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Remarks: Distributed herewith is a revised version of the above-referenced document, which contains the modifications suggested by the Budget and Financial Policies Committee at its meeting on 2 August 2007 (see 1, Minutes BFA/07/11). The changes are marked with a line in the right margin.

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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**SUSTAINABLE ENERGY AND CLIMATE CHANGE IDB SPECIAL PROGRAM
("SECCI IDB FUND")**

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INTER-AMERICAN DEVELOPMENT BANK

**SUSTAINABLE ENERGY AND CLIMATE CHANGE IDB SPECIAL PROGRAM
("SECCI IDB FUND")**

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SUSTAINABLE ENERGY AND CLIMATE CHANGE IDB SPECIAL PROGRAM ("SECCI IDB FUND")

I. OBJECTIVE AND SUMMARY

- 1.1 The main objective of this document is to propose the establishment by the Inter-American Development Bank (The Bank) of a Sustainable Energy and Climate Change IDB Special Program (IDB SECCI Fund or Fund) for the financing of activities that will support the implementation of the Sustainable Energy and Climate Change Initiative (SECCI).¹ Such activities aim at mainstreaming renewable energy (RE), energy efficiency (EE), biofuels, carbon financing, and the insertion of climate change adaptation into policies and programs across sectors in Latin America and the Caribbean. These activities will result in increased clean energy investments and reduced vulnerability to climate change in the region. The Bank, as a Special Program with OC resources, will contribute US\$20million to this Fund,² which is part of the estimated US\$31.5 million that is required as a minimum to implement SECCI activities over the 2007-09 period, including new administrative funds and multi-donor funds.. The amount proposed for the program includes only the Bank's contribution, as additional financing will be raised from donor countries through a separate complementary Fund.³
- 1.2 The objective of the SECCI IDB Fund is to mobilize Bank resources to achieve the following results: i) increased investment in RE/EE and biofuels in the region; ii) an expanded IDB sustainable energy portfolio; and iii) increased attention to adaptation to climate change and climate-proofed IDB portfolios.⁴ The activities to be financed under this Fund will complement conventional Bank energy investments in the region, by aiming at developing renewable energy and energy efficiency projects and programmes that are responsive to economic and social needs, and which will contribute to energy and environmental sustainability in the region.
- 1.3 The SECCI IDB Fund will finance the following Pillars contained in SECCI:
- Renewable Energy and Energy Efficiency
 - Biofuel Development
 - Carbon Finance

¹ The SECCI document (GN-2435-1) was approved by the Board of Executive Directors on March 7, 2007 and submitted for information to the Board of Governors as document AB-2515.

² The terms and conditions specified above are compatible with the requirements set forth in document that establishes the *Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants of OC resources* (revised version, GA-220-12)

³ The IDB Multi-donor Fund is intended to raise no less than \$10 million for activities under SECCI.

⁴ Climate change adaptation-related activities will also be funded as appropriate through the existing Disaster Prevention Fund.

- Adaptation to Climate Change

- 1.4 The funds will be allocated to: finance the development and implementation of country level assessments, policy framework analysis and assistance for policy reforms required for investments in biofuels, renewable energy, and energy efficiency; finance activities related to project identification, preparation and capacity building; support for project developers with project preparation activities, mainstreaming climate change risk in country programming and project investments; take advantage of the new financing opportunities presented by a growing international carbon market; and investing in vulnerability reduction to climate change in infrastructure, agriculture and other vulnerable sectors.
- 1.5 A growing number of IDB members and clients in the region have approached the Bank recently, with requests for new levels of assistance and cooperation to expand the application of renewable energy and energy efficiency technologies, including biofuels, to increase their participation in carbon markets, and to reduce the vulnerabilities of their economies to the effects of climate change. The IDB's Sustainable Energy and Climate Change Initiative (SECCI) and this new funding initiative, is a response to this emerging demand. They are also the IDB's contribution to the new international clean energy investment framework being developed by IFIs at the request of the international community following the G8 summit in 2005.

II. THE CASE FOR SUPPORTING RENEWABLE ENERGY, ENERGY EFFICIENCY, BIOFUEL DEVELOPMENT, CARBON FINANCE AND CLIMATE CHANGE ADAPTATION IN LAC

A. The need for increasing support in RE/EE and climate change mitigation and adaptation.

- 2.1 Although the Latin America and the Caribbean region (LAC) has large oil reserves and significant capacity for hydropower, the countries of the region are challenged to meet growing demands for energy. The uneven distribution of available energy resources and volatility of oil and natural gas prices have made energy security a critical concern. The shock of recent high oil prices has impacted the economic growth of many of the non-oil producing and oil-dependent countries of the region. Ensuring access to affordable and reliable sources of energy is at the core of the development agenda of LAC and is emerging as one of the top tier concerns.
- 2.2 There is also a global realization that the impacts of climate change threaten to undermine the economic and social well being of all countries. A recent evaluation of the economic costs of climate change estimated that the costs of the impacts of climate change will be greater than the costs of World Wars I and II

and the depression combined⁵. Poor countries will bear the greatest burden of the impacts of climate change.⁶ Countries in LAC are already significantly affected by climate variability and extremes. The region's economy is dependent on natural resource-based activities that are inherently vulnerable.

- 2.3 While LAC countries account for a modest share of global emissions—about 8% of global greenhouse gas emissions in 2000—emissions have been growing steadily, increasing by about 22 percent between 1990 and 2000.⁷ Emissions from agriculture were the largest contributing sector (28% of emissions), followed by transport (17%) and electricity 12%. CO₂ emissions from electricity are projected to grow the fastest, but transportation is projected to become the dominant source of CO₂ emissions in the region, accounting for about a third of the total emissions by 2030. As well, deforestation and land degradation also contribute to global emissions.
- 2.4 One of the largest challenges for the LAC region is the urgent need to find economically and environmentally sound energy options to guarantee sustained economic growth over the long run. The Bank must help the countries of the region develop the largely untapped potential of energy efficiency and renewable energy, take advantage of the new financing opportunities presented by a growing international carbon market to mitigate greenhouse gas emissions, and adapt to the impacts of climate change. Securing a sustainable energy path and response to climate change for the Region presents an opportunity for the IDB to advance the its strategic agenda of the Region focused on competitiveness, good governance, social development, and regional integration.

B. Opportunities and constraints for increasing RE/EE investments and biofuel development

- 2.5 Renewable energy sources could make a far greater contribution to both electricity generation and energy demand in the LAC region than existing trends suggest. Currently, the combined contribution of wind, hydro, and geothermal to electricity capacity is about 64 %; nevertheless, the capacity for wind, solar and geothermal sources is such that renewables could increase from a 2% share of total capacity in 2004 to 4% by 2030. As worldwide investments in clean energy grow (at an estimated 40% just in 2005) and oil prices remain high threatening energy security, investments in renewable energy in the LAC region will grow.⁸
- 2.6 Biofuels are emerging as a significant option for diversifying the energy mix in many countries. Overall, the LAC region has comparative advantages for biofuel development, with large feedstock potentials (mainly sugarcane for ethanol

⁵ Stern Review on the Economics of Climate Change, 2006

⁶ Stern Review (2006).

⁷ World Resources Institute, 2006, Climate Analysis Indicator Tool: Version 3.0, available at: <http://cait.wri.org/cait.php>

⁸ IEA World Energy Outlook 2006.

production and a variety of vegetable oil sources for biodiesel), declining costs of ethanol production and emerging opportunities in domestic and international markets. Although Brazil, as the world's largest producer of ethanol and developer of biofuel-friendly vehicle technology, spearheads the development of biofuels in the region, considerable interest has arisen in medium- and small-size countries in developing biofuel feedstocks and engaging in biofuel production.

- 2.7 Energy efficiency remains the most cost-effective option for many countries. Energy-efficient technologies can increase the efficiency of new buildings by more than 70% over existing structures, and improve the efficiency of motors, pumps, boilers, and heating systems by 10 to 30 percent. Energy efficient technologies in the buildings, industry, and transport sectors could lead to a reduction in energy use of up to 33 percent by the year 2050. Such reductions in energy consumption amount to reduced impact on ecosystems and lesser impacts from electricity generation.
- 2.8 Despite these emerging opportunities, there are significant barriers to the adoption of renewable energy and energy efficiency technologies. Much support is needed to strengthen institutional capacities and regulatory frameworks, address ineffective or distorted policy frameworks, improve strategic and technical knowledge, and develop new financial instruments in support of clean energy investments in the region.

C. Opportunities for support in carbon markets and reduction of vulnerability to climate change

- 2.9 The growing international carbon markets, those associated with both regulatory and voluntary programmes, provide attractive incentives for energy planners, regulators and developers in LAC. The Clean Development Mechanism under the Kyoto Protocol of the UN Framework Convention on Climate Change, as well as voluntary markets, have opened a range of opportunities for foreign investment in energy projects in LAC that reduce greenhouse gas emissions as offsets to emissions in developed countries.
- 2.10 While the LAC region more than doubled its own participation in the Clean Development Market (CDM) over the past year, its market share has fallen substantially relative to other regions, most notably Asia and the Pacific. There are several reasons for this, including lack of institutional knowledge of and capacity for engagement with the CDM, as well as lack of availability of good projects and the presence of risk factors related to the delivery of certificates of emission reductions (CERs)
- 2.11 Historically, international financial institutions have focused their carbon finance activities principally on the *demand* side of the market by managing funds to purchase carbon credits from independently developed CDM projects on behalf of

the funds' clients. However, this is a partial approach, which cannot address the underlying problem of obtaining affordable financing to develop the projects.

