UNITED NATIONS DEVELOPMENT PROGRAMME / GEF
DRAFT PDF BLOCK B

COVER PAGE INFORMATION

1. Countries:
~~Belize, Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, Panama~~Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama and Belize

2. Focal Area:
Climate Change

3. Operational Programme:
OP #6: Promoting the Adoption of Renewable Energy by Removing Barriers and Reducing Incremental Costs

4. Project Title:
Accelerating renewable energy investments through CABEI in Central America

5. Total Cost:
US$ ~~195~~215,000

6. PDF Request:
US$ ~~100~~8100,000

7. Cash and in-kind contributions:
Cash: US$ ~~35~~50,000 (CABEI);
US$ ~~15~~20,000 (UNDP Honduras)
In-kind: US$ 45,000 (CABEI)

8. Requesting Agency:
UNDP

9. Executing Agency:
The Central American Bank for Economic Integration (CABEI)

10. Duration:
8 Months

PROJECT STRUCTURE

11. Project objectives

The overall objective of the project is to accelerate renewable energy investments through CABEI, thereby reducing the CO2 emissions of the energy sector and contributing to rural economic development in Central America.

Specific objective of the proposed initiative is the preparation of a UNDP/GEF full-size project brief, through analysis of the existing barriers, followed by the design of a programme that reduces these barriers related to the following areas:

1. Development of renewable energy policy and lending strategies internally at CABEI;
2. Pro-active renewable energy pipeline development to be included in the lending portfolio of CABEI;
3. Development of appropriate risk mitigation mechanisms to increase the availability of investment capital for on-grid and off-grid renewable energy activities; and
4. Institutional capacity building at CABEI to undertake and sustain activities in the fields mentioned above.

12. Global significance

The energy sector development strategies of the multi-lateral and bi-lateral development agencies have traditionally supported large-scale investments in incremental power generation, transmission and distribution. This has been accompanied by energy pricing, tariff policy and energy efficiency measures such as rehabilitation of old plants, extension of plant life, reduction of technical and non-technical losses, setting prices at economic costs, energy audits, improved maintenance and establishing and strengthening local energy institutions. This supply-based approach is increasingly constrained by the social and environmental consequences of large-scale power projects. These constraints, together with sharply accelerating energy demand and corresponding growth in capacity requirements, have heightened interest in renewable energy options. On-grid renewable energy-based electricity substitutes for fossil fuels and hence reduces CO2 emissions from the energy sector. At the same time, off-grid renewable energy options are often the most cost-effective (although still expensive) energy service delivery alternatives for rural areas, thereby contributing to rural economic development and simultaneously reducing the emissions of CO2.

Power and energy production capacities in the region will need to almost double within the next 6-7 years, requiring the addition of over 4,500 MW of installed power capacity. The installed capacity and current electricity demand in Central America are of the order of 5,000 MW and 20,000 GWh, respectively. Power generation from renewable energy sources has competitive advantages. There is abundant renewable energy potential identified for the region at the pre-feasibility stage, exceeding by far the anticipated additional capacity requirements by the year 2005. There is an aggregated potential of about 37,000 MW of hydro, 4,000 MW of geothermal and at least 350 MW from wind power plants, with a significant participation of small- to medium-scale projects. There is also a significant potential for bagasse-based co-generation, with a regional conservatively estimated capacity of at least 300 MW to be exploited in the short term.

In addition half of the Central Americans have no access to electricity services, which will not substantially change by connecting renewable energy based electricity to the grid. Extensive efforts have to be made to develop off-grid renewable energy systems that will be providing the most cost-effective electricity services for these remote, rural locations. Although poverty levels in remote, rural areas are often high, a significant number of people are able and willing to pay for electricity services if appropriate delivery mechanisms are implemented that take into account the diversity of socio-economic and cultural environments.

13. Background

In annex 1, information relevant to the proposed initiative is presented specific to the Central American region. Among others the macro-economic context, the energy context and the (changing) legal and institutional issues of the energy sector and tables with economic indicators, energy statistics and the technical potential for renewable energy are included.

Until recently meeting existing electricity needs in the region was to be addressed through thermal expansion. As a result of this, total CO2 emissions would increase rapidly, and the pace for off-grid electrification would be corresponding slow because of high costs of either extending the grid or providing small fossil fuel based electricity generation sets. Given the abundant renewable energy resources available of the region, coupled with the availability of mature renewable energy conversion technologies, activities have been initiated in the past several years to identify the barriers to renewable energy-based electricity generation and distribution.

These include two OP 6 Medium Size Projects currently under implementation (regional Central America and Guatemala), as well as GEF-financed[1] project preparation activities in Panama[2], Costa Rica[3], Honduras,[4] El Salvador,[5] and Nicaragua[6]. The key parameters of these OP#6 projects are presented in annex 2. Over the next 18 months when these PDF B's have matured, the portfolio is expected to increase to a conservatively estimated budget ranging from US$ 15-20 million (GEF contribution only) for the period 2001-2006.

In broad terms, there is recognition that general barriers to the further development of renewable energy-based electricity generation relate to i) the lack of awareness and availability of information, ii) non-existent policy environments and policy instruments that could put renewable energy on a level playing field with fossil fuel-based electricity generation, iii) a lack of technical and institutional capacity for project identification, preparation and implementation, and iv) lack of access to available investment capital. Through a Medium Size Project (UNDP/GEF) entitled *'The creation and strengthening of the capacity for sustainable renewable energy development in Central America'* the Biomass Users Network is working on addressing above points i) to iii) through strategic interventions to kick-start national level renewable energy developments. The proposed activities under this PDF B focus primarily on increasing the availability and access to renewable energy investment capital. Rather than setting up renewable energy financing structures at national levels for all seven countries in the region, use will be made of existing regional financial structures already operational in Central American countries.

Although a number of financial institutions have regional operations, the Central American Bank for Economic Integration (CABEI) has been identified as the most suitable for the proposed initiative. Compared to other banks CABEI~~they are~~ is

[1] UNDP/GEF is currently developing a framework for interventions on climate change in Central America. This framework provides the rationale for the activities (both at national and regional level), ties these activities together and sets out the anticipated future developments. At the time of preparing this PDF B proposal the framework document is still a working document used internally at UNDP. It is anticipated that it will be ready for broader circulation ~~April~~ September 2000.

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the only one active in the region whichthat has been establishedset up by - and is also partially owned – by five countries from the region, hence also their head quarters is located in the region (Tegucigalpa, Honduras). The governors of the bank are the Ministers of Economy or Finance offrom these five countries and have substantial influence in the policies and operations of the bank, thereby possessinghaving direct control over one of the most important instruments for economic development in the region; i.e. availability and access of investment capital. Furthermore, CABEI has shown great commitment to undertake the proposed initiative with its through initiation of ng the dialogue with UNDP/GEF for this initiative in early 1999, their cash and in-kind co-financing and their willingness to make internal changes to facilitate accelerated future renewable energy investments in the region. Besides, the proposed initiative will assist CABEI in meeting their environmental policy objectives.

