the passengers, a critical aspect in a very elastic market, where any small change to the fares turns a number of passengers away from public transit. Low-income passengers are particularly vulnerable, since they risk turning to more polluting and dangerous modes of transport: motorcycles and old used private cars.</p>	<p>Development impacts and other co-benefit are equivalent to those of the original CTF IP. However, as a result of the analysis done for the new National Development Plan 2010 -2014, additional benefits related with urban transformation and employment generation, as well as "Eco driving" were identified.</p>

<sup>20</sup> Reduction of 2.5 tPM/million pax; 18.1 tNO<sub>x</sub>/million pax; and 0.3 tSO<sub>2</sub>/million pax. (Grutter Consulting, 2006).

<sup>21</sup> See Chaparro, I., 2002. *Evaluación del impacto socioeconómico del transporte urbano en la ciudad de Bogotá. El caso del sistema de transporte masivo Transmilenio*. ECLAC. [tiny.cc/LCL1786](http://tiny.cc/LCL1786)

<p><i>CTF Additionality</i></p>	<p>The proposed CTF co-financing package is aimed at accelerating the adoption of sustainable, low-carbon investments in the sector in order to maximize modal shift towards public and non-motorized transport. The proposed investments are outside the scope of existing budgeted costs for the SITP and SETPs programs. At the same time, costs associated with scrapping programs and with the introduction of low-carbon bus technologies in the systems cannot be fully transferred to transit fares without adversely reducing the affordability of the transport system, particularly for the poor, making public transit far less attractive. Blending CTF resources with IDB and IBRD loans and other financing sources would make available investment capital in infrastructure, which may otherwise not be readily available for facilitating the integration of low-carbon technologies within the roll-out of the SITP and SETPs in cities nationwide. Thus, CTF financing would be instrumental in fostering the introduction of low-carbon bus technologies, scrapping programs, and related measures for optimizing and promoting an integrated land-use and transport system. The recent tender by the city Government for Bogotá's SITP indicates that low-carbon measures are currently not a priority due to the high costs of such investments</p>	<p>Equivalent to original CTF IP</p>
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**Table 10. Assessment of Proposed Changes, Energy Efficiency**

<p><b>CTF Investment Criteria</b></p>	<p><b>Original CTF IP (March 2010)</b></p>	<p><b>Revised CTF IP (April 2013)</b></p>
<p><i>Potential for GHG Emissions Savings</i></p>	<p>Based on data from the Uniandes study, and information by UPME, a cumulative emission reduction of 32 Mt CO<sub>2</sub>e could be achieved with an investment of US\$ 670M, including US\$50M from CTF.</p>	<p>Based on the mentioned recalculation exercise the expected cumulative emission would be 4.9 Mt CO<sub>2</sub>e and it is planned to achieved this target with US\$147.2 million.</p>
<p><i>Replication and scalability potential.</i></p>	<p>In the commercial and industrial sectors, energy efficiency investments could be scaled up through mobilizing existing local financial resources, through the provision of appropriate capacity building in the Colombian financial sector and market, and through innovative risk mitigation instruments. The existence of large conglomerate economic groups in Colombia's private sector also facilitates replication or, more importantly, adoption of efficiency investments across many sectors simultaneously. In the residential sector, replication and scaling up would be achieved by leveraging carbon finance and private sector participation in conjunction with the government's coordination strategy and policy measures. Different delivery alternatives would be considered during the design phase of the program to ensure a successful implementation and market uptake/transformation of these particular sub-sectors. The Colombian financial market shows a high liquidity and interest in financing energy efficient investment and developing energy efficiency product lines, with the appropriate assistance.</p>	<p>No changes are considered</p>
<p><i>Cost- effectiveness</i></p>	<p>Program results indicators are as follows: Cost effectiveness of reductions is estimated at US\$21.0/ton for the entire financing, or about US\$1.6 of CTF resources/ton.</p>	<p>Cost-effectiveness of expected reductions is estimated at US\$30.04/ t CO<sub>2</sub>e for the entire financing, or about US\$7.96 of CTF resources/t CO<sub>2</sub>e.</p>