- 2.12 LAC must also address threats of increased vulnerability to the impacts of climate change. Extreme weather and climate variability, the presence of already fragile and stressed ecosystem services, socioeconomic conditions sensitive to adverse and change climate, and low adaptive capacity are key challenges faced by the region. The region's dependence on climate-dependent, natural resource-based economic activities, such as agriculture, tourism, fishing, and forestry, make the region's countries and populations especially vulnerable to the impacts of climate change. More and more people are locating in hazard prone areas such as floodplains or steep slopes, making them highly vulnerable to the impacts of climate change. Recent results presented by the Working Group II of the IPCC on Climate Change Impacts, Adaptation and Vulnerability indicate that the impacts of climate change in our region are significant, and refer to decreases in water availability and losses of tropical forests causing further decline in biodiversity, salinisation and desertification of agricultural land, increased flooding, adverse effects on coral reefs, and the disappearance of glaciers that significantly affects water availability for human consumption, agriculture and energy generation.⁹
- 2.13 Climate risks increase the vulnerability of the Bank's lending portfolio. On average, 27 % of the projects approved each year contain activities that could be moderately sensitive to climate change, and 11% contain activities that could be highly sensitive to climate change. In the past three years, a quarter of the approved funding can be considered at risk from significant climate change impacts. This is driving the Bank to factor in climate-risk concerns into sector policies, country strategies and project design and implementation. It also requires developing a pro-active agenda on adaptation, by "mainstreaming" adaptation into disaster risk prevention activities, and ensuring that new projects can withstand climate change related hazards and risk.

III. JUSTIFICATION FOR BANK SUPPORT

- 3.1 IDB member countries and private sector clients have expressed the need for a greater role of the IDB in promoting the application of sustainable energy technologies.¹⁰ The following issues were highlighted as priority needs to foster sustainable energy development in the Americas:

- *the need for an even playing field to make investments in RE/EE and biofuels more attractive*

⁹ Working Group II: Contribution to the Intergovernmental Panel on Climate Change. Fourth Assessment Report. Summary for Policymakers, April 6, 2007

¹⁰ The Conference on Sustainable Energy and Climate Change as well as the extended meeting of Deputy Ministers of Environment and High Level Energy officials from different countries generated valuable feedback from public and private representatives of country members, as well as academic institutions and think tanks of the Region.

- *the role of policy frameworks to send the right investment signals*
- *the desire of donors to contribute to support a strategically focused program in concert, and not in isolation from other donor activities*
- *the opportunity to link financing of policy reform analysis to potential policy and sector based loans.*
- *The interest of countries to get assistance from the IDB on the policy level.*
- *The need for additional direct upstream and project implementation support for private sector investment in RE/EE and biofuels.*

3.2 Considering the above-mentioned issues, there is a strong need for the IDB to offer the appropriate instruments to finance policy and project related actions to support greater investment in sustainable energy in the region. Member countries are increasingly expressing their interest in complementing project level assistance with technical assistance for policy reforms. This Fund will be a win-win investment for the countries, the donor community, and the Bank. The resources allocated by the Bank into the Fund, together with multi-donor funds provided under a parallel multi-donor fund, will contribute to increased Bank capacity to significantly leverage investments in RE/EE, biofuel development and climate mitigation and adaptation activities in LAC.

IV PROPOSAL FOR BANK SUPPORT

A. CHARACTERISTICS OF THE PROPOSED PROGRAM

4.1. All resources managed under the SECCI IDB Fund will be non-reimbursable, except for limited cases as established in section E (eligibility and other provisions), paragraph 4.21. The Fund will finance activities under key strategic lines of action contained in SECCI's programmatic pillars. The implementation of these activities will be coordinated under an Action Plan to be approved by management. The eligible activities include, but are not limited to the following:

RENEWABLE ENERGY AND ENERGY EFFICIENCY

4.2 Activities to be financed on a non-reimbursable bases include:

- Preparation, review and development of sectoral studies required for project development such as mapping of solar radiation, wind velocity, geothermal potential, etc.
- Required studies (pre-feasibility, feasibility, environmental and social studies, etc) to develop projects of renewable energy projects (such as small hydros, wind, solar, geothermal, wave energy, and methane recovery from landfills, among others), and energy efficiency activities.
- Energy audits for priority sectors (industry and manufacturing, housing, water and sanitation, public lighting), sub-national governments (states and

municipalities), and public and private entities, including subsequent financing of prefeasibility, feasibility and due diligence studies for the implementation of the results received from energy audits.

- Studies to carry out regulatory and institutional analysis as an input for improvements of current national and/or local regulatory and institutional frameworks to remove barriers for investments in renewable energy and energy efficiency.
- Studies for technology development and adaptation, pilot projects, and technology cooperation.
- Preparatory studies in support of loan/guarantee operations for non-sovereign operations in renewable energy and energy efficiency.
- Training and dissemination activities.

BIOFUELS

4.3 Activities to be financed on a non-reimbursable bases include:

- Country level policy assistance in support of biofuel development, including sustainable strategies for feedstock development, the removal of barriers as well as the introduction of necessary policies and financial instruments that would facilitate the development of domestic markets and participation in international markets.
- Assessments of the economic viability of fostering biofuels, including the feedstock availability and costs of production, the cost of bringing biofuels to market (i.e. transportation costs), the potential for developing a domestic or integrated regional market for biofuels, the potential export market and trade capacity, as well as considerations of environmental and social benefits and risks, including, but not limited to impacts on food production.
- Studies to support financing of (i) biofuels feedstock development, including studies related, but not limited to agronomic research, environmental and social assessments, technological adaptation and innovation for productivity enhancement, economic feasibility, and promotion and dissemination of new technological packages among farmers; and (ii) biofuel production facilities and related infrastructure in production and distribution.
- Development and adaptation of biofuel technologies, application of emerging technologies and research and innovations endorsed by the relevant government authority, as well as the dissemination of good practices, and assistance through centers of excellence for the inception, planning, design and implementation of biofuel national programs.
- Preparatory studies in support of loan/guarantee operations for non-sovereign operations in biofuels.

CARBON MARKET ACCESS

4.4 Activities to be financed on a non-reimbursable bases include:

- Support IDB operation teams in evaluation of investment projects in priority sectors (energy, transport, water and sanitation, rural development-avoiding deforestation) and their eligibility for CDM.
- Assist Ministries, designated national authorities, and public/private project developers in the identification of potential projects for carbon finance in priority sectors. Funding for preparation of Clean Development Mechanism (CDM) projects will be available (for Project Idea Notes, Project Design Documents, and Baseline Validation, etc.).
- For projects where upon request buyers are identified, the fund will also finance the development of the terms for the Emission Reductions Purchase Agreement (ERPA).
- Support carbon finance project cycle activities and conduct the project development (pre-feasibility, feasibility and final designs). Financial structuring can also be included (for example, operation and construction of solid waste sites).
- Development of methane capture projects.
- Development of baseline studies and new methodologies in priority areas that can provide replication throughout the LAC region.
- Development of risk management instruments for certificate delivery.
- Development of capacity building programs for academic institutions and private associations in the carbon finance and adaptation to climate change area.
- Development of projects that contribute to the development of approaches and methodologies related to accessing carbon finance for avoided or reduced deforestation.
- Development of training and dissemination activities. Priority will be given for proposals related to the above-mentioned eligible activities in the host countries.
- Complementary activities involving regulatory and institutional analysis as an input for technical assistance loans, policy and investment lending under a programmatic CDM approach.

ADAPTATION TO CLIMATE CHANGE

4.5 Activities to be financed on a non-reimbursable bases include:

- Mainstreaming climate risk in country investments. This involves financing country-level assessments of climate change vulnerability, risk assessments, and strategic identification of adaptation measures.
- Studies to identify the necessary investments to reduce vulnerability to climate risk of urban and regional infrastructure. This involves identifying and protecting capital assets at risk to climate change impacts, preparation of loans to finance risk-reduction investment, design and development of vulnerability components and activities in investment loans, and review of infrastructure standards.
- Increasing adaptive capacity by introducing consideration of climate change impacts through guidelines and sector specific tools to evaluate impacts and adaptation options in land use and infrastructure development plans, agricultural production, and coastal and watershed management, among others.
- Identification and management of vulnerability to climate change impacts in areas such as human health, agriculture and tourism.
- Climate-proofing IDB investments. This involves the development of a screening tool in order to assess and mitigate climate risk in new Bank projects.

B. EXPECTED RESULTS

4.6 The success of the Fund will be measured in terms of particular outcomes and expected impact specified in the SECCI Action Plans which will be approved by management. An indicative list of outputs and outcomes to measure the success of the funds includes:

- Increased number of project loans, policy based loans, sector investment loans and technical assistance.
- Improved indicators of sustainable energy technologies adoption in the countries.
- Improved policy and regulatory frameworks in beneficiary countries.
- Evidence of successful projects undertaken, as measured by project level outcome indicators.
- Improvement of social conditions of the poor by introducing renewable projects to social areas such as education, health and housing, and employment generation in the agriculture sector resulted from biofuel projects.
- Improvement of capacity building for finance for sustainable energy projects.
- Increase in IDB financed projects with CDM financed components.
- Increased revenue stream from CDM or other carbon finance transactions in participant/beneficiary countries
- Increased market share of LAC countries in CDM global transactions
- Carbon emission reductions and monitoring capacity in place
- Increased programmatic CDM operations for priority sectors.