Currently CABEI has an energy sector lending portfolio of US$ 483 million of which 45% represents on-grid renewable energy investments for hydro, wind and biomass-based electricity generation (>>10MW). These renewable energy investments have been financed making usinge of traditional financial products, and mMany of the financial packages for these investments had a grant and/or some form of subsidy included so as to make their implementation possible. CABEI realises that in order to accelerate future investments for such projects of this type, CABEI needs to take on a pro-active role in project identification, formulation and appraisal while at the same time in combination with developing and offering tailor-made financial products. This is especially the case for smaller (<10 MW) off-grid renewable energy electricity generation, what is seen as an enormous market that will have a substantial impact on rural economic development, being one of CABEI's objectives. To date CABEI has not been active in this areae latter, but is committed to working with in this new area with thise proposed initiative asbeing the the primary means of doing so driving and guiding force.

PThe potentially available investment capital for renewable energy investments by CABEI can be made available through already existing lines of credit. Lines of credit up to the amount of US$ 913 million are in existence for investments related to i) infrastructure (including traditional energy sector lending), ii) productive sectors, iii) sustainable development and iv) credit institutions. In addition, CABEI created in 1995 the Central American Environmental Fund (FALIDES) , in 1995 capitalised with that carried slightly slightly over US$ 10 million when operations started in the areas of environmental protection and sustainable development. Currently the available capital is around US$ 1.5 million and re-capitalising the fund is one of the priorities of the sustainable environment department currently worked on. It is anticipated that thee proposed initiative proposed here will work closely with the infrastructure (on-grid) and the sustainable development departments (off-grid) during the design and implementation of the full-size programme. In summary, investment capital can be made available from existing sources at CABEI, but finding ways to make use of it for renewable energy investments is the challenge that CABEI together with UNDP/GEF is willing to enter into. In aAnnex 3 provides a brief description of CABEI. is included.

14. Project description: including implementation arrangements

The Pproposed PDF B activities (section 15) will design a full-size programme that primarilymainly addresses the financial barriers tofor renewable energy investments; i.e. the availability of investment capital and the access to (existing) investment capital. The outputs of the full-size programme can be summarised as follows and will contribute to the objectives as mentioned in section 11 above:

- An environment has been created at CABEI, in which renewable energy projects can be presentedbrought in for loan appraisal and implementation, has been created at CABEI. As part of this environment we can distinguish awareness amongst bank staff and borrowers regardingon the issue of investment potential for renewable energy projects and knowledge and skills of both bank staff and nationals from countries in the Central American region on the identification, preparation, appraisal, implementation and supervision of renewable energy projects;
- An investment portfolio for renewable energy projects has been created and the conditions for further development of such a portfolio are in place. The following components will have been addressed in these investment plans; CABEI's lending criteria,; technical, economic, socio-cultural and institutional feasibility of the renewable energy projects; and a clearly identified and committed owner(s) of the proposed renewable energy projects;
- Risk mitigation activities have been designed and contingent financing mechanisms are in place. Criteria for making use of the contingent financing have been developed and widely communicated to potential users. Administration, monitoring and evaluation procedures and guidelines have been developed and CABEI staff has been capacitated to work with and for the risk mitigation activities, including contingent financing schemes;
- Financial packages have been prepared that meet both the end-user's financial potential to repay the loan and CABEI's cost-recovery requirements. Apart from the loan component the need for a possible grant component will have been identified and implemented for activities required to smoothen the lending and repayment process. Further, these activities will have been quantified in terms of personnel and financial implications, and funding of possible grant

components has been secured from the donor community, recipient governments or from CABEI itself;
- Loans will have been committed for a number of renewable energy projects and a pipeline for similar future loans has been prepared; and
- Policies, guidelines, procedures and criteria to be used for renewable energy lending operations have been developed.

~~As a result D~~of ~~d~~iscussions with CABEI representatives ~~at the headquarters~~ in Honduras, as well as at ~~the~~ UNDP/GEF headquarters in New York, ~~have resulted in~~ ~~have resulted in the prea~~ pre-selection of hydro, wind and biomass projects, for both on-grid as well as off-grid applications. Solar projects could be considered ~~if~~in ~~case~~ substantial grant financing ~~were~~will to be earmarked for such projects either by donors or national sources (governments) in the region. ~~However, it is expected that initial activities will not include solar projects.~~

At the World Bank, activities similar to the ones proposed through this initiative have been ongoing since the first half of the 90's in the South East Asia region under the Asia Alternative Energy Programme (ASTAE). To date 38 separate renewable energy and energy efficiency projects have been included in the World Bank's project development pipeline, adding up to about US$ 1 billion of World Bank assistance (including WB/GEF resources) for the period 1993-2003. In summary ASTAE provides experts and resources to promote World Bank lending and support for renewable energy and energy efficiency (alternative energy) through: i) identification, preparation, appraisal and supervision of renewable energy and energy efficiency investments financed by the World Bank and the GEF; ii) analytical and advisory services to support alternative energy projects, including formulation of policies to promote renewable energy and energy efficiency options; iii) technical assistance; iv) capacity building of client country agencies and World Bank staff; and v) ~~coordination~~co-ordination with other international agencies and resource mobilisation for alternative energy development. More information on ASTAE can be found at the following website: www.worldbank.org/astae

In September 1999, initial contact ~~has~~ ~~was~~~~been~~ established with ASTAE staff ~~regarding~~~~on~~ the proposed initiative in the Central American ~~R~~region to solicit ~~feedback~~~~expert advise~~ on the design (PDF B) and implementation (full-size) of this 'ASTAE-sister' project. As one of the objectives of ASTAE is to share experiences and lessons learned within and outside the World Bank, the response to the request for in-kind expert advise was very positive. Therefore it is anticipated that during the implementation of the PDF B, selected ASTAE staff will provide strategic inputs on the design of the full-size programme.

