

## **Progress Report on Implementing IFI Climate Change and Clean Energy Investment Framework**

### **Summary**

The Inter-American Development Bank (IDB) launched its Sustainable Energy and Climate Change Initiative (SECCI) to help countries address the challenge of climate change and its impacts on the region's development and poverty reduction agendas. Approved by the IDB Board of Directors on 1 March 2007, SECCI is the IDB's contribution to the international climate change and clean energy investment frameworks developed by IFIs at the request of the international community following the G8 Summit in Gleneagles in 2005. In July 2007, the IDB Board of Directors approved the establishment of the SECCI Fund with an initial commitment of \$20 million, to be complemented by resources from donor countries, to help countries and private sector clients in Latin America and the Caribbean (LAC) develop climate change mitigation and adaptation projects. A number of projects and programmes are underway to implement SECCI.

### **Sustainable Energy and Climate Change Initiative (SECCI)**

SECCI is a Bank wide initiative, which complements the Bank's existing efforts in energy. As such it is focused on promoting renewable energy (RE), energy efficiency (EE), and climate change mitigation and adaptation. The strategic objectives of the proposed Initiative are to: (i) provide Latin America and the Caribbean with new levels of assistance and cooperation to expand the application of renewable energy and energy efficiency technologies; (ii) expand access to international carbon finance; and (iii) to support climate change adaptation strategies. The Initiative lays out a strategic approach focusing on four pillars: energy efficiency and renewable energy, biofuels, carbon finance and adaptation. It includes:

- Scaling up Bank investments in energy efficiency and renewable energy (including biofuels, solar, wind, and other sources).
- Integrating policy reform and institutional barrier removal with innovative policy reforms and project financing for market transformation.
- Mainstreaming energy efficiency and renewable energy investment across sectors.
- Refining and expanding financing tools.
- Accessing international carbon finance to the fullest extent through capacity building, programmatic CDM initiatives, and lowering of transaction costs.
- Addressing adaptation needs in LAC countries and IDB financed projects.
- Collaborating and forming partnerships with the public and private sectors in LAC, donor agencies and other international financial institutions.

Below is a description of significant areas of progress.

### **Energy Efficiency**

The IDB is working to mainstream energy efficiency in IDB projects. Each new project is assessed for its energy efficiency potential. Where feasible, the IDB is offering an

integrated energy efficiency program, which includes an audit as well as support for investment in efficiency measures, maintenance, and training. Energy efficiency audits have been completed for projects in the water sector, various industrial sectors, and thermal power plants.

The Bank is also providing country level assistance in assessing energy efficiency opportunities in key sectors. The IDB is financing energy efficiency in water pumping systems in El Salvador, and efficiency improvements in lighting in the residential, service and commercial sectors in Central America and Chile. It is collaborating with commercial banks and energy services companies on co-financing energy efficiency in public buildings in major cities in Latin America. The IDB also is providing assistance to countries in reviewing regulatory, institutional and financial frameworks for energy efficiency in order to create a proper environment for investments, as well as financing pilot projects for the application of emerging energy efficiency technologies. It is also working together with the World Bank and the International Energy Agency in developing energy efficiency indicators in Brazil and Mexico in order to provide important baseline information on energy consumption and efficiency.

As well, the IDB in the past year has financed a number of projects to develop innovative business models for energy efficiency services.

### **Renewable Energy**

As part of its renewed effort under SECCI, the IDB is working with countries in the LAC region to develop strategies for low-carbon energy sources, including assessment of renewable energy potential and appropriate policy frameworks and incentives, as well as financing investments in renewable energy such as hydropower, geothermal, wind energy, rural electrification and biofuels. A landmark study on the state of biofuel development in LAC, *A Blueprint for Green Energy in the Americas*, was produced, to help establish an informed approach to the development of biofuels potential, taking into account opportunities for meeting needs for energy and rural development, as well as related social and environmental concerns. The IDB is working with several countries, including Chile, Peru, Brazil, Colombia, Costa Rica, Honduras, Guatemala, Panama, El Salvador, Paraguay, Guyana in developing regulatory frameworks to create better scaling-up conditions and to attract private sector investment in these areas.

The IDB is also, in collaboration with the World Bank, developing a Renewable Energy Toolkit, as an operational guide and sourcebook specifically targeted to Latin America and the Caribbean. The purpose of the toolkit is to promote the development of RE projects and investments and broaden the portfolio in renewable energy.