- Increased capacity in the Region for countries and private sector groups to access the international carbon markets.
- Increase in the number of projects that mainstream adaptation to climate change into priority sectors.
- Increased awareness of the impact of climate change and the need for adaptation and reduction of vulnerability.

C. FINANCIAL MANAGEMENT OF THE PROPOSED FUND

- 4.7 The Bank will have complete authority to formalize agreements and take other actions deemed necessary to achieve the objectives and manage the operations of the SECCI IDB Fund.

D. RESOURCES

- 4.8 The SECCI IDB Fund will be established with a contribution of US\$20 million with resources of the Special Programs of Ordinary Capital of the Bank, as defined in paragraph 2.7 of document GA-220-12, for the period 2007-2009.
- 4.9 An installment for US\$2 million will be allocated in 2007 upon approval of the establishment of the SECCI IDB Fund. Additional resources for the Fund will be allocated yearly in the context of the Bank's budgetary exercise and according to a preliminary budget allocation table 2007-09 to be included in the Action Plan to support the SECCI. Any unused resources in a given year will carry over to future years for execution.
- 4.10 The US\$20 million expenditure on the Ordinary Capital of the Bank would only have a marginal impact on the actual Total Equity-to-Loans Ratio (TELR).¹¹
- 4.11 In trust and untied contributions of member and non-member countries and other national or international organizations, including private firms and institutions will be managed separately from this SECCI IDB Fund. Those resources should complement the activities described in this proposal.

E. ELIGIBILITY AND OTHER PROVISIONS

- 4.12 *Acquisition of Consulting Services and Goods:* The selection and contracting of consulting services to be financed with resources from the SECCI IDB Fund will be carried out according to the Bank's policies and procedures set forth in documents GN-2349-4 ("Policies for the Procurement of Works and Goods Financed by the IDB") dated 19 January 2005, and GN-2350-7 ("Policies for Selection and Contracting of Consultants Financed by the IDB") updated in July

¹¹ Nonetheless, if more of these expenditures are envisioned in the future, the cumulative amount of these Ordinary Capital resource allocations needs to be looked at in the context of the Bank's future lending program and its TELR objective.

- of 2006. Consulting services for non-sovereign beneficiaries will follow current Bank policies and procurement procedures. The acquisition of goods and related services to be financed with resources from the SECCI IDB Fund will be carried out according to the Bank's policies and procedures for technical cooperation operations. The amount per operation allocated to the acquisition of goods shall not exceed 30% of the cost of the project.
- 4.13 *Executing Agency for the proposal:* As a general rule, the execution of the technical cooperation operations financed with resources of the SECCI IDB Fund will be the responsibility of the Executing Agencies. In some cases upon the express written request and justification of the beneficiary, the Bank may execute activities and hire consulting services necessary to implement them with resources of the SECCI IDB Fund. As resources come from the OC special programs, the Bank is not eligible to use the resources of the Fund.
- 4.14 *Eligible activities under the SECCI IDB Fund:* The resources of the SECCI IDB Fund will be used to purchase consulting services, goods necessary to carry out studies, complementary training activities (such as workshops technical sessions, seminars, etc.), and any other activity compatible with the goals of SECCI, in accordance with Bank policies and for processing, approval, disbursing and reporting of technical co-operations, as such policies may be amended from time to time.
- 4.15 In accordance to technical co-operations Bank policies, the Fund may finance equipment and services to enhance investment opportunities, including pilot projects in technology development and adaptation.
- 4.16 *Eligible entities to access the SECCI IDB Fund:* The eligible institutions include government ministries, climate change designated national authorities, planning agencies, public and private corporations, sub-national governments (regional, provincial, state and municipal), private project developers, NGOs, and academic and research institutions.
- 4.17 The Inter-American Investment Corporation ("IIC"), as a member of the the IDB Group, can access the SECCI IDB Fund through its clients.. This will help enhance coordination among the Bank's various private sector finance windows, and expand the portfolio of services available to the IDB Group's clients in the area of clean energy. It will also contribute to reducing the vulnerability of both public and private investments to climate change in the region
- 4.18 *Financing Amount:* The maximum amount per project to be financed by the SECCI IDB Fund (including any support activities for such project) shall not exceed an accumulated total of US\$1.0 million. This figure may be revised after two years to better reflect demand and progress in the utilization of the SECCI IDB Fund. No country can execute more than 30% of the accumulated allocation of resources allocated to the SECCI IDB Fund.

- 4.19 *Local Portion Contribution:* The beneficiary entity or entities will share the financial costs of each operation by an amount to be decided on a case-by-case basis, and which shall not be lower than 20% of the total cost. The total in kind contribution can be no more than 20% of the total cost of the project.
- 4.20 *Termination:* Should the Bank decide for any reason to terminate the SECCI IDB Fund, any balance remaining after paying or canceling any outstanding obligations of the SECCI IDB Fund will be restored to the Bank.
- 4.21 *Contingency:* The Bank may require reimbursement of the resources of the SECCI IDB Fund when such resources are used for technical assistance to the private sector for project preparation and the financing of the project is provided by a party other than the IDB or the Inter-American Investment Corporation. Any reimbursed amount will be added as resources of the Fund.

F. PROCESSING OF THE OPERATIONS

- 4.22 Except as expressly set forth in this proposal, the processing, approval, execution and implementation of each technical cooperation operation financed with resources of the SECCI IDB Fund will be carried out in accordance with the Bank's policies and procedures applicable to regular technical cooperation operations, as such policies and procedures may be amended from time to time.
- 4.23 SECCI IDB Fund will complement other activities developed under SECCI's Action Plan. Activities funded by the parallel SECCI Multi-donor Fund will be articulated with activities finance under the SECCI IDB Fund, in consistence with the overall SECCI program. Resources from both Funds can be directed to the same activity. The distribution of resources will have to be consistent with the SECCI Action Plan.
- 4.24 Funding proposals must include the justification that other resources are not available for the financing as required by the *Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants of OC resources* (revised version, GA-220-12, paragraph 2.11).
- 4.25 Funding proposals will be generated by public entities or, with the non-objection of the competent sector government agency by private entities, both for profit and not for profit. Given the very dynamic nature of the process, proposals may or may not be included in country programming documents. Proposals submitted by the private sector will have to include a justification stating the positive social and economic implications and impacts of the proposed activities or investments.

- 4.26 Country offices and relevant Departments in HQs will have yearly performance objectives for the approval of funding proposals and their execution, set by the respective Vice-Presidents.
- 4.27 Funding proposal preparation will be done by the Country offices and sector units of HQ, and will be evaluated by a SECCI Coordination and Steering Committee.
- 4.28 The SECCI IDB Fund will be coordinated by the SECCI Coordinator whose position is established from existing headcount, and guided by a Steering Committee conformed by IDB Staff, to provide technical support and advice to the SECCI Coordinator. The SECCI Coordinator will be in charge of promoting and steering the use of fund resources, preparation of internal guidelines for proposal preparation, supervision and management of the SECCI portfolio, monitoring of activities, preparation of technical progress reports on the use of resources and, in general, being a resource person available to the units charged with preparation of proposals. When alternative resources managed by the Bank under different funds are identified as potential source of funding for activities under the SECCI program (including the Disaster Prevention Fund, INFRAFUND and other Funds), the SECCI Coordinator will assist the proponent in the process of selection of the most appropriate fund for such activities, or a combination of funding resources.
- 4.29 The eligibility and approval mechanisms established in this document will apply to the IIC and provide for the IIC General Manager involvement at the following stages of projects to be financed with IIC participation: presentation of the proposal to determine eligibility and the plan of operations, acting through the project team; and participation during the consideration of the project. Technical-cooperation operations in which the IIC participates with SECCI IDB Fund resources will be conducted in accordance with Bank policies and procedures.

G. DISBURSEMENTS

- 4.30 Disbursement procedures will be the same as those applicable to regular Bank technical cooperation.
- 4.31 The Executing Agency should prepare the disbursement requests and forward the documentation to the Bank, through the relevant [Department], where it will be reviewed for approval.

H. MONITORING AND INFORMATION

- 4.32 The Bank unit with responsibility for managing grant resources will manage the resources of the IDB SECCI Fund.