<i>Environmental co-benefits</i>	Energy efficiency reduces energy demand, avoiding burning of fossil fuels for thermal uses and power generation and postponing the building of new fossil fuel power plants and other energy sector infrastructure. This has a range of global and local air quality benefits. Air pollution from the energy sector includes not only GHG emissions, but also SO <sub>2</sub> , NO <sub>X</sub> , Hg, and PM emissions.	No changes considered.
<i>Development Impact</i>	The energy efficiency investments in the residential sector, such as appliance replacements, would be addressed particularly in low-income dwellings, yielding therefore a positive distributive impact. Reductions in customer utility bills could also be expected with the introduction of higher-efficiency appliances and lighting. The Colombian government will experience fiscal benefits from reduced government subsidies to low-income residential customers, as well as a more competitive economy. National benefits also include increased energy security, lower exposure to fuel price volatility risks, and deferred investments in generation capacity and other energy infrastructure.	No changes considered.

Finally, the proposed changes include additional potential impacts of the revised CTF/IP objectives, related with the non-conventional renewable energy program as follows (see Annex 1 before):

**Table 11. Assessment of Proposed Changes, Non-Conventional Renewable Energy**

<b>CTF Investment Criteria</b>	<b>Revised CTF IP (April 2013)</b>
<i>Potential for GHG Emissions Savings</i>	Based on available data and calculations of the Ministry of Mining and Energy of Colombia, the GHG Emissions Savings of the Program amount to 19,221tCO <sub>2</sub> e/year.
<i>Transformative potential</i>	With the proposed project “Promotion of Privately Operated, Medium Scale Commercial Non-Conventional Renewable Energy (NCRE) Power Generation Plant”, CTF funds blended with other sources will finance one project of 20MW carried out by private investors. This new installation will improve awareness by the market on the specificities of a renewable energy project and provide information for further additional investments. Such deployment will also dispel concerns about the stability of the grid and allow the adoption of a number of measures and initiatives to accelerate the rate of technology change in the sector. It is expected that in the future, a new regulatory framework will accept entirely NCREs technology in a multiple sources energy matrix framework that can comply with reliability principles and low carbon strategies.
<i>Replication and scalability potential.</i>	It is expected, that if Colombia effectively overcomes the existing barriers, a possible scenario, under the assumptions of the Background Report on the Energy Sector, prepared for the ongoing Colombia Low-Carbon Development Study”, DNP and the World Bank, Dec 2012, could result in potential reduction of additional 7.74 Mt CO <sub>2</sub> e.
<i>Cost-effectiveness(CTF US\$/tCO<sub>2</sub>e reduction over 20 years)</i>	Cost-effectiveness of reduction is 26 US\$/tCO <sub>2</sub> e reduction over 20 years (20MW wind power). With the additional 413MW, in other words (20MW + 413MW of wind powered thermal plants) the reductions is 1.23 US\$/tCO <sub>2</sub> e over 20 years.
<i>Development impacts</i>	Among the specific benefits that low-carbon activities can have are improving competitiveness, contributing to the growth of the economy, promoting sustainable development and increasing resilience, and advancing social development goals.
<i>CTF - Additionally</i>	There is a mature entrepreneurial sector and market players are well acquainted of energy market functioning. The financial stimulus of CTF funds will incentivize private investors by facilitating the covering of incremental costs associated with renewable energy generation

## Risks

The **Overall Risk after Mitigation** for the proposed CTF Plan is considered **moderate** for the sustainable urban transport program, **low** for the efficiency energy program and remains unchanged from the original plan and **moderate** for the non-conventional renewable energy program. The main risks are identified and mitigation measures discussed for each of these two sectors in the following tables.