Implementation Arrangements

The Central American Bank for Economic Integration (CABEI) will be the executing agency for the proposed PDF B activities~~.~~ ~~through its~~~~More specifically the~~ Sustainable Development and Environment Department and will be responsible for~~internally at CABEI's headquarters will take on the role as~~ implementing ~~'agency' for the~~ day-to-day activities. ~~The local UNDP office in Honduras will administer and allocate the funds of the project on behalf of the GEF Secretariat. Furthermore, T~~the ~~local~~ UNDP Country Office in Tegucigalpa ~~office~~ will provide assistance to CABEI and will monitor PDF B implementation~~on the formal GEF procedures that apply to reporting (project brief format and project document format) and it will be the formal channel of correspondence between the project and the UNDP./GEF core unit in New York.~~

A Project Steering Committee (PSC) will be established~~set up~~ to advise the executing agency on the direction of project development and implementation. ~~Furthermore, the steering committee will perform as a platform for sharing information on the project's progress.~~ At minimum, representatives of the following organisations will participate on~~take seat in~~ the PSC: the executing agency, the UNDP Country O~~o~~ffice in Honduras, and CCAD ~~and if practically possible representatives from national governments, project developers and national financial institutions~~. The PSC will act as a platform for sharing information on the project's progress with national governments, national financial institutions and potential project developers. The PSC may be complemented with external experts as deemed appropriate by the executing agency. ~~Instead of physically being present for steering PSC~~~~committee~~ meetings ~~it might be worthwhile to consider~~ will be conduct~~eding these meetings through~~ through telephone and/or video conferences with ~~which are facilities~~ facilities available at CABEI. ~~It could also be considered to schedule the PSC meetings a day before/after the planned regional workshops (see section 15, point 5).~~ The terms of reference for the PSC will be prepared upon approval of this PDF B request, as will a detailed work plan.~~during the project document stage.~~

~~At the outset of the PDF B implementation a detailed work plan will be prepared, after which the PSC, UNDP and GEF representatives will undertake a review on it. The purpose of the review is to identify eventual gaps, overlaps and other risks to successful implementation of the project, as well as to identify potential partners and sources of information from~~

~~which the project could benefit. Such review needs to take place within two weeks after project implementation has commenced.~~

~~The project will be subject to a tripartite review after 4 months of project implementation. The project manager, in consultation with the UNDP programme officer in Honduras, shall prepare and submit for this tripartite review meeting a Project Performance Evaluation Report (PPER). Additional PPERs may be requested, if necessary, during the project. This tripartite review meeting will also serve as a mid-term evaluation of the PDF B implementation process.~~ The project will be administered in accordance with UNDP established administrative procedures. ~~At the outset of the implementation of the PDF B activities the financial and administrative procedures will be detailed.~~ Technical backstopping from ~~UNDP/GEF technical~~technical staff from the UNDP/GEF core unit in New York will be provided on a systematic basis~~as appropriate~~.

15. Description of proposed PDF activities

1. Operational linkages

This activity will design operational linkages with ~~other~~ ongoing UNDP/GEF initiatives in the region~~, such as FOCADES~~. In addition, it will review possible links between those initiatives and CABEI, eliminating overlapping possibilities and maximizing resources utilization. ~~The UNDP/GEF pipeline of projects that is being built up through the regional and national initiatives will serve as a starting point for this initiative.~~ The framework for interventions on climate change in the Central American~~n~~ ~~R~~region that is currently being formulated will serve as a guide to~~for~~ design~~ing~~ the operational linkages. Part of the financial packaging that will have to be done for renewable energy projects will most likely incorporate carbon funding as a result of the CO2 reduction characteristics of such projects. Therefore operational linkages with available carbon funding modalities need to be designed as part of this activity. Panama and Belize are not currently ~~not being a~~ member~~s~~ of CABEI and are~~poses the problem that they cannot be included~~ excluded from ~~in~~ the normal lending operations of CABEI. Nevertheless, CABEI is exploring~~committed to explore~~ mechanisms~~possibilities~~ for providing renewable energy investment capital to both Panama and Belize through financing mechanisms that CABEI can design and implement for this specific thematic area~~, for example through the already existing FALIDES[7]~~. Designing the operational modalities for including Panama and Belize will be part of this activity. Total cost for this activity is US$ 15,000.

2. Capacity building

This activity will develop a renewable energy capacity building programme for CABEI staff both at headquarters in Tegucigalpa (Honduras) as well as at the five CABEI offices in the region's member countries. It will commence with a needs assessment to identify priority ~~area~~ies~~s~~ for capacity building in the renewable energy field and to determine how best to build capacity in these areas. Apart from general capacity building elements such as awareness~~,~~ ~~needs and~~ technology assessments, and social, environmental and economic assessments~~, and benefits a~~ clear distinction will have to be made between future on-grid and off-grid renewable energy project development, financing and institutional arrangements. A major part of the capacity building component will focus on how to pro-actively develop on-grid and off-grid renewable energy project pipelines ready for financial packaging by CABEI, and will~~including~~ include development of ~~the~~ appraisal skills for lending officers at CABEI specifically for renewable energy projects. Finally, the activity will design a capacity building programme for the priority areas, including the preparation of an implementation plan for the region, curricula and training manuals and modules, either original or modified from already existing sources. Attention will also be given to enhance the capacity of national banks that on-lend capital from CABEI and renewable energy project developers for those projects included in CABEI's lending portfolio to ensure smooth and effective lending operations and high levels of end user satisfaction. This activity will cost US$ 35,000.

3. Risk mitigation strategies

This activity will investigate meaningful avenues to increase the availability of financial resources for investments in renewable energy. It will look at the potential of various types of capital ~~that can~~to be targeted for investments, including the origin of these financial sources; i.e. equity capital, debt/loan capital, credit enhancements, grants as well as any operationally feasible combination of these sources. However, the starting point will be the already existing lines of credit within CABEI that are currently under-utilised. It will identify and analyse the real risks (or the perceived risk by the lenders and/or investors) associated with investments in renewable energy and develop the most appropriate mechanism to

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~~[7] This will be possible, since both Panama and Belize are member countries of the Central American Alliance for Sustainable Development (ALIDES) and as such eligible to receive support from FALIDES (see annex 3, final paragraph).~~

underwrite these risks. Issues like contingent financing, portfolio diversification, fuel supply guarantees (biomass), performance contracting, risk sharing arrangements and collateral requirements (hardware, fixed assets, group lending) need to be addressed in the risk mitigation strategy to be developed.

In order for the full-size programme to actively mitigate risks making use of UNDP/GEF resources, it is necessary that the risk mitigation activities are detailed and related to specific projects. Only in this manner it will it be possible to justify the anticipated CO2 emission reductions as a result of the proposed UNDP/GEF intervention. Thus, general risk mitigation instruments, such as a risk guarantee scheme or any other form of establishingputting UNDP/GEF resources as part of in a fund will not be possible under the full-size programme. As such, Therefore under this activity a portfolio of projects will have to be prepared for which the risk mitigation activities will have to be detailed (both financially as well as legally). As a first approach it is anticipated that a portfolio of 15 to 20 will be developed out of which, at a minimum, 50% will be off-grid projects, and that all participating countries will be covered by, at a minimum, one on-grid and one off-grid projects. Estimated installed capacity of the on-grid projects can be anywhere between 5 and 20 MW, whilest the off-grid projects will be up to 5 MW. These numbers are to be further detailed during the execution of the PDF B and serve only as a first approximation for the development of the project portfolio. An important activity related to the off-grid projects will be the need to package several (regional) projects as to reach sufficient investment volume to justify the overheads associated with internal appraisal, the provision of investment capital and other financial services to be provided. The rRenewable energy technologies will be making use of hydro, wind or biomass as discussed under section 14. Apart from the risk mitigation activities for these projects, to be implemented under the full-size programme, the project ownership issues and financial packaging (contingent financing and possibly making use of carbon funding) will form part of these activities. The level of detail to be reached during the PDF B phase is, at a minimum, the feasibility level. Further development of these projects up to the levels of financial closure (technical and financial due diligence performed) will be done under the full-size programme.