I. GOVERNANCE OF THE SECCI IDB Fund

- 4.33 *Governance Structure:* the Fund governance structure will be similar to that of other IDB-managed facilities.
- 4.34 *Technical Stewardship of Fund:* The SECCI Coordinator will have technical stewardship of the IDB SECCI Fund.
- 4.35 *Stakeholders Consultations:* The Fund will consult, as necessary, with representatives from governments, sub-sovereign entities, business associations, financial intermediaries and private investors, as well as beneficiaries of the funds to ensure that the Fund maintains the required multi-stakeholder perspective necessary for the delivery of its mandate.
- 4.36 *Staffing:* *The Fund's* operating model is based on the experience of both the Bank and other multilaterals in the administration of such funds, and it is designed to maximize impact while being cost efficient. The permanent overhead and fixed cost would be maintained at a minimum, and project delivery would be mainly through activity-specific, specialized and outsourced consultants. Full-time staff will be initially limited to the Coordinator. Nonetheless the fund would rely on the Bank staff to implement the activities proposed under the SECCI Action Plan. For this purpose, the use of local sub-contractors could be considered in order to reduce costs and build local capacity within the region.
- 4.37 *Measurable Results:* It will be critical to establish clear metrics for evaluating the success of the Fund at the outset. These metrics could include the success rate for full studies financed, the amount of private sector financing catalyzed, and the economic success of the projects financed. The SECCI Action Plan will establish parameters for measuring the fund's performance.
- 4.38 *Dissemination:* Lessons learned from the operation of the Fund will be periodically disseminated among stakeholders.

J. GOVERNANCE OF PARALLEL FUNDS

- 4.39 The SECCI IDB Fund will complement other activities developed under SECCI's Action Plan. Activities funded by the parallel SECCI Multi-donor Fund will be articulated with activities financed under the SECCI IDB Fund, in consistency with the overall SECCI program. Resources from both Funds can be directed to the same activity; the distribution of resources will have to be consistent with the SECCI Action Plan. Synergies with INFRAFUND, Disaster Prevention Fund and other relevant funding activities in the public and Private Sector [Department] of the Bank will be pursued. SECCI will carry out the upstream work essential for providing regulatory and institutional frameworks for public and private investment, as well as the resources for project identification and preparation. Resources from INFRAFUND will be complementary to complete pre-feasibility,

feasibility and other required studies of projects that involve infrastructure investments. Financing from the Private Sector Department will be the other part of the equation to make projects happen. With this articulation of resources and products, the IDB will offer what the country members need to foster a sustainable energy within an integral public/private agenda.

K. RECOMMENDATIONS

4.40 Management recommends that the Board of Executive Directors approves the attached Resolutions which would:

- a. Establish the SECCI IDB Fund in the amount of US\$20,000,000 with resources of the Ordinary Capital of the Bank in accordance with the terms and conditions described herein and subject to paragraph b below;
- b. Approve during 2007, an initial allocation of US\$2,000,000 to be allocated to the SECCI IDB Fund and charged to the Ordinary Capital resources of the Bank. Additional resources for the Fund will be approved and allocated in the context of the Bank's budgetary exercise;
- c. Authorize the President of the Bank or such representative as the President shall designate to enter into such agreement or agreements and to take any other measures as may be necessary to: (i) manage and implement the SECCI IDB Fund in accordance with the terms and conditions set forth in this proposal; and (ii) execute and implement individual technical cooperation operations financed with the resources of the SECCI IDB Fund and approved in accordance with this proposal;
- d. Authorize the financing, with the resources of the SECCI IDB Fund, of individual technical cooperation operations for a maximum amount of US\$1,000,000 per individual operation, provided that no single country shall receive more than 30% of the SECCI IDB Fund accumulated allocated resources; and
- e. Authorize the President of the Bank or such representative as the President shall designate to approve individual operations financed under the SECCI IDB Fund.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

SUSTAINABLE ENERGY AND CLIMATE CHANGE MULTI-DONOR FUND

(“SECCI MULTI-DONOR FUND”)

--- CONCEPT NOTE ---

August 2, 2007

This document was prepared by Janine Ferretti (Division Chief, SDS/ENV), Juan Pablo Bonilla and David Wilk (SDS/ENV), under the Coordination of Antonio Vives (Manager, Sustainable Development Department). Technical revisions and advise were provided by Maria Bouroncle (RE2/TEC), Alonso Chaverri-Suarez (LEG/LIN), Susana Cardenas (FSS) and Alberto Suria (FIN).

INTER-AMERICAN DEVELOPMENT BANK

SUSTAINABLE ENERGY AND CLIMATE CHANGE MULTI-DONOR FUND

("SECCI MULTI-DONOR FUND")

--- CONCEPT NOTE ---

AUGUST 2, 2007

1. INTRODUCTION

- 1.1 As contemplated in the Sustainable Energy and Climate Change Initiative (SECCI)¹, the Inter- American Development Bank (IDB) is establishing a multi-donor fund (SECCI Multi-donor Fund) for the administration of donor resources to finance activities under the SECCI aimed at mainstreaming the development and use of renewable energies (RE), energy efficiencies (EE), biofuels, carbon financing and the insertion of climate adaptation into policies and programs across sectors in Latin America and the Caribbean (LAC). The SECCI Multi-donor Fund is intended to raise additional grant resources necessary to support the implementation of the Sustainable Energy and Climate Change Initiative. The goal is to raise no less than US\$ 10 million through donor contributions,² as part of the estimated US\$31.5 million cost of implementing SECCI activities over the 2007-09 period. Additional financing by the Bank is expected to be provided through a separate facility, the Sustainable Energy and Climate Change IDB Special Program (SECCI IDB Fund), that would be created with a contribution of US\$20 million, following the criteria established by the Board of Executive Director for "Special Programs/Grants of OC Resources"³.
- 1.2 The IDB's SECCI IDB Fund and the funding provided by donors under the proposed SECCI Multi-donor Fund will support the new international clean energy investment framework being developed by international finance institutions at the request of the international community following the G8 summit in 2005.
- 1.3 This document outlines a proposal to establish the SECCI Multi-donor Fund, including background information, goals and objectives, funding activities, eligibility criteria, expected impacts and the relevant management arrangements governing its constitution and execution.

¹ The SECCI document (GN-2435-1) was approved by the Board of Executive Directors on March 7, 2007 and submitted for information to the Board of Governors as document AB-2515.

² An initial contribution for this Multi-donor Trust Fund from the United Kingdom is being considered.

³ "Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants OC resources", document GA-220-12.

2. BACKGROUND

A. Key Reasons for Increasing Support in RE/EE, biofuel development and carbon finance and adaptation

- 2.1 Although the Latin America and the Caribbean region (LAC) has large oil reserves and significant capacity for hydropower, the countries of in the region are challenged to meet a growing demand for energy. The uneven distribution of available energy resources and volatility of oil and natural gas prices have made energy security a critical concern. The shock of recent high oil prices has impacted the economic growth of many of the non-oil producing and oil-dependent countries of the region. Ensuring access to affordable and reliable sources of energy is at the core of the development agenda of LAC and is emerging as one of the top tier concerns.
- 2.2 There is also a global realization that the impact of climate change threaten to undermine the economic and social well being of all countries. Poor countries will bear the greatest burden of the impacts of climate change. Countries in LAC are already significantly affected by climate variability and extremes, and the region's economy is dependent on natural resource-based activities that are inherently vulnerable. .
- 2.3 While LAC countries account for a modest share of global emissions—about 8% of global greenhouse gas emissions in 2000— emissions have been growing steadily, increasing by about 22 percent between 1990 and 2000.⁴ Emissions from agriculture were the largest contributing sector (28% of emissions), followed by transport (17%) and electricity 12%. CO₂ emissions from electricity are projected to grow the fastest, but transportation is projected to become the dominant source of CO₂ emissions in the region, accounting for about a third of the total emissions by 2030. As well, deforestation and land degradation also contribute to global climate change emissions.
- 2.4 One of the largest challenges for the LAC region is the urgent need to find economically and environmentally sound energy options to guarantee sustained economic growth over the long run. The IDB must help the countries of the region develop the largely untapped potential of energy efficiency and renewable energy, take advantage of the new financing opportunities presented by a growing international carbon market to mitigate greenhouse gas emissions, and adapt to the impacts of climate change. Securing a sustainable energy path and response to climate change for the region presents an opportunity for the IDB to advance its strategic agenda of the region focused on competitiveness, good governance, social development, and regional integration.

⁴ World Resources Institute, 2006, Climate Analysis Indicator Tool: Version 3.0, available at: <http://cait.wri.org/cait.php>

B. Opportunities and constraints for increasing RE/EE investments,

- 2.5 Renewable energy sources could make a far greater contribution to both electricity generation and energy demand in the LAC region than existing trends suggest. Currently, the combined contribution of wind, hydro, and geothermal to electricity capacity is about 64 %; nevertheless, the capacity for wind, solar and geothermal sources is such that renewables could increase from a 2% share of total capacity in 2004 to 4% by 2030. As worldwide investments in clean energy grow (at an estimated 40% just in 2005) and oil prices remain high threatening energy security , investments in renewable energy in the LAC region will grow.⁵
- 2.6 Biofuels are emerging as a significant option for diversifying the energy mix in many countries. Overall, the LAC region has comparative advantages for biofuel development, with large feedstock potentials (mainly sugarcane for ethanol production and a variety of vegetable oil sources for biodiesel) and declining costs of ethanol production and emerging opportunities in domestic and international markets. Although Brazil, as the world's largest producer of ethanol and developer of biofuel-friendly vehicle technology, spearheads the development of biofuels in the region, considerable interest has arisen in medium- and small-size countries in developing biofuel feedstocks and engaging in biofuel production.
- 2.7 Energy efficiency remains the most cost-effective option for many countries. Energy-efficient technologies can increase the efficiency of new buildings by more than 70% over existing structures, and improve the efficiency of motors, pumps, boilers, and heating systems by 10 to 30 percent. Energy efficient technologies in the buildings, industry, and transport sectors could lead to a reduction in energy use of up to 33 percent by the year 2050. Such reductions in energy consumption amount to reduced impact on ecosystems and lesser impacts from electricity generation.
- 2.8 Despite these emerging opportunities, there are significant barriers to the adoption of renewable energy and energy efficiency technologies. Much support is needed to strengthen institutional capacities and regulatory frameworks, address ineffective or distorted policy frameworks, improve strategic and technical knowledge, and develop new financial instruments in support of clean energy investments in the region.