*Urban Transport Risk assessment.* As presented in the original CTF IP, overall risk for the transport investment is moderate based on the fact that institutional, regulatory and policy requirements are in place, while the technologies and systems to be deployed have shown that they can be successfully implemented in Colombia's SITM and will be tested in the country and other cities. In the case of low-carbon technologies, such as hybrid or CNG buses, a pilot activity is being supported by the IDB. However, the implementation capacity for Bogotá's SITP poses greater risks as the program is quite ambitious and requires coordination with other modes of transport and operators. Table 12 summarizes the main risks and risk mitigation measures associated with this investment.

**Table 12. Risk matrix, Sustainable Urban Transport<sup>22</sup>**

Risk	Mitigation	Residual risk
<i>Policy and regulatory framework</i>	<p>The PNTU define cities participating in the SITM and SETP programs, and the subsidiary agreements lay out the financial and technical specifications for the design and implementation of these programs.</p> <p>The IDB is supporting the development of an integrated land-use and transport planning strategy for the city of Bogotá, including the reformulation of the regulation that establishes the financial and management land-based instruments for the city (<i>Plan de Ordenamiento Territorial – POT</i>). Some of these instruments include land value capture mechanisms to finance transit infrastructure in the SITP projects, and complementary land-use and zoning regulations that are required to induce transit-oriented development.</p>	L

<sup>22</sup> As possible one or two new large cities are not still selected by Ministry of Transport this risks are not evaluated and consequently not presented in the table.

Risk	Mitigation	Residual risk
<p><i>Implementation capacity:</i>  Limited institutional capacity to implement SETPs  Integration with other modes in the Bogotá's SITP is not effectively achieved  Unknown one or two additional selected cities to develop SITP projects</p>	<p>In the model adopted for the implementation of SITMs, the GoC: (i) created an incentive for the cities to implement the program by securing future budget support and eliminated the risk of a potential change in Government or municipal policy; (ii) transferred program implementation to local authorities, promoting local ownership and knowledge creation, and (iii) provided an incentive for local governments to focus on sound and longer-term policy and related investments. As mentioned above, the IBRD through its technical assistance component has supported capacity building activities in the SITMs to strengthen local BRT Agencies implementation capacity, and the overall role of other local stakeholders (Transit Secretariats, Metropolitan Authorities, etc). The main characteristics of this model will remain relevant for the implementation of SETPs, adjusted based on the lessons learnt from the SITMs.</p> <p>For the SETPs, the IDB will review the demand estimates, business models and financial results, and agree on an Implementation Program in order to assure that technical capacity and financial resources are available and consistent with an optimized work schedule.</p> <p>The technical cooperation loan that the IDB is executing to support the design and implementation of the SITP will help strengthen local capacities to manage the whole integration of the transit system with other transit modes and in coordination with air quality, urban development and transport sector plans.</p> <p>The Ministry of Transport will take into account readiness for implementation in the new selected one or two cities, and reinforced assistance in prep grant through IBRD will support the design and implementation of SITP project as well as strengthening of local capacities to manage the whole integration of transport modes into the SITPs.</p>	H
<p><i>Technology:</i>  Financial analysis shows that it is not feasible for cities to integrate low-carbon technologies given investment, operation and maintenance costs, and tariff structures, among other factors.  New bus technology presents operational and maintenance problems</p>	<p>While there are no elements in the current institutional, legal and regulatory framework ensuring low-carbon (e.g. hybrid) technologies would be introduced in the foreseeable future, the SITP and SETPs will have a window of opportunity to allow for their gradual introduction over time as their use becomes more ubiquitous.</p> <p>Although the hybrid bus technology is not new, a Test Program (CCI-IDB) will be conducted in Bogotá, and other regional cities. The expected benefits of the program are: (i) reduction in upfront testing costs for the cities participating in the initial bus tests and for the cities seeking to purchase hybrid buses based on the results of initial bus tests; (ii) long-term market benefits for the acceleration of the energy efficient transport industry in the region, lowering costs; (iii) development of new production lines, specialized services, and markets in Latin America, and (iv) identification of strategic actions to (1) remove possible legal and economic barriers for this technology in Latin America and (2) help multilateral, national and local institutions to use market mechanisms to reduce GHG emissions by transforming the urban transport sector.</p>	M
<p><i>Finance:</i>  Lack of local (municipal) financial resources to implement the SETP programs, the Bogotá's SITP and the future selected (one or two) SITP projects</p>	<p>Cities participating in the SITM and SETP programs sign subsidiary agreements with the GoC laying out financial commitments. GoC funding is committed through a flow of earmarked yearly fiscal transfers (<i>vigencias futuras</i>).</p> <p>SETP and Bogotá's SITP will receive multilateral loan resources and will be complemented with carbon finance and other grant resources, thereby reducing risk. An adjustment in implementation schedule will reflect available resources including commitments from participating cities.</p>	L - M