CABEI staff, jointly with assistance from external experts, will be implementing this activity buildingthat can build upon the already existing pre-feasibility stage renewable energy pipeline in the region to be made available through e.g. the UNDP/GEF regional activities (see annex 2). As suchHence, this activity will also contributes to on-the-job capacity building of the CABEI staff inat both the iInfrastructure and sSustainable dDevelopment Ddepartments. This activity forms the core of the proposed initiative and will cost US$ 70,000.

4. Information, awareness and policies

An information collection and dissemination system for internal use at CABEI needs towill be designed, such that up-to-date information on internationally renewable energy technologies, practices and lessons learned is available. In addition, an institutional awareness raising strategy for CABEI staff will be designed as to create a basis for internal policy changes and the development of renewable energy lending portfolios. Currently existing internal policies for the electricity sector, infrastructure and sustainable development lending operations will be analysed and recommendations for policy changes and possible policy instruments to be made available during disseminated as part of the full-size programme will be prepared. This activity will cost US$ 15,000.

5. Regional workshops

For the above activities, the the main regional stakeholdersactors involved need to be identified and informed ofon the proposed initiative. In this regard a regional workshops to inform and discuss issues related to the preparation of the full-size project will be organised at the outset and end of the PDF B activities. Likewise at the end of the PDF B activities to present the outcomes and receive feedback to be incorporated stakeholderto reflect regional and national interest and concerns. It is anticipated that regional representatives of financial institutions, investors, project proponents, the donor community, NGO's, renewable energy equipment suppliers and vendors, end-users and national Governments are present at such workshops in addition to representatives of CABEI, and the Central American Commission for Environment and Development (CCAD). and UNDP/GEF. Besides, there needs to be Ssufficient technical expertise will be present to ensure that technical issues, including risks are properly highlighted. The first regional workshop will be held at the head quarters of CABEI in Honduras, while the second workshop will be held at CCAD in El Salvador, thereby reflecting the regional perspective as well as the regional ownership of the initiative. This activity will cost US$ 40,000.

6. Project brief

The pPreparation of a project brief document will be undertaken whichthat includes all the required GEF criteria, notably the incremental cost matrix, the logical framework, CO2 calculations and a methodology for monitoring and evaluating the full-size GEF intervention. Apart from the CO2 reduction monitoring and evaluation, typical for the GEF, performance

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indicators for CABEI's renewable energy lending operations will be designed and included in the project brief, so as to evaluate the results from the full-size GEF intervention in terms of increased renewable energy lending operations by CABEI. In addition to the preparation of the project brief, ~~document the~~ co-financing arrangements for the full-size programme will ~~have to be~~ be detailed and secured to the extent possible. ~~Especially f~~Funding for long-term support staff (e.g. 2-3 year~~s~~ full-time positions at CABEI) to strengthen the renewable energy activities at CABEI, will ~~have to come~~ come from co-financing sources. Given the regional nature of the GEF full-size project, special attention will ~~need to be~~ be paid to ~~the~~ institutional and implementation arrangements. ~~Already d~~During ~~the~~ implementation of the PDF B, a list of potential national, regional and/or international consultants and firms will be~~needs to be~~ prepared ~~as~~ to facilitate short listing ~~consultancy firms and/or individuals for~~for ~~inclusion in the~~ contracting and bidding for implementation of the full-size project. This activity will cost US$ 20,000.

16. PDF Block B Outputs

The main outputs of this PDF B activity can be summarised as follows:

- A UNDP/GEF project brief for a full-size project, that addresses ~~properly~~ the activities required for reducing/removing identified barriers that prevent renewable energy lending operations for on-~~grtid~~grid and off-grid electrification in the Central American Region;
- Indicators and a methodology for monitoring and evaluation of the GEF intervention during the implementation of the full-size project as well as performance indicators for CABEI's lending operations in renewable energy;
- ~~A r~~Regionally agreed ~~upon~~ institutional set-up and implementation arrangements for~~of~~ the full-size project as well as a preliminary draft work plan, including time and activity schedule;
- Workshops to initiate, review and revise the (draft) project brief preparation ~~process~~; and
- A pool of national, regional and international consultants ~~has been identified~~ identified for implementing the full-size project.

17. Eligibility

All ~~the~~ seven ~~governments of the~~ countries included in this initiative have ratified the United Nations Framework Convention on Climate Change (UNFCCC), and~~.~~ ~~Furthermore~~ all countries are eligible to receive UNDP assistance~~member countries, and member of the CCAD, being the regional institution promoting sustainable development, including renewable energy development as proposed in this initiative.~~ Endorsement letters from the seven ~~included~~ countries and from the CCAD – as intergovernmental body for regional environmental policy - have been prepared and presented in parallel to this proposal.

All countries except Panama and Belize are member countries of CABEI, making them eligible~~possible~~ clients for ~~the bank's lending~~ lending operations. Despite ~~of~~ the fact that,~~ –~~ under business-as-usual circumstances, ~~–~~lending operations by CABEI are currently not possible for Panama and Belize, they have been included at the PDF B phase ~~in order to~~ to investigate ways of making renewable energy investment capital available and accessible through innovative financial mechanisms (see activity 1 under section 15).

18. National and regional level support

The proposed regional activity fits within the overall regional strategy that UNDP~~/GEF~~ is currently developing for and with the regional and national stakeholders. Commitment for this project is considered large given the smooth endorsement by CCAD and all seven countries in the region as well as the co-financing resources from both CABEI (cash and in-kind) and UNDP Honduras (cash). To this effect the commitment letters from both CABEI and UNDP Honduras are provided in conjunction with this proposal. Furthermore there exist memoranda of agreement between a) UNDP and CABEI, b) CCAD and CABEI and c) UNDP and CCAD. The proposed activities fall within these memoranda of agreements and are seen as a way of operationalising these agreements.

19. Justification

Based on studies by bi-and multilateral development agencies as well as national governments, it has become clear that ~~a~~ commercial development potential exists for renewable energy in the Central American region. ~~In order to s~~To support the development of the renewable energy sector in~~for~~ the Central America~~n R~~region, technical assistance is required in the areas of project identification, design, formulation, appraisal, implementation, monitoring and evaluation. This needs to be undertaken with the objective of ~~in a manner that these projects meet~~ projects meeting ~~the (~~rural~~)~~ energy service needs on the one hand and ~~meet the investment~~ investment requirements on the other ~~hand~~. This is an ongoing process for which

continued attention and efforts have to be made. At the moment insufficient financial and human resources are available in the CA region that allows the process to take off by itself. Currently the activities from bi-and multilateral donors, including UNDP/GEF, are instrumental in initiating ~~getting~~ such a process ~~started~~ in the region, but the majority of these are~~is~~ project~~-~~ ~~based~~ where a longer-term program ~~based~~ approach is required. See also section 12 (CO2 reductions and rural development contribution) for additional rationale and justification for the proposed initiative.