C. Opportunities for support in carbon markets and reduction of vulnerability to climate change

- 2.9 The growing international carbon market provides attractive incentives for energy planners, regulators and developers in LAC. The Clean Development Mechanism under the Kyoto Protocol of the UN Framework Convention on Climate Change, has opened a range of opportunities for foreign investment in energy projects in

⁵ IEA World Energy Outlook 2006.

LAC that reduce greenhouse gas emissions as offsets to emissions in developed countries.

- 2.10 While the LAC region more than doubled its own participation in the Clean Development Market (CDM) over the past year, its market share has fallen substantially relative to other regions, most notably Asia and the Pacific. There are several reasons for this, including lack of institutional knowledge of and capacity for engagement with the CDM, as well as lack of availability of good projects and the presence of risk factors related to the delivery of certificates of emission reductions (CERs)
- 2.11 Historically, international financial institutions have focused their carbon finance activities principally on the *demand* side of the market by managing funds to purchase carbon credits from independently developed CDM projects on behalf of the funds' clients. However, this is a partial approach, which cannot address the underlying problem of obtaining affordable financing to develop the projects.
- 2.12 LAC must also address threats of increased vulnerability to the impacts of climate change. Extreme weather and climate variability, the presence of already fragile and stressed ecosystem services, socioeconomic conditions sensitive to adverse and change climate, and low adaptive capacity are key challenges faced by the region. The region's dependence on climate-dependent, natural resource-based economic activities, such as agriculture, tourism, fishing, and forestry, make the region's countries and populations especially vulnerable to the impacts of climate change. Many people live in hazard prone areas such as floodplains or steep slopes. Recent results presented by the Working Group II of the IPCC on Climate Change Impacts, Adaptation and Vulnerability indicate that the impacts of climate change in our region are significant, and refer to decreases in water availability and losses of tropical forests causing further decline in biodiversity, salinisation and desertification of agricultural land, increased flooding, adverse effects on coral reefs, and the disappearance of glaciers that significantly affects water availability for human consumption, agriculture and energy generation.⁶
- 2.13 Climate risks increase the vulnerability of the Bank's lending portfolio. On average, 27 % of the projects approved each year contain activities that could be moderately sensitive to climate change, and 11% contain activities that could be highly sensitive to climate change. In the past three years, a quarter of the approved funding can be considered at risk from significant climate change impacts. This is driving the Bank to factor in climate-risk concerns into sector policies, country strategies and project design and implementation. It also requires developing a pro-active agenda on adaptation, by "mainstreaming" adaptation into disaster risk prevention activities, and ensuring that new projects can withstand climate change related hazards and risk.

⁶ Working Group II on Climate Change Impacts, Adaptation and Vulnerability: Contribution to the IPCC. Fourth Assessment Report. Summary for Policymakers, April 6, 2007

3. PURPOSE OF THE SECCI MULTI-DONOR FUND

- 3.1 The purpose of the SECCI Multi-donor Fund is to finance activities under the SECCI aiming at expanding investment in renewable energy and energy efficiency technologies, increasing access to international carbon finance, and the mainstreaming of adaptation to climate change into the policies and programs across sectors in Latin America and the Caribbean (LAC).⁷ Specifically, the SECCI Multi-donor Fund will be targeted to help countries reduce institutional, policy, financial, and technological barriers that are constraining the adoption of RE/EE and biofuel investments and activities, and are also limiting their participation in the carbon markets.

4. STRATEGY AND SCOPE OF THE MULTI-DONOR FUND

- 4.1. The SECCI Multi-donor Fund will finance activities under key strategic lines of action contained in SECCI's programmatic pillars. The implementation of these activities will be coordinated under an Action Plan to be approved by management. The Action Plan will detail the procedures for the administration of the financial resources and for the approval and management of individual operations. The eligible activities include, but are not limited to:

RENEWABLE ENERGY AND ENERGY EFFICIENCY

- Required studies (pre-feasibility, feasibility, environmental and social studies, etc) to develop renewable energy projects (such as small hydros, wind, solar, geothermal, wave energy and methane recovery, among others), and energy efficiency activities.
- Preparation, review and development of sectoral studies required for project development such as mapping of solar radiation, wind velocity, geothermal potential, etc.
- Energy audits for priority sectors (industry and manufacturing, housing, water and sanitation, public lighting), sub-national governments (regions, provinces, states and municipalities), and public and private entities, including subsequent financing of prefeasibility, feasibility and due diligence studies for the implementation of the results received from energy audits.
- Studies to carry out regulatory and institutional analysis as an input for improvements of current national and/or local regulatory and institutional frameworks to remove barriers for investments in renewable energy and energy efficiency.

⁷ Climate change adaptation-related activities will also be funded through the existing Disaster Prevention Fund.

- Studies for technology development and and adaptation, pilot projects and technology cooperation.
- Preparatory studies in support of loan/guarantee operations for non-sovereign operations in renewable energy and energy efficiency.
- Training and dissemination activities.

BIOFUELS DEVELOPMENT

- Country level policy assistance in support of biofuel development, including sustainable strategies for feedstock development, the removal of barriers as well as the introduction of necessary policies and financial instruments that would facilitate the development of domestic markets and participation in international markets.
- Assessment of economic viability of fostering biofuels, including the feedstock availability and costs of production, the cost of bringing biofuels to market (i.e. transportation costs), the potential for developing a domestic or integrated regional market for biofuels, the potential export market and trade capacity, as well as considerations of environmental and social benefits and risks, including, but not limited to impacts on food production.
- Studies to support financing of (i) biofuels feedstock development, including studies related, but not limited to agronomic research, environmental and social assessments, technological adaptation and innovation for productivity enhancement, economic feasibility, and promotion and dissemination of new technological packages among farmers; and (ii) biofuel production facilities and related infrastructure in production and distribution.
- Development and adaptation of biofuel technologies, application of emerging technologies and research and innovations endorsed by the relevant government authority, as well as the dissemination of good practices and assistance through centers of excellence for the inception, planning, design and implementation of biofuel national programs.
- Preparatory studies in support of loan/guarantee operations for non-sovereign operations in biofuels.

CARBON MARKET ACCESS

- Support IDB operation teams in evaluation of investment projects in priority sectors (energy, transport, water and sanitation, rural development-avoiding deforestation) and their eligibility for CDM.

- Assist Ministries, designated national authorities, and public/private project developers in the identification of potential projects for carbon finance in priority sectors. Funding for preparation of Clean Development Mechanism (CDM) projects will be available (for Project Idea Notes, Project Design Documents, and Baseline Validation, etc.).
- For projects where upon request buyers are identified, the fund will also finance the development of the terms for the Emission Reductions Purchase Agreement (ERPA).
- Support carbon finance project cycle activities and conduct the project development (pre-feasibility, feasibility and final designs). Financial structuring can also be included (for example, operation and construction of solid waste sites).
- . Expansion of methane capture projects.
- Development of baseline studies and new methodologies in priority areas that can provide replication throughout the LAC region.
- Development of risk management instruments for certificate delivery.
- Development of capacity building programs for academic institutions and private associations in the carbon finance and adaptation to climate change area.
- Development of training and dissemination activities. Priority will be given for proposals related to the above-mentioned eligible activities in the host countries.
- Complementary activities involving regulatory and institutional analysis as an input for technical assistance loans, policy and investment lending under a programmatic CDM approach.
- Development of projects that contribute to the development of approaches and methodologies related to accessing carbon finance for avoided or reduced deforestation.

ADAPTATION TO CLIMATE CHANGE

- Mainstreaming climate risk in country investments. This involves financing country-level assessments of climate change vulnerability, risk assessments, and strategic identification of adaptation measures.
- Studies to identify the necessary investments to reduce vulnerability to climate risk of urban and regional infrastructure. This involves identifying and

protecting capital assets at risk to climate change impacts, preparation of loans to finance risk-reduction investment, design and development of vulnerability components and activities in investment loans, and review of infrastructure standards.

- Increasing adaptive capacity by introducing consideration of climate change impacts through guidelines and sector specific tools to evaluate impacts and adaptation options in land use and infrastructure in development plans, agricultural production, and coastal and watershed management, among others.
- Identification of vulnerability to climate change impacts, including areas such human health, agriculture and tourism.
- Climate-proofing IDB investments. This involves the development of a screening tool in order to assess and mitigate climate risk in new Bank projects.

5. DEMAND FOR THE FUND'S ACTIVITIES

- 5.1. A growing number of IDB members and clients in the region have approached the Bank recently, with requests for new levels of assistance and cooperation to expand the application of renewable energy and energy efficiency technologies and to benefit from the financing potentials associated with the international carbon market. The IDB's Sustainable Energy and Climate Change Initiative, is a response to this emerging demand. It is also the IDB's contribution to the new international clean energy investment framework being developed by IFIs at the request of the international community following the G8 summit in 2005.