Risk	Mitigation	Residual risk
<p><i>Environmental and social safeguards:</i> While addressing GHG emissions, local airborne pollutants and air quality concerns may be ignored Stakeholder opposition in view of the varied and complex issues involved in implementing changes of the SITP and SETPs</p>	<p>Project design will follow GoC, local and multi-lateral bank safeguards. Appropriate environmental management measures will be incorporated into project design. The options to be supported will render both global and local benefits and promote improvements in air quality, while reducing emission of GHG and air toxics. The PNTU addresses these global environmental objectives. This strategy will be also reinforced through the IDB technical cooperation to develop an integrated environmental strategy (IES) for a sustainable urban mobility in Bogotá, which could then be replicated in other Colombian cities. Stakeholder support will be enhanced through project design components and IDB technical cooperation to provide advisory support and training to the incumbent bus transit operators for the transition and industry transformation that will be required for the new SITP and SETPs.</p>	M
<p><i>Development potential:</i> Operators and other stakeholders oppose the implementation of the systems The experience in the SITM is not used as a basis for replication in other cities</p>	<p>A comprehensive consultation process will take place to ensure commitment and ownership by all involved. Dissemination and training actions are being taken to ensure that lessons from Colombia are considered in the development of similar activities in the entire region. Lessons from MDB-financed projects throughout Latin America and the Caribbean (LAC) will be used for training to ensure that lessons learned are considered in the development of similar activities in the entire region.</p>	M
<i>Procurement</i>	This has not been an issue in the SITM program. The IBRD and IDB loans will provide further support where necessary.	L
<i>Overall</i>		<i>Moderate</i>

**Energy Efficiency Risk assessment.** Table 13 summarizes the main risks and risk mitigation measures associated with the energy efficiency investments.

**Table 13. Risk matrix, Energy Efficiency**

Risk	Mitigation	Residual risk
<p><i>Implementation capacity:</i> Limited institutional capacity to coordinate the implementation of the proposed activities in the public sector Limited implementation capacity by financial institutions</p>	<p>Technical, organizational and financial assistance to strengthen the relevant agencies will be provided. A significant part of the CTF Efficiency Program is focused on mechanisms to foster financial institution and technical expert capacity building. Once a base of technical expertise is developed within Colombia to provide training for financial institutions capacity building can be provided to similar institutions on an ongoing basis in a sustainable manner without CTF support.</p>	L
<p><i>Knowledge barriers:</i> Limited demand for efficiency investments due to knowledge and technical expertise barriers</p>	<p>As noted above the CTF Efficiency Program will provide technical assistance to companies and include activities aimed at disseminating knowledge among all relevant stakeholders. It will also include programs aimed at strengthening the technical expertise base in Colombia. It is expected that once there are sufficient examples of the cost benefits of technology adoption with key companies within a sector, competitive forces will step in to drive demand, both for knowledge (companies will begin to seek audits) and investment.</p>	M
<p><i>Regulatory:</i> Distribution companies do not have an incentive to encourage end users to invest in energy efficiency</p>	<p>As mentioned, the government will begin evaluating new mechanisms for aligning the incentives of distribution companies to pursue energy efficiency investments for the 2013 regulatory cycle. In the short term, programs such as EPM's offer potential for scale-up in the residential sector, even in the absence of a regulatory change. The industrial and commercial sectors do not rely on distribution companies to facilitate energy efficiency investments, and instead are driven by market forces to pursue such investments.</p>	L