20. Time table

It is anticipated that PDF Block B activities will commence June 2000 and will be completed by February 2001; i.e. a duration of 8 full months.

21. Budget ~~**[richard barathe to provide updated information]**~~

The total budget for this PDF Block B is US$ ~~200~~19215,000 with a UNDP/GEF contribution in the amount of US$ 10~~100~~80,000. Co-funding in the amount of US$ ~~50~~70,000 provided by the executing agency CABEI (US$ ~~35~~50,000) and the local UNDP office in Honduras (US$ ~~15~~20,000). Furthermore an in-kind contribution in the amount of US$ 45,000 from the executing agency.

ACTIVITIES	**GEF**	**CABEI cash**	**CABEI in-kind**	**UNDP Honduras**	**Totals**
1. Operational linkages	10,000		5,000		15,000
2. Capacity building	~~20~~10,000	~~10~~15,000	5,000	5,000	35,000
3. Risk mitigation strategies	~~30~~20,000	~~15~~25,000	25,000		70,000
4. Information, awareness and policies	10,000			5,000	15,000
5. Regional workshops	~~10~~30,000	10,000	10,000	10,000	~~40~~60,000
6. Project brief	20,000				20,000
TOTALS (US$)	**~~100~~8100,000**	**~~35~~50,000**	**45,000**	**~~15~~20,000**	**~~195~~215,000**

GEF
Global Environment Facility

Annex 1

Background information on the Central American Region

Macro-economic context

After decades ofmany years of civil war, peace has finally returnedbeen restored in to the Central American region. The recently achieved peaceful peaceful environment and political stability have stimulated the regional economy. Within this process, traditional sectors of the economy, such as agriculture and industry, are becoming more competitive and therefore requiring access to more reliable energy sources.

The Central American region has increased its combined Gross Domestic Product (GDP) from US$26,.3 billion in 1990[8] to US$48,.0 billion in 1995, with most countries striving to achieve annual GDP growth rates of 4-5% (Table 1). The region has a total area of 512,420 km^2 and a population over 33 million.

It is expected that as a result of damages caused by hurricane Mitch in October 1998, especially in Honduras and Nicaragua, growth tendencies of these economies will be severely affected. Thus in 1999 GDP growth rate is expected to a mere 1.5% and 2.4% respectively for these countries[9].

Table 1: Central American Indicators[10]

Country	Area (km2)	Population (thousands)	Population Growth Rate (%)	GDP (millions US$) (1995)	GDP Growth Rate (%) (1995)	Inflation Rate (%)
Belize	22,965	227	2.4	592	3.0	6.4
Guatemala	108,890	10.519	2.7	14,670	4.9	10.4
Honduras	112,090	5,981	2.5	3,900	3.6	30.0
El Salvador	20,935	5,924	2.0	9,500	6.0	10.0
Nicaragua	118,358	4,349	2.8	1,900	4.2	12.0
Costa Rica (1)	51,100	3,575	1.8	9,200	4.5	10.0
Panama	78,082	2,722	1.4	8,200	3.5	3.0
TOTAL	**512,420**	**33,297**		**47,962**		

(1)Costa Rican GDP growth rate is reported as an average for the period '90-'95.

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As a result of increased prosperity and political stability, it is now a general trend that Central American countries have been able to turn their attention to their environmental problems. Governments, community groups, NGOs and the private sector, are increasingly aware of the extent of the region's environmental degradation and the need to address it.

Energy context

The Central American Region represents an energy market of about 35 million people. Firewood is still the main energy source representing up to 50% of energy consumption at the regional level, mainly for consumption in the residential and commercial sectors[11]. In the short term it is expected that firewood will continue to be the main energy source for the Central America'sn rural population, especially for cooking. But firewood is not used only as an energy source for cooking, butit is also intensively used in other traditional and emerging economic activities such as the coffee, brown sugar, cement and limestone industries, as well as in artisanal brick production.

8 2 International Monetary Fund. 1996. International Financial Statistics, Washington DC.

9 3 Consejeros Económicos y Financieros S.A. (CEFSA), Government of Honduras, Mayorga & Asociados, AFOCOI. December 1998.

4 FAO (1993) Análisis de la Contribución Forestal a la Producción de Energía en América Latina.

10 Sources: KPMG Latin America Country Profiles at http://www.latinamerica.kpmg.com (1997), U.S. AID, Environmental Markets in Central America, May 1997, SIECA, Sistema de Integración Regional, 1996.

11 FAO (1993) Análisis de la Contribución Forestal a la Producción de Energía en América Latina.

The Central American countries are undergoing rapid and profound institutional transformations, including the restructuring of their respective energy sectors. At the same time, a relatively high rate of population growth (1.5-3%) and integration into a deregulated economic scheme, have shown that electricity demands throughout the region are increasing both in terms of power and energy, at annual rates exceeding 7-10 %.

It can be noted from Table 2 that, on average, one out of every two Central Americans does not havehas no access to electricity services. Unfortunately, the situation has recently worsened because of the damages fromcaused by Hurricane Mitch, as previously mentioned.

Table 2: Central American Energy Statistics

Country	Installed Capacity (MW)	Electricity Demand (GWh)	Per Capita Electricity Consumption (kWh/person)	Average Residential Energy Prices 300kW (US$)	% Population with Access to Electricity (approx.)
Belize	34.5	90	692	0.2100	80
Guatemala	950.0	3,500	281	0.0800	36
Honduras	721.0	3,100	350	0.0844	51
El Salvador	910.0	3,250	479	0.0945	52
Nicaragua	393.0	2,000	271	0.0997	54
Costa Rica	1,075.0	4,200	1,271	0.0745	91
Panama	1,000.0	3,900	1,064	0.0945	90
Total/Average	**5,083.5**	**20,040**	**496**	**0.1053**	**54.5**

Sources: 1. USAID, Environmental Markets in Central America, May 1997 (adjusted for transmission losses).
2. BUN-CA, An Overview of Sugar Cane Co-generation in Six Central American Countries, 1997.
3. Belize Chamber of Commerce and Industry - BCCI at http://www.belize.org

According to USAID and BUN-CA information[12], power and energy production capacities in the region will need to almost double within the next 6-7 years, requiring the addition of over 3,000 MW of installed power capacity. The installed capacity and current electricity demand in Central America are of the order of 5,000 MW and 20,000 GWh, respectively. At the current consumption rates, this means that the region will have to increase its power capacity onf the order of about 1,500 MW and 2,600 MW by the years 2000 and 2005 respectively.