6. FUNDING ACTIVITIES AND ELIGIBILITY CRITERIA

- 6.1 Eligible activities to be financed by the SECCI Multi-donor Fund include: (i) designing and setting up new financial mechanisms oriented to lower risk and financial barriers; (ii) financial and market studies; (iii) technical feasibility analysis; (iv) policy reforms and support targeted for programmatic CDM projects; (v) training, knowledge dissemination, and capacity building; (vi) demonstration projects; (vii) information and monitoring systems; (viii) methodology development; and (ix) setting up of national programs.
- 6.2 In addition, the Multi-donor Fund may also finance investments required for SECCI projects, either complementary to technical cooperation operations, or as stand alone contributions. Consequently, the resources of the SECCI Multi-donor Fund may be used to finance investment grant operations. Investment grant operations may include investment activities such as works, goods, equipment and related services (transportation, insurance, etc.), and pilot projects in technology

- development and adaptation, as well as consulting services required for such investments. Proposed investment must show technical, economical, financial, social and environmental feasibility. Management will adopt guidelines to process such investment grants operations.
- 6.3 The SECCI Multi-donor Fund will direct resources according to priorities defined in SECCI's Action Plan, to strengthen the Bank and its borrowing countries capacity in identifying, preparing and implementing sustainable energy projects. Eligibility criteria for accessing the SECCI Multi-donor Fund will include: (i) consistency with SECCI principles and with countries' medium-long term energy strategies; (ii) evidence of financially viable market opportunities; (iii) country/client ownership; (iv) degree of innovation and value added; (v) institutional and environmental sustainability; (vi) degree of coordination and synergies with other funds; (vii) public-private sector partnerships; and (viii) donor coordination. The SECCI Multi-donor Fund will also give priority to initiatives with high social impact and targeted to address the needs of the poor.
- 6.4 The Bank may require reimbursement of the resources of the SECCI Multi-donor Fund when such resources are used for technical assistance for project preparation and the financing of the project is provided by a party other than the IDB or the Inter-American Investment Corporation. Any reimbursed amount will be added as resources of the Fund and may be used as provided in these Terms and Conditions.
- 6.5 The SECCI Muti-donor Fund will be coordinated by the SECCI Coordinator, and guided by a Steering Committee conformed by IDB Staff and well known experts from the region to serve as technical support and advise to the SECCI Coordinator. The SECCI Coordinator and Steering Committee will be in charge of promoting and steering the use of fund resources, preparation of internal guidelines for proposal preparation, supervision and management, prepare technical performance reports on the use of resources and, in general, being a resource person available to the units charged with preparation of proposals.
- 6.6 The SECCI Multi-donor Fund will complement other activities developed under SECCI's Action Plan. Activities funded by the parallel SECCI IDB Fund will be articulated with activities financed under the SECCI Multi-donor Fund, in consistency with the overall SECCI program. Resources from both Funds can be directed to the same activity. The distribution of resources will have to be consistent with the SECCI Action Plan, and with the Terms and Conditions established in Annex I and II.

7. EXPECTED IMPACT OF THE SECCI MULTI-DONOR FUND

- 7.1 The success of the SECCI Multi-donor Fund will be measured in terms of the particular impacts generated by the funded activities. An indicative list of such impacts include:

- Increased value of clean energy investments and technical assistance projects.
- Improved indicators of sustainable energy technologies adoption in the countries
- Improved policy and regulatory frameworks in beneficiary countries
- Evidence of successful projects undertaken, as measured by project level outcome indicators.
- Improvement of social conditions of the poor as a result of the introduction of renewable energy and energy efficiency in social infrastructure such as education, health and housing, and the generation of employment in the agricultural sector involving feedstock development for biofuel development projects.
- Improved capacity for financing for sustainable energy projects
- Increase in IDB financed projects with CDM financed components.
- Increased revenue stream from CDM transactions in participant/beneficiary countries
- Increased market share of LAC countries in CDM global transactions
- Carbon emission reductions and monitoring capacity in place
- Increased programmatic CDM operations for priority sectors.
- Increased capacity in the Region for countries and private sector groups to access the international carbon market.
- Increased investment in climate change adaptation activities
- Increased awareness of the impact of climate change and the need for adaptation and reduction of vulnerability.

8. PARTICIPATION IN THE SECCI MULTI-DONOR FUND AND CORRESPONDING AGREEMENTS

- 8.1 Attached hereto are the Annexes I and II and the Contribution Letter that will substantially constitute the agreement to be signed with donors of the SECCI Multi-donor Fund.

ANNEX I

SUSTAINABLE ENERGY AND CLIMATE CHANGE MULTI-DONOR FUND

The following Annexes 1 and 2 (together the “Terms and Conditions”) contain the terms and conditions of the **SUSTAINABLE ENERGY AND CLIMATE CHANGE MULTI-DONOR FUND** (the “Fund”) administered by the Inter-American Development Bank (the “IDB” or the “Bank”) with contributions from the adhering donors (the “Donors”) (together, the “Parties”, individually a “Party”), as more fully described in Article 1.6 below.

WHEREAS on [_____] the Board of Executive Directors of the IDB approved Resolution DE-[_____] for the establishment of the Sustainable Development and Climate Change Special Program (the “SECCI IDB Fund”), funded with IDB resources and to be managed in accordance with document GN-[_____] (the “SECCI IDB Fund Document”), as may be amended from time to time.

WHEREAS the IDB SECCI Fund will finance individual non-reimbursable technical cooperation operations of the IDB to support the implementation of the Sustainable Energy and Climate Change Initiative (the “SECCI”) of the Bank, approved by its Board of Executive Directors pursuant to document GN-2435-1, in all its borrowing member countries.

WHEREAS the Donors wish to make available untied contributions to be administered by the Bank to support the implementation of SECCI, complement the resources of the IDB SECCI Fund and finance the activities indicated below.

WHEREAS the IDB is prepared to accept and administer such contributions from the Donors pursuant to the terms and conditions set forth hereto in Annexes I and II.

ARTICLE 1

ESTABLISHMENT OF THE SUSTAINABLE ENERGY AND CLIMATE CHANGE INITIATIVE MULTI-DONOR FUND

1. The Fund is hereby established, under the administration of the IDB, the purpose of which shall be to promote conditions necessary to facilitate the increase of investments in renewable energy, biofuels, energy efficiency and climate change adaptation, and greater LAC access to the international carbon market.

2. The contributions (the “Contributions”) from Donors to the Fund will be made to the account indicated by the IDB in United States dollars, or in a currency freely convertible by the IDB into United States dollars.
3. Contributions will be calculated in United States dollars, and any payments in any other currency will be made in an amount representing the United States dollar equivalent of the commitment, based on the rate of exchange in effect on the date of the currency conversion.
4. If requested in writing by a Donor, a Contribution may be transferred by the Bank from uncommitted resources of a trust fund of such Donor or other contribution currently administered by the IDB (the “Former Trust Fund”). The fee contemplated in Article 3, Section 8, shall not apply to such Contribution, unless no fee was ever charged to the uncommitted resources in the Former Trust Fund. If the Former Trust Fund is administered in a currency different from the United States dollar, Article 1, Section 3 will be applicable. No transfers may be requested from multidonor trust funds.
5. Contributions from new resources, i.e. resources from a Donor not currently administered by the Bank in a trust fund or for a specific project, will be subject to the fee established below in Article 3, Section 8.
6. Membership to this Fund and additional Contributions thereto shall be formalized through the subscription of a contribution letter (the “Contribution Letter”). The Bank’s acceptance of any Contribution Letter is subject to its applicable internal approvals.

ARTICLE 2

USE OF THE RESOURCES AND ACTIVITIES

1. The resources of the Fund will be used to finance on a non-reimbursable basis technical assistance for the projects and activities of the Bank indicated in Annex 2 attached hereto and any other activities, consistent with the objectives of the Fund. Notwithstanding the foregoing, the Bank may require reimbursement if technical assistance is used for project preparation, when the financing of the project is provided by a party other than the Bank or the Inter-American Investment Corporation. Any reimbursed amount will be added as resources of the Fund and may be used as provided in these Terms and Conditions.
2. The Fund may also finance investments, either complementary to technical cooperation operations, or as stand alone contributions consistent with the objectives of the Fund. .

3. In addition, the resources of the Fund may also be used to finance trust fund appointee(s) to support activities of the Fund, designated by the IDB, pursuant to the Bank's applicable policies and procedures, including its standing norms and remuneration for trust fund appointments. Individuals from all IDB member countries are eligible to be hired as trust fund appointees. No contract under this provision shall exceed a period of three years.
4. The resources of the Fund shall be administered by the Bank separately from its own resources or other resources administered by the IDB.
5. The identification, preparation, appraisal, approval and supervision of the projects and activities financed through the Fund, as well as the selection, recruitment and supervision of consultants, contractors and/or suppliers, including individuals, consulting firms, semi-public and public institutions, non-governmental organizations, universities and research institutes hired for the purposes of providing technical advice or assistance, or investments thereof, will be carried out in accordance with the applicable policies and procedures of the IDB. Such entities from all IDB member countries are eligible to be hired with the financial resources provided pursuant to these Terms and Conditions.
6. The projects and activities to be financed by the Fund will be carried out in accordance with the applicable Bank's policies and procedures, including, without limitation, the IDB's Program for the Development of Technical Cooperation among its Member Countries (the "TC Funds Program").