<b>Risk</b>	<b>Mitigation</b>	<b>Residual risk</b>
<i>Market uptake:</i> Market uptake does not occur at the expected rate	This is likely the most significant risk in the program and can occur for many reasons, including lack of management attention within the financial institutions and/or the end user companies. To mitigate this, the CTF Efficiency Program will seek to work only with financial institutions that have fully “bought in” to the process and are willing to dedicate the time necessary, at the senior level, to influence institutional uptake at the operational level. On the end user side, the MDBs will focus energy efficiency audits on companies that have both influence in the market (can ignite competition), have management buy in, and are willing to share information on their experiences.	M
<i>Technology risks:</i> New more efficient technologies present operational and maintenance problems	Only well proven technology would be supported.	L
<i>Overall</i>		<i>Low</i>

**Non-Conventional Renewable Energy Risk assessment.** Table 15 summarizes the main risks and risk mitigation measures associated with the energy efficiency investments

**Table 15. Risk matrix, Non-Conventional Renewable Energy**

<b>Risk</b>	<b>Mitigation</b>	<b>Residual risk</b>
<i>Policy and regulatory framework:</i> Non-conventional renewable energy sources inside the SIN are not allowed at an additional scale.	Government has given priority to the promotion of RE through its PND 2010-2014 and has proposed a sectoral reform that regards attentively the topic.	L
<i>Environmental and social safeguards</i>	IBRD/IFC/EBRD safeguard policies will apply to all interventions. Additionally Colombian Legislation applies strict environmental and community consultation rules to all projects.	L
<i>Development potential</i>	The program will provide for mechanisms to assure that the relevant information and lessons learned from the project are disseminated among different stakeholders interested in further development of renewable energy	M
<i>Knowledge barriers:</i> Limited demonstrative capacity to overcome knowledge barriers	As noted above the CTF NCREs Program will provide information and experience to overcome knowledge barriers. The Program and the new policy and regulatory environment won't be enough to start further regulatory changes and strong investments in NRECs technologies.	M
<i>Overall</i>		<i>Medium</i>



## MONITORING AND EVALUATION

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Table below presents the summary of the revised expected Results Indicators and their target values. For each project, monitoring and evaluation will be carried out by the implementing agency (described below) as part of the monitoring process for the entire project, including co-financing and other contributions.

**Table16. Summary of Revised Expected Result Indicators**

<b>Summary Result Indicators</b>	<b>Target Value (Original CTF IP)</b>	<b>Target Value (Revised CTF IP)</b>
Co-financing of CTF funding (US\$ million)	150	150
Leveraged co-financing (\$US million)	2.879,8	1.103,3
GHG emissions savings (Mt/CO <sub>2</sub> e)/year)	77	36,42
CTF Cost Effectiveness (CTF US\$/tCO <sub>2</sub> e reduction over 20 years)	1.95	4,1

The GoC has assigned the National Planning Department (DNP) to coordinate the implementation of the CTF Plan and facilitate the exchange of information among the ministries responsible for project preparation and implementation. The nominated Agency will consolidate result indicators into the CTF results framework, measuring the output, outcome and impact of the projects using the indicators specified in the above table.