Power generation from renewable energy sources has competitive advantages. As shown in Table 3, there is abundant renewable energy potential identified for the region at the pre-feasibility stage, this exceedsing by far the anticipated 2,600 MW required by the year 2005. There is an aggregated potential of about 37,000 MW of hydro, 4,000 MW of geothermal and at least 350 MW from wind power plants, with a significant participation of small- to medium-scale projects. There is also a significant potential for bagasse-based co-generation, with a regional estimated capacity of at least 300 MW to be exploited in the short term.

Table 3: Technical Potential for Renewable Energy (MW)

Country	Hydro	Geothermal	Wind (1)	Bagasse-Based Co-generation
Belize	80	–	20	N/A
Guatemala	10,890	200	50	149
Honduras	3,600	–	60	23
El Salvador	1,726	300	30	33
Nicaragua	5,050	2,200	80	79
Costa Rica	9,155	900	60	24

[12] USAID, (1997) Environmental Markets in Central America;
BUN-CA, (1997) An Overview of Sugar Cane CogenerationCo-generation in Six Central American Countries.

Panama	6,645	360	50	N/A
TOTAL	**37,146**	**3,960**	**350**	**> 308**

(1) Rough estimation of (commercially feasible) project sites under either exploitation or exploration.

Sources: 1. USAID, Environmental Markets in Central America, May 1997 (adjusted for transmission losses).
2. BUN-CA, An Overview of Sugar Cane CogenerationCo-generation in Six Central American Countries, 1997.

Institutional and legal issues

The Central American energy sector has radically changed during the 1990s at the institutional and legal levels, moving from state owned electricity companies (generation, transmission and distribution) to a more open structure. In Guatemala, El Salvador and Panama a total opening with deregulation and open market competition has been set up as a result of recent legislation. Honduras and Nicaragua are still inunder a transitional period ofto transforming their electricity sectors, while limited private participation still exists in Belize and Costa Rica. One common element for the region has been the relatively high rate of change.

These openings and changes in regulations have tended to stimulate private investments in the electricity sector. For example, annual investment in private power generation alone over the last couple of years has reached about US$300 million, a figure that is expected to grow as institutional mechanisms become more straight forward and experience is gained in each country.

This scenario may be altered in the long run by the on-going Central American Electric Interconnection Project (known as SIEPAC), a project to develop a stronger and more competitive regional market for electricity, while improving the amount, reliability, and quality of the service. Grid connected renewable energy projects in the region would eventually adjust to this new market and it is possible that projects will have to be concentrated in certain key geographical points in order to be strategically placed for effective delivery in this eventual regional interconnection.

Along with the decreasing role of governments in the energy sector, there is an on-going discussion of how to set up sustainable schemes which will attend the needs of non-un-electrified regions (mostly rural, dispersed communities), by offering an opportune, reliable, economic and environmentally sound service.

In all the countries, local NGOs, independently or with governmental and international assistance, have been sought to implement solutions in order to to provide electricity to the rural populations without access to grid systems, as well as to implement different technologies in order to reduce firewood consumption. However, one common issue is the lack of innovative financial mechanisms to deal with the limited payment capacity of many end users and access financing sources to develop commercially sound projects.

Annex 2

UNDP/GEF PROJECT PIPELINE ON CLIMATE CHANGE IN CENTRAL AMERICA: OP#6

PROJECTS BY COUNTRY	OBJECTIVE	STATUS	TECHNOLOGY	GEOGRAPHIC AREA	STARTING DATE	EXPECTED COMPLETION DATE
REGIONAL (MSP)	The Creation and Strengthening of the Capacity for Sustainable Renewable Energy Development in C.A.	ExecutionProject document under review GEF$750,000	(off-grid/on-grid) Small scale renewable energy	Seven Central American countries	January 2000	December 2001
PANAMA (PDF B)	Removing Barriers to Wind Energy	Execution GEF$340,000	(on-grid) Wind power	Nation-wide	April 1998	October 2005 (for the full-size)
COSTA RICA (PDF B)	National off-grid Electrification Programme based on Renewable Energy	Execution GEF$165,624	(off-grid) (PV, hydro, wind power, bio-fuels)	Non-electrified rural areas	March 1999	June 2007 (for the full-size)
GUATEMALA (MSP)	Renewable Energies promoting Small Enterprise Development in Former Areas of Conflict	ExecutionProject document under review GEF$383,000	(off-grid) (Small Hydro + PV)	Department of El Quiche	April 2000	December 2001
EL SALVADOR (PDF B)	Electrification based on Renewable Energy Resources	Execution to initiate Submitted to the RBLAC by the Government of El Salvador 6/00 GEF$252,300	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (for the full-size)
HONDURAS (PDF B)	Renewable Energy Development Programme for Electricity Generation	Execution to initiate 6/00Submitted to the RBLAC by the Government of Honduras GEF$258,050	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (for the full-size)
NICARAGUA (PDF B)	Productive Uses of Renewable Energy in Rural Areas	To be presented to GEF for review 6/00Under formulation by the executing agency GEF (to be estimated)	(off-grid) Small hydro	Departments of Jinotega, Chontales, and Nueva Segovia	Expected II quarter 2000	t.b.d

Annex 3

Background information on the Central American Bank for Economic Integration (CABEI)

The Central American Bank for Economic Integration (CABEI) is the multilateral bank for the integration and development of Central America, whose purpose it is to contribute to raising the quality of life of the region's inhabitantspopulation. This is done bythrough providing financial and technical co-operation resources, so as to to satisfy the needs of these countries within a culture of service and regional vision.

Objectives

Central America is emerging as a vital sector of the international economy, and for more than 38 years CABEI has been the single most influential financial institution in stimulating the region's growth and development.

Established as part of the Central American Integration Process in 1960, CABEI's mission is to assist Central America's public and private sectors in attaining external resources to promote regional development. Targeting the world's capital markets and assuming country risk, CABEI has attracted external funding for countless outstanding financial and technical assistance programmes. These programmes have improved and developed Central America's energy, telecommunications, transportation and agricultural industries, as well as human resources, housing, tourism, social development, and environmental conservation. CABEI finances notable projects in several sectors, including:

- *Telecommunications*
  CABEI supports the development and improvement of communications infrastructures, which the Bank believes are vital to the facilitation of information exchange, foreign investment and business development.
- *Energy*
  CABEI promotes and supports the private generation of electricity, a sector traditionally owned by the State.
- *Infrastructure and transport*
  CABEI has financed most of the Central American highway network system.
- *Social development*
  CABEI is instrumental in the development of various housing, poverty eradication, of poverty, social and health infrastructure, eand environmental protection projects.

CABEI has become one of the largest and best capitalised financial institutions in Central America. The objective of this truly modern regional Bank is to attract financial resources to Central America from the world's capital markets, in order to:

- Stimulate the private sector;
- Support privatisation schemes;
- Improve the competitive advantage of the the region'sal economies;
- Increase exports;
- Modernise the region's infrastructure; and
- Improve the social conditions of the region's citizens.