ARTICLE 3

FINANCIAL ASPECTS

1. The IDB may exchange the resources of the Fund at its discretion to other currencies to facilitate their management and investment.
2. Contributions will be deposited in a single account and may be paid in one or more tranches. No tranche may be less than the equivalent of US\$250,000.00 (two hundred-fifty thousand United States dollars).
3. The Contributions will be administered in accordance with the provisions of these Terms and Conditions.
4. The IDB will commit the resources made available to it hereunder only if the IDB receives sufficient funds to cover any such commitment. The IDB will not be responsible for any exchange rate risk related to currency conversion.

5. The IDB may at its discretion invest and reinvest the resources of the Fund. Any income will be added to the resources of the Fund, and will be used to finance projects or activities provided for under these Terms and Conditions and to cover costs contemplated herein, including but not limited to those specified under Article 3, Section 7 and Section 8, and/or Article 4, and will not be credited to the contribution(s) of any particular Donor.
6. The IDB will exercise the same care in the discharge of its functions under this Terms and Conditions as it exercises with respect to the administration and management of its own affairs, and will have no further responsibility to the Donors in respect thereof.
7. All costs and expenses related to audits and other agreed-upon procedures, if any, including those specified in Article 4, will be deducted from the resources of the Fund. Such charges will be reflected in the financial statements.
8. The IDB will charge and deduct an administrative commission of five percent (5%) on all Contributions received from the Donors in order to defray the costs of administration, except as otherwise provided in Article 1, Section 4.

ARTICLE 4

REPORTING, MONITORING AND CONSULTATION

1. The IDB will maintain separate books and records for Contributions provided hereunder; however, books and records shall not be kept or segregated by individual Donor. The IDB will deliver to the Donors the same statements and reports indicated below, which will be prepared in accordance with it's the Bank's own policies and procedures. The reporting currency will be the United States dollar.
2. No later than April 30 of each year, the IDB will furnish an unaudited annual report on activities approved during the previous calendar year under this Annex. This report will include such information as: (i) amounts received from the Donors; (ii) approved and disbursed amounts; (iii) income earned and costs charged; (iv) general description of each project or activity and its implementation, as well as the name and nationality of the consulting firm hired to execute it, when available; and (v) results achieved in respect to program objectives. No individual reporting by Donor for project approvals will be available.
3. The IDB will provide the following reports, audited by the IDB's external auditor:

- a) No later than April 30 of every third year, the IDB will deliver to the Donors an audited financial statement of the Fund for the three-year period ended on December 31 of the previous year. The first year shall be considered the year 2007.
 - b) Upon termination of the Fund, the IDB will deliver to the Donors an audited financial statement of the Fund as of the termination date.
4. The IDB will facilitate consultation concerning matters provided for under these Terms and Conditions. The Parties will inform each other of their respective personnel assigned to oversee activities in relation to the Fund. In addition to the formal reporting and other communications provided for under this Article 4, the Parties could have regular contact which may include meetings in order to suggest initiatives to be supported pursuant to this Agreement, as well as to monitor the success of activities that are being carried out.
 5. The Donors will be allowed to monitor any activity funded under this Agreement upon providing the IDB with sufficient notice. For the purposes of this paragraph, the participation of a Donor's representative in missions of the Bank to a borrowing member country, may be subject to the previous consent of such borrowing member country. Where feasible and reasonable, the IDB will provide assistance to the Donors while their representatives are carrying out monitoring activities.

ARTICLE 5

INSTITUTIONAL ASPECTS

1. The IDB designates the _____ as the responsible unit for the implementation of its obligations under this Agreement. The IDB may change this designation by written notice to the Donors.

ARTICLE 6

GENERAL

1. Nothing in this Agreement may be construed as creating an agency relationship between the Donors and the IDB.
2. Subject to its policies and procedures with respect to the disclosure of information, the IDB may make these Terms and Conditions publicly available.

ARTICLE 7

COMMUNICATIONS

All written communications required or in connection with the Fund will be directed to the following addresses:

For the IDB:

Inter-American Development Bank
1300 New York Ave., NW
Washington, D.C. 20577 U.S.A.

Tel: (+1) 202-623-xxxx
Fax: (+1) 202-623-xxxx

For the Donors:

The address indicated in the first Contribution Letter.

ARTICLE 8

**EFFECTIVENESS, AMENDMENT, TERMINATION AND
SETTLEMENT OF DISPUTES**

1. The Fund will become effective for each Donor as of the date of acceptance by the Bank of such donor's first Contribution Letter and will remain effective until such time it is terminated in accordance with this Article 8.
2. For the purpose of activities not committed, any Party may terminate its respective participation in the Fund as of the termination date indicated in a written notice of termination, provided that such written notice of termination is delivered at least three months before the stipulated termination date to the IDB, or to all the Donors if termination is decided at any time by the IDB.
3. Termination of the Fund will not prejudice commitments expressly contemplated under these Terms and Conditions or the payment of the contractual obligations of the Fund that are entered into as of the date of receipt by the IDB of the respective termination notice.
4. Subject to the foregoing, and except as otherwise provided herein, upon termination of a Donor's participation in the Fund, a proportional uncommitted fund balance of the Fund will be returned to such Donor, as of the termination date, which shall be calculated as further detailed herein. The proportion of the contributions made to the Fund by the retiring Donor shall be multiplied by the

- uncommitted balance of the Fund, as of the termination date of the retiring Donor. The resulting amount shall be adjusted by the Bank, as necessary, to reflect any variation based on the timing of the various Contributions made to the Fund, the earnings and/or the expenditures of the Fund, and the relative terms of Contributions made by other Donors. Any calculation of the amount to be returned will be made in United States dollars. The amount returned will be subject to any adjustment resulting from the next audit of the Fund. The retiring Donor commits to return to the Bank any amount required as a result of such audit adjustment.
5. The Fund shall also terminate when the resources of the Fund are exhausted and no additional Contributions have been pledged. In such case, the IDB will send a notice of termination to the Donors informing of any actions to be taken to ensure that all activities related to the Fund are closed in an orderly manner.
 6. Termination of the IDB SECCI Fund or exhaustion of its resources shall not affect the effectiveness of this Fund.
 7. These Terms and Conditions may only be modified by a written agreement signed by of all Parties.
 8. The Parties will seek to settle amicably any disputes that may arise from or relate to this Fund.

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ANNEX II

ACTIVITIES TO BE FINANCED BY THE FUND

Pursuant to Article 2, Section 2 of Annex I, activities to be financed on a non-reimbursable bases by the Fund include the following:

I. RENEWABLE ENERGY AND ENERGY EFFICIENCY

1. Required studies (pre-feasibility, feasibility, environmental and social studies, etc) to develop renewable energy projects (such as small hydros, wind, solar, geothermal, wave energy and methane recovery from landfills, among others) and energy efficiency activities.
2. Preparation, review and development of sectoral studies required for project development such as mapping of solar radiation, wind velocity, geothermal potential, etc.
3. Energy audits for priority sectors (industry and manufacturing, housing, water and sanitation, public lighting), sub-national governments (regions, provinces, states and municipalities), and public and private entities, including subsequent financing of prefeasibility, feasibility and due diligence studies for the implementation of the results received from energy audits.
4. Studies to carry out regulatory and institutional analysis as an input for improvements of current national and/or local regulatory and institutional frameworks to remove barriers for investments in renewable energy and energy efficiency.
5. Studies for technology development and adaptation.
6. Preparatory studies in support of loan/guarantee operations for non-sovereign operations in renewable energy and energy efficiency and technology cooperation.
7. Training and dissemination activities.

II. BIOFUELS DEVELOPMENT

1. Country level policy assistance in support of biofuel development, including the removal of barriers as well as the introduction of necessary policies and financial

instruments that would facilitate the development of domestic markets and participation in international markets.

2. Assessment of economic viability of fostering biofuels, including the feedstock availability and costs of production, the cost of bringing biofuels to market (i.e. transportation costs), the potential for developing a domestic or integrated regional market for biofuels, the potential export market and trade capacity, as well as considerations of environmental and social benefits and risks, including, but not limited to impacts on food production.
3. Studies to support financing of (i) biofuels feedstock development, including studies related, but not limited to agronomic research, environmental and social assessments, technological adaptation and innovation for productivity enhancement, economic feasibility, and promotion and dissemination of new technological packages among farmers; and (ii) biofuel production facilities and related infrastructure in production and distribution.
4. Development and adaptation of biofuel technologies, application of emerging technologies and research and innovations endorsed by the relevant government authority, as well as the dissemination of good practices and assistance through centers of excellence for the inception, planning, design and implementation of biofuel national programs.
5. Preparatory studies in support of loan/guarantee operations for non-sovereign operations in biofuels.

III. CARBON MARKET ACCESS

1. Support IDB operation teams in evaluation of investment projects in priority sectors (energy, transport, water and sanitation, rural development-avoiding deforestation) and their eligibility for CDM.
2. Assist Ministries, designated national authorities , and public/private project developers in the identification of potential projects for carbon finance in priority sectors. Funding for preparation of Clean Development Mechanism (CDM) projects will be available (for Project Idea Notes , Project Design Documents , and Baseline Validation, etc.).
3. For projects where upon request buyers are identified, the fund will also finance the development of the terms for the Emission Reductions Purchase Agreement (ERPA).
4. Support carbon finance project cycle activities and conduct the project development (pre-feasibility, feasibility and final designs). Financial structuring can also be included (for example, operation and construction of solid waste sites).