### **Methane Capture**

The IDB has developed a series of assessments of opportunities for landfill gas capture and energy generation potential, including an evaluation of waste disposal systems and landfill conditions in Central America, and initial assessments of carbon potential in specific landfill sites in the region. As a result of these assessments, the Bank is now assisting countries in the preparation of methane capture projects for financing under the



CDM. The Bank also commissioned an economic assessment of methane capture and its use for energy generation, taking a wide sample of landfills across the region. This information was used as input for the development of a screening tool that is helping project sponsors in the region and project teams in the Bank carry out preliminary assessments of carbon potential in landfills. The IDB is also engaging resources in developing landfill-gas-to-energy projects with CDM components for a number of cities in Latin America.

### **Reducing Carbon Emissions in Transport**

The IDB has been expanding its support of Bus Rapid Transit (BRT) systems, with over 10 operations in 9 countries. The Bank is preparing an additional 8 BRT operations. The Bank has engaged resources for the assessment of carbon reduction potential and CDM opportunities in urban transport. The IDB has also financing efforts to address key methodological challenges in building-up CDM projects in urban transport (focusing on baseline development and additionality), and is now identifying carbon finance opportunities in urban transport projects in a number of mid-size cities in LAC.

### **Reducing Emissions through Reforestation and Avoided Deforestation**

The IDB, on 7 June 2007 organized a regional workshop on technical and scientific aspects of avoided deforestation relevant to Latin America and the Caribbean. The purpose was to gather policy makers, scientists, and NGOS from the region to enhance the understanding of the benefits of and opportunities for reducing emissions from deforestation and degradation in Latin America and the Caribbean. The workshop facilitated an exchange of views and experiences in the region about the issue of avoided deforestation and opportunities for the countries of LAC. As a follow up, the Bank is preparing technical cooperations to assist countries in developing methodologies and capacity building on a pilot basis that will enable the use of carbon financing for lowering greenhouse gas (GHG) emissions related to avoided or reduced deforestation.

### **New Financial Instruments and Methodologies for Carbon Financing**

The IDB is working with public and private sector clients in the region to increase the number of projects eligible for carbon financing and to facilitate access of the LAC region to international carbon markets. In addition to financing the underlying projects, IDB efforts are focused on 1) reducing transaction costs related low carbon projects (carrying out prefeasibility and feasibility studies, supporting the preparation of project documentation related to the CDM project, including development of methodology, and assisting in the marketing of CERs; 2) promoting programmatic and sector approaches to scale-up the low carbon impacts; and 3) lowering risks for project development and delivery. Also the IDB is working, jointly with local financial entities, to increase domestic and international financial flows and investment in low carbon projects in the LAC Region by setting up lines of credits, providing guarantees to loans granted by local Banks, and fostering equity investment in clean energy funds oriented to identify and develop small and medium low carbon projects in the Region.

### **Adaptation to Climate Variability and Change**

The IDB has done an initial assessment of the vulnerability of its portfolio to climate change impacts. The results indicate that a significant number of the Bank's projects could be sensitive to climate change. This is driving the Bank to factor in climate-risk concerns into sector policies, country strategies and project design and implementation. As a first step, the IDB is focusing on integrating adaptation issues in disaster risk prevention in its operations and in country programming, as well as developing guidelines to "climate proof" infrastructure investments.

### **Carbon Footprint**

The IDB piloted the carbon neutral concept at its 2006 Annual Meeting, making it the first carbon neutral annual meeting held by a multilateral development Bank. At its Annual Meeting in Guatemala in March 2007, the Bank announced the expansion of the initiative to make the IDB Headquarters carbon neutral in 2007 followed by the Country Offices in 2008<sup>1</sup>.

With respect to the carbon emissions of its portfolio, the IDB is committed to measuring emissions annually from Bank-financed operations that produce significant quantities of greenhouse gases in accordance with the emission estimation methodologies of the Intergovernmental Panel on Climate Change (IPCC) or other internationally accepted methodologies.<sup>2</sup> The IDB is at the initial stages of developing methodology to enable it to meet with this commitment. A preliminary methodology has been applied to projects including fossil fired power plants and production facilities; gas extraction/transmission; large hydro power plants; landfills; highways (cement for construction) and transportation.

The IDB is seeking to collaborate with the World Bank and other MDBs to improve the methodology to better quantify the carbon footprint of their portfolios. The next step in the process will be a sharing of results and experiences of initial methodologies being used by the Banks and a discussion regarding the possibility of developing a common methodology.

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<sup>1</sup> See [www.iadb.org/carbon\\_neutral](http://www.iadb.org/carbon_neutral) for further information about the carbon neutral initiative.

<sup>2</sup> IDB Environment and Safeguards Compliance Policy.