Historic financial summary

Headquartered in Tegucigalpa, Honduras, CABEI was founded on December 13, 1960, by the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica to promote regional integration and development. The bank's membership has since grown to include the extra regional members of Mexico, the Republic of China (Taiwan), Argentina and, most recently, Colombia.

Traditionally, CABEI has financed the governments of the area through the public sector, but in response to changing trends, a strategic decision was made towards the end of 1991, to attend to the needs of the private sector

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as a fundamental aspect of the Bank's development mission. By June of 1991, CABEI tended to the financing of the private sector through credit lines extendedapproved to Central Banks (US$89.4 millions), oriented towards the financing of agribusiness, industrial re-conversions and exports; towards loans for small and mid-size enterprises (US$13.0 millions), channelled also through Central Banks; Aand to a lesser degree by direct co-financed credit (US$8.1 millions). To date, the total approved and disbursed resources to the private sector areis US$110.5 millions and US$42.7 millions, respectively.

The The Private Sector Management Department was created in October of 1991. The Management's objective was formulated as a Second Floor Bank with the purpose of tending the financial needs of the private productive sector of the Central American countries - , in other words funds are channelled to the final user through Intermediary Financial Institutions (first floor).

Recently, CABEI providedgave its private sector credit policy with more flexibility. In November of 1993, the Assembly of Governors approved the direct financing of investment projects, either as co-financier or co-investor of one or more international or national financial institutions in the project. In January 1994, the increase in one to one proportion was approved for the financing of Intermediary Financial Institutions, up to three times the value of capital and reserves of the IFI, as long as the total amount of the pending financing of the IFI does not exceed 5% of capital and reserves of CABEI, and that the IFI is within the debt limits established by national legislation.

By December 1998, 29% of the ordinary bank portfolio corresponded to loans extendedgiven to the private sector as the final user. To date, approvals and disbursements have been of US$431.6 millions and US$362.9 millions, respectively, representing 532 loans. Also, 100 intermediary financial institutions and 14 Non-Governmental Organisations haved been declared eligible for loans.

By December 1998, CABEI sustained capital reserves of US$502.1 millions, generated US$81.0 millions in net income, and managed a loan portfolio of US$2.1 thousand millions, numbers that prove that CABEI is the most stable financial institution in Central America. CABEI has received the accreditation as the "Regional Latin-American Agency" by the following institutions:

- Federal Reserve Bank of New York;
- Federal Reserve Bank of Atlanta;
- Bank of England;
- Bank of France;
- Bank of Spain; and
- Federal Commission of Swiss Banks.

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Environmental activities

In 1988, CABEI introduced the environmental component within the project analysis cycle in both private and public operations. The specific objective was to identify the environmental impacts ofin the projects traditionally financed by the bank and the respective compensatory measures of such impacts. The Bank has designed methodologies, procedures and guidelines for these purposes. Currently the environmental policy of the Bank is under revision, but it is expected that it's current main objectives will remain:

1.Promote the development of projects that are environment friendly and sustainable;
2.Encourage the use of clean technologies in the economic and productive sectors of the Central American region;
3.Support the process of strengthening the private and public institutions of the Central American Rregion; and
4.Assist in the transfer of knowledge about environmental issues to the bank's clients.

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To support activities related towith the environmental preservation and the sustainable development, the bBank created the Central American Environmental Fund (FALIDES). This Fund operates as a financial mechanism, aimed at destined to attracting, administering and utilisinge resources to finance environmental operations in the Central American region (Costa Rica, Guatemala, El Salvador, Honduras and Nicaragua), and, only through special

~~agreements with to the other countries whothat have signed the Central American Alliance for Sustainable Development (ALIDES).~~

~~Additional information on CABEI and the financial services they provide for the region can be found at the following website: www.bcie.org~~ **Annex 1**

Background information on the Central American Region

Macro-economic context

After many years of civil war, peace has finally returned to the Central American region. The peaceful environment and political stability have stimulated the regional economy. Within this process, traditional sectors of the economy, such as agriculture and industry, are becoming more competitive and therefore requiring access to more reliable energy sources.

The Central American region has increased its combined Gross Domestic Product (GDP) from US$26,3 billion in 1990[2] to US$48,0 billion in 1995, with most countries striving to achieve annual GDP growth rates of 4-5%. The region has a total area of 512,420 km^2 and a population over 33 million.

It is expected that as a result of damages caused by hurricane Mitch in October 1998, especially in Honduras and Nicaragua, growth tendencies of these economies will be severely affected. Thus in 1999 GDP growth rate is expected to a mere 1.5% and 2.4% respectively for these countries [3].

As a result of increased prosperity and political stability, it is now a general trend that Central American countries have been able to turn their attention to their environmental problems. Governments, community groups, NGOs and the private sector, are increasingly aware of the extent of the region's environmental degradation and the need to address it.

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The Central American Region represents an energy market of about 35 million people. Firewood is still the main energy source representing up to 50% of energy consumption at the regional level, mainly for consumption in the residential and commercial sectors[4]. In the short term it is expected that firewood will continue to be the main energy source for the Central American rural population, especially for cooking. But firewood is not used only as an energy source for cooking, it is also intensively used in other traditional and emerging economic activities such as coffee, brown sugar, cement and limestone industries, as well as in artisanal brick production.

The Central American countries are under rapid and profound institutional transformations, including the restructuring of their respective energy sectors. At the same time, a relatively high rate of population growth (1,5-3%) and integration into a deregulated economic scheme, have shown that electricity demands throughout the region are increasing both in terms of power and energy, at annual rates exceeding 7-10 %.

It can be noted from Table 1 that on average, one out of every two Central Americans does not have access to electricity services. Unfortunately, the situation has recently worsened because of the damages caused by Hurricane Mitch as previously mentioned.

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According to USAID and BUN-CA information, power and energy production capacities in the region will need to almost double within the next 6-7 years, requiring the addition of over 3,000 MW of installed power capacity. The installed capacity and current electricity demand in Central America are of the order of 5,000 MW and 20,000 GWh, respectively. At the current consumption rates, this means that the region will have to increase its power capacity of the order of about 1,500 MW and 2,600 MW by the years 2000 and 2005 respectively.

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Along with the decreasing role of governments in the energy sector, there is an on-going discussion of how to set up sustainable schemes which will attend the needs of un-electrified regions (mostly rural dispersed communities), by offering an opportune, reliable, economic and environmentally sound service.

In all the countries, local NGOs, independently or with government and international assistance, have been sought to implement solutions in order to provide electricity to the rural populations without access to grid systems, as well as to implement different technologies in order to reduce firewood consumption. However, one common issue is the lack of innovative financial mechanisms to deal with the limited payment capacity of many end users and access financing sources to develop commercially sound projects.