5. Development of carbon finance projects in the sectoral scope of avoiding deforestation.
6. Proposals for baseline studies and development of new methodologies in priority areas that can provide replication throughout the LAC region.
7. Development of risk management instruments for certificate delivery.
8. Development of capacity building programs for academic institutions and private associations in the carbon finance and adaptation to climate change area.
9. Development of training and dissemination activities. Priority will be given for proposals related to the above-mentioned eligible activities in the host countries.
10. Complementary activities involving regulatory and institutional analysis as an input for technical assistance loans, policy and investment lending under a programmatic CDM approach.

IV. ADAPTATION TO CLIMATE CHANGE

1. Mainstreaming climate risk in country Investments. This involves financing country-level assessments of climate change vulnerability, risk assessments, and strategic identification of adaptation measures.
2. Studies to identify the necessary investments to reduce vulnerability to climate risk of urban and regional infrastructure. This involves identifying and protecting capital assets at risk to climate change impacts, preparation of loans to finance risk-reduction investment, design and development of vulnerability components and activities in investment loans, and review of infrastructure standards.
3. Increasing adaptive capacity by introducing consideration of climate change impacts through guidelines and sector specific tools to evaluate impacts and adaptation options in land use and infrastructure in development plans, agricultural production, and coastal and watershed management, among others.
4. Studies to identify and address vulnerability of human health to climate change, as well vulnerability of economic activities including agriculture and tourism.
5. Climate-proofing IDB investments. This involves the development of a screening tool in order to assess and mitigate climate risk in new Bank projects.

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[*Model of Contribution Letter*]

[Date]

Mr. Luis Alberto Moreno
President
Inter-American Development Bank
1300 New York Ave., NW
Washington, D.C. 20577

Re.: **Contribution Letter from the [Donor] (hereinafter, the “Donor”) to the Sustainable Energy and Climate Change Initiative Multi-donor Trust Fund (the “Fund”).**

Dear Mr. President:

I am pleased to inform the Inter-American Development Bank (the “IDB” or the “Bank”) of the decision of [the Donor] to accept the Terms and Conditions of the Fund, attached hereto as Annexes 1 and 2 and, as further detailed herein, to contribute the amount [in ____ (*indicate other currency*)] of [equivalent to] US\$[____] (*letters*) (the “Contribution”) to the Fund.

1. The Contribution will be payable in [*number*] tranche[s] as indicated below in paragraph 2 of this Contribution Letter.
2. The Contribution will be made to the IDB in US dollars, or in a currency freely convertible by the IDB into US dollars,¹ as follows: the [first] tranche of US\$[____] (*letters*) promptly after the date of acceptance of the Contribution by the IDB, as indicated at the end of this Contribution Letter; [and the second tranche of US\$[____] (*letters*) [one year after the first tranche].

[Upon signature of this Contribution Letter by the parties hereto, the Bank will transfer, on the dates indicated above in paragraph 2, the Contribution from the account of the [*name of the Trust Fund*] (the “Former Trust Fund”) into the account of the Fund. The terms of this Contribution Letter and its Annex 1 and 2 will apply to the Contribution. The terms and conditions of the Former Trust Fund shall cease to apply to the Contribution.²

¹ The text of this Contribution Letter will be adjusted to receive contributions in a currency freely convertible by the IDB into United States dollars, pursuant to Article 1, Sections 2 and 3 of the Terms and Conditions of the Fund.

² This is an optional text to be used pursuant to Article 1, Section 4 of the Terms and Conditions of the Fund.

3. The terms of this Contribution Letter and its Annex 1 and 2 will apply to the Contribution
4. Capitalized terms used but not defined in this Contribution Letter shall have the meanings ascribed to them under Annex 1.
5. All written communications to the Donor will be directed to the following address:

[address]
6. Subject to its policies and procedures with respect to the disclosure of information, the IDB may make this Contribution Letter publicly available.

If you agree to the foregoing, please indicate so by signing in the space provided below in each of the two (2) original counterparts.

Sincerely,

[Donor]

Accepted for and on behalf of the
Inter-American Development Bank

Luis Alberto Moreno
President

Date: _____

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-[SECCI 1]___/07

Sustainable Energy and Climate Change IDB Special Program
("SECCI IDB Fund")

The Board of Executive Directors

RESOLVES:

1. To establish a Fund for the Sustainable Energy and Climate Change IDB Special Program ("SECCI IDB Fund") in the amount of up to US\$20,000,000 chargeable to the Ordinary Capital resources of the Bank, as defined in Paragraph 2.7 of Document GA-220-12.
2. That prior to the utilization of the SECCI IDB Fund, the Board of Executive Directors shall approve an initial allocation or allocations of resources. Thereafter, additional resources to be allocated to the SECCI IDB Fund would be approved and allocated by the Board of Executive Directors in the context of the Bank's budgetary exercise.
3. To limit the financing of individual operations to a maximum amount of US\$1,000,000 per individual operation, provided that no single country shall receive more than 30% of the cumulative allocated resources of the SECCI IDB Fund.

LEG/SGO/VA-1070272-07

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-[SECCI 2]___/07

Sustainable Energy and Climate Change IDB Special Program
("SECCI IDB Fund")

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, in connection with the SECCI IDB Fund established pursuant to Resolution DE-[SECCI 1]___/07, to: (a) approve individual operations financed with the resources of the SECCI IDB Fund for up to the amount established in paragraph 3 of Document GN-1838-1, or the amount established in any future amendment of the relevant policies on delegation of authority; (b) enter into agreements in the name and on behalf of the Bank, and to take any other measures as may be necessary for the purpose of: (i) managing and implementing the SECCI IDB Fund in accordance with the criteria set forth in the applicable sections of Document GN-____, as specified in paragraph 2 of this Resolution; and (ii) executing and implementing individual operations financed with the resources of the SECCI IDB Fund, and approved in accordance with the applicable sections of Document GN-____ and this Resolution.

2. The authorization to the President of the Bank, or to such representative as he shall designate, contained in paragraph 1 of this Resolution, refers to the authority to approve and administer the financing of individual operations with resources of the SECCI IDB Fund relating to the following categories of eligible activities contemplated in section IV of Document GN-____: (i) renewable energy and energy efficiency; (ii) biofuels; and (iii) adaptation to climate change.

3. Pursuant to paragraph 2 of Resolution DE-[SECCI 1]___/07, to authorize that the total amount of resources designated as initial allocation to the SECCI IDB Fund, that may be utilized for the financing of the activities mentioned in paragraph 2 of this Resolution, shall be up to US\$1,500,000, which may be increased pursuant to the provisions of paragraph 3 of Resolution DE-[SECCI 3]___/07.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-[SECCI 3]___/07

Sustainable Energy and Climate Change IDB Special Program
("SECCI IDB Fund")

The Board of Executive Directors

RESOLVES:

1. To authorize the President of the Bank, or such representative as he shall designate, in connection with the SECCI IDB Fund established pursuant to Resolution DE-[SECCI 1]___/07, to: (a) approve individual operations financed with the resources of the SECCI IDB Fund for up to the amount established in paragraph 3 of Document GN-1838-1, or the amount established in any future amendment of the relevant policies on delegation of authority; (b) enter into agreements in the name and on behalf of the Bank, and to take any other measures as may be necessary for the purpose of: (i) managing and implementing the SECCI IDB Fund in accordance with the criteria set forth in the applicable sections of Document GN-____, as specified in paragraph 2 of this Resolution; and (ii) executing and implementing individual operations financed with the resources of the SECCI IDB Fund, and approved in accordance with the applicable sections of Document GN-____ and this Resolution.

2. The authorization to the President of the Bank, or to such representative as he shall designate, contained in paragraph 1 of this Resolution, refers to the authority to approve and administer the financing of individual operations with resources of the SECCI IDB Fund for eligible activities within the category of carbon market access, contemplated in section IV of Document GN-____.

3. Pursuant to paragraph 2 of Resolution DE-[SECCI 1]___/07, to authorize that the total amount of resources designated as initial allocation to the SECCI IDB Fund, that may be utilized for the financing of activities related to carbon market access mentioned in paragraph 2 of this Resolution, shall be up to US\$500,000, and that any amount not utilized for the financing of such activities may be utilized to increase the total amount authorized for the activities described in paragraph 2 of Resolution DE-[SECCI 2]___/07.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/07

Sustainable Energy and Climate Change Multi-Donor Fund

The Board of Executive Directors

RESOLVES:

1. To authorize the creation of the Sustainable Energy and Climate Change Multi-Donor Fund (hereinafter the “Fund”), as set forth in Document GN- __ .
2. That the President of the Bank, or the representative he designates, be authorized, in the name and on behalf of the Bank to:
 - (a) enter into agreements with donors and take other actions as needed to accept contributions to and to administer the Fund.
 - (b) approve individual operations to be financed, in whole or in part, with resources of the Fund for up to the amount established in paragraph 3 of Document GN-1831-1, or the amount established in any future amendment of the relevant policies on delegation of authority.

LEG/CLA/1071388-07