## ANNEX 1: CONCEPT NOTE FOR THE NON-CONVENTIONAL RENEWABLE ENERGY PROGRAM

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### Problem Statement

The energy regulatory framework in Colombia promotes competition and tools have been designed to attract expansions based on their cost-effectiveness and assured ability to dispatch energy in every moment. Environmental costs from GHG emissions are not internalized. Concerns about the stability of the network and the capacity to deal with intermittency of some NCRE in the National Interconnected System (SIN) have been raised in face of the possibility of a bigger participation of such technologies in the energy matrix. Consequently, the regulatory framework is not likely to promote NCRE resources, , but rather maintain a high capacity share of hydropower complemented with a more carbon-intensive energy resource mix (likely reliant on abundant coal reserves and gas). This situation would result in an increase in the carbon footprint of the power matrix from its current, relatively low-level of GHG emissions. In addition, a largely hydro-based power system may be susceptible to anticipated climate variability affecting rainfall patterns. A projected increase in the intensification of the water cycle and the possible intensification of extreme events (El Niño-Southern Oscillation [ENSO] and La Niña) associated with temperature dipoles on the Pacific coast of Colombia may raise the vulnerability of the power sector by affecting the reservoir capacity of hydropower-based plants.<sup>23</sup> Early evidence of impacts of extreme events in the hydrology of major basins in Colombia is already documented by IDEAM.<sup>24</sup>

### Proposed Transformation

With the proposed project “**Promotion of Privately Operated, Medium Scale Commercial Non-Conventional Renewable Energy (NCRE) Power Generation Plant**”, CTF funds blended with other sources will finance one NCRE project of approximately 20MW carried out by private investors. This new installation will improve awareness by the market on the specificities of a renewable energy project, provide information for further additional investments and allow the adoption of a number of measures and initiatives to accelerate the rate of technology change in the sector. The NCRE type selected for this program may or may not be an intermittent one, but if so, such deployment will also dispel concerns about the stability of the grid.

### Implementation Readiness

There is a mature entrepreneurial sector and market players are well acquainted of energy market functioning. The financial stimulus of CTF funds will incentivize private investor by facilitating the covering of incremental cost associated with renewable energy generation. In such environment, this incentive can rapidly catalyze the market conditions to attract more investment towards NCRE technology and reduce its costs.

### Rationale for CTF Financing

CTF funds blended with other sources, will contribute to investments that will provide information and the experience required to catalyze a larger adoption of a particular NCRE technology. It will also help to

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<sup>23</sup> Vergara, Deeb, Toba, Cramton and Leino, 2010. *Wind Energy in Colombia: A Framework for Market Entry*. World Bank. <http://bit.ly/WB55842>

<sup>24</sup> IDEAM Informe Annual, 2011. Bogota.

overcome the information barriers that prevent a larger presence in the market of NCRE and will allow the country to keep its power matrix in a relatively low-level of GHG emissions.

## Results Framework, Financing Plan, Timetable

**Table 17. Results Framework, Non-Conventional Renewable Energy**

Results Indicator	Target Value Revised CTF IP (April 2013)
Co-financing of CTF funding (US\$ million)	10
GHG Emissions Savings (tCO <sub>2</sub> e/year)	19,221
RE Installed Capacity (MW)	20
CTF Cost Effectiveness (CTF US\$/tCO <sub>2</sub> e reduction over 20 years)	26

**Table 148. Financing Plan, Non-Conventional Renewable Energy**

Financing Source	Amount (US\$ million)
CTF	10
IDB	10
Private Sector (Sponsors and commercial banks)	24
Total	44

**Table 159. Project Preparation Timetable, Non-Conventional Renewable Energy**

Milestone	Date
TFC Approval	Q4-2013
Board Approval	Q1-2015
Effectiveness Date	Q2-2015
1st Disbursement	Q3-2015

In summary, some of the advantages of a NCRE power plant in Colombia include:

For Wind generation:

- Diversification of energy generation, since it would incorporate a new technology and a new resource in electricity generation capacity;
- Complimentarily with hydroelectric generation at critical times of water supply in the case of wind energy alternative ;
- Release of non-renewable domestic energy resources (natural gas, coal and oil) for international markets;
- Potential for domestic technology development, and
- Evolution and development of regulatory and market schemes to promote new electricity generating technologies.

For geothermal generation:

- Diversification of energy generation with a resource that is considered to be renewable, highly firm, and independent of climatic variables;
- Low operating and overall costs (with levelized costs less than coal);
- High capacity factors (above 90 percent);
- The waste produced is minimal and have a smaller environmental impact than those stemming from thermal plants that use coal or natural gas.