Annex 2

UNDP/GEF PROJECT PIPELINE ON CLIMATE CHANGE IN CENTRAL AMERICA: OP#6

PROJECTS BY COUNTRY	OBJECTIVE	STATUS	TECHNOLOGY	GEOGRAPHIC AREA	STARTING DATE	EXPECTED COMPLETION DATE
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PANAMA (PDF-B)	Removing Barriers to Wind Energy	Execution GEF$340,000	(on-grid) Wind power	Nation-wide	April 1998	October 2005 (~~for~~ of the full-size)
COSTA RICA (PDF-B)	National off-grid Electrification Programme based on Renewable Energy	Execution GEF$165,624	(off-grid) (PV, hydro, wind power, bio-fuels)	Non-electrified rural areas	March 1999	June 2007 (~~for~~ of the full-size)
GUATEMALA (MSP)	Renewable Energies promoting Small Enterprise Development in Former Areas of Conflict	Project document under review GEF$383,000	(off-grid) (Small Hydro + PV)	Department of El Quiche	April 2000	December 2001
EL SALVADOR (PDF-B)	Electrification based on Renewable Energy Resources	Approved GEF$252,300	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (off~~or~~ the full-size)
HONDURAS (PDF-B)	Renewable Energy Development Programme for Electricity Generation	Approved GEF$258,050	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (~~for~~ of the full-size)
NICARAGUA (PDF-B)	Productive Uses of Renewable Energy in Rural Areas	Under formulation by the executing agency GEF (~~to be estimated~~tbd)	(off-grid) Small hydro	Departments of Jinotega, Chontales, and Nueva Segovia	Expected II quarter 2000	t.b.d

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EL SALVADOR (PDF-B)	Electrification based on Renewable Energy Resources	Submitted to the RBLAC by the Government of El Salvador GEF$252,300	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (for the full-size)
HONDURAS (PDF-B)	Renewable Energy Development Programme for Electricity Generation	Submitted to the RBLAC by the Government of Honduras GEF$258,050	(off-grid/on-grid) (bio-fuels, small hydro, PV, wind)	Nation-wide	Expected I quarter 2000	June 2005 (for the full-size)
NICARAGUA (PDF-B)	Productive Uses of Renewable Energy in Rural Areas	Under formulation by the executing agency GEF (to be estimated)	(off-grid) Small hydro	Departments of Jinotega, Chontales, and Nueva Segovia	Expected II quarter 2000	t.b.d

Annex 3

Background information on the Central American Bank for Economic Integration (CABEI)

The Central American Bank for Economic Integration (CABEI) is the multilateral bank for the integration and development of Central America, whose mission is to promote the progress and integration of the Isthmus, to propitiate an equitable economic growth and to respect the environment. This is done by supporting public and private projects that generate jobs and contribute to improve the productivity and competitiveness of the countries, as well as to raise the human development indicators of the region.

CABEI was founded on December 13, 1960, by the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica to promote regional integration and development. As of today, four non-regional countries have joined the bank, strengthening its capital base: The Republic of China (Taiwan), the Republic of Mexico, the Republic of Argentina and the Republic of Colombia.

Targeting the capital markets and assuming country risk, CABEI has attracted external funding for countless outstanding financial and technical assistance programs. These programs have improved and developed energy, telecommunications, transportation and agricultural industries in Central America, as well as its human resources, housing, tourism, social development, and environmental conservation. CABEI finances notable projects in several sectors, including:

- *Telecommunications*
  CABEI supports the development and improvement of the infrastructure for communications, which the Bank believes is vital for the facilitation of information, foreign investment and business development.
- *Energy*
  CABEI promotes and supports the private generation of electricity, a sector traditionally owned by the government.
- *Infrastructure and transport*
  CABEI has financed most of the Central American highway network systems.
- *Social development*
  CABEI has been an important participant in the development of various projects in the areas of housing, eradication of poverty, social and health infrastructure and environmental protection.

CABEI has become one of the largest and best capitalized financial institutions in Central America. The objective of this truly modern regional Bank is to attract financial resources to Central America from the capital markets of the world, in order to:

- Stimulate the private sector;
- Support privatization schemes;
- Improve the competitive advantage of the regional economies;
- Increase exports;

- Modernize the infrastructure of the central american countries ; and
- Improve the social conditions of its population.

CABEI has been accredited as a "Regional Latin-American Agency" by the following institutions:

- Federal Reserve Bank of New York;
- Federal Reserve Bank of Atlanta;
- Bank of England;
- Bank of France;
- Bank of Spain; and
- Federal Commission of Swiss Banks.

During the 1998/99 fiscal year, the bank disbursed US$601.2 million and contracted new loans totaling US$302.7 million. As of June 30, 1999, income before provisions for loan losses totaled US$51.2 million. Its capital stood at US$1,005.7 million, and its future development is also backed by a capital subscription of US$387.7 million by non-regional members.

Since its foundation and through its Constitutive Agreement, CABEI has recognized the importance of preserving and protecting the natural resources and the environment of the Central American region.

In 1987, CABEI´s Board of Directors authorized the signing of the Declaration of Environmental Policies and Procedures for Economic Development, becoming an active member of the Committee of International Institutions for the Development of the Environment (CIDIE).

In March 1988, CABEI introduced the environmental assessment in all the projects financed to the public and private sectors. The specific objective of this decision was to identify the environmental impacts of the projects traditionally financed by the Bank and the corresponding measures to compensate for such impacts.

In1992, CABEI approved an agreement with the Central American Commission for Environment and Development (CCAD). Its main objective is to consolidate the actions of coordination and cooperation in specific areas related to the environment and the sustainable development, such as legal, technical and financial issues. Among other activities and in the context of this agreement, CABEI/CCAD have sponsored several regional workshops and seminars to facilitate the transfer of knowledge and help the country members to define strategies for the region.

Furthermore, in 1995, the Governors Assembly created the Central American Environmental Fund (FALIDES). This fund is a financial mechanism destined to raise, manage and utilize resources to support activities related with the conservation, improvement of natural resources and sustainable development issues in general. Within its operation, CABEI contributes to the accomplishment of the obligations contained in the Central American Alliance for Sustainable Development (ALIDES) in terms of supporting activities related to the protection of natural resources and the environment of the region.

ALIDES is an agreement approved in 1994, which holds the support of all the presidents of Central America, Belize and Panama. It represents an integral strategy for the sustainable development of the region, aiming towards the promotion of political, economic, social, cultural and environmental sustainability.

Since 1994, CABEI has financed and given technical assistance to renewable energy and other environmental projects for an approximate amount of US$220.5 million.

On November 1999, the Bank sponsored *The Environmental Workshop for Central America*, from which we obtained important results, such as the signature of what we call "*La Declaración de Tegucigalpa"*. This agreement was signed by the Environmental Ministers of Central America and Panama, to manifest their support to the Bank´s initiative to create the Regional Carbon Fund, giving us authority to promote it among the international financial institutions.

Additional information on CABEI can be found at the following website: www.bcie.org