

ADMINISTRATION AGREEMENT

between

THE NORDIC DEVELOPMENT FUND

and

THE INTER-AMERICAN DEVELOPMENT BANK

regarding

**Project Specific Grant to the Inter-American Development Bank for
Project NI-T1234 titled, "Promoting Energy Savings Insurance (ESI) for
Small and Medium Enterprises (SMEs) in Nicaragua"**

THIS ADMINISTRATION AGREEMENT is entered into between the Nordic Development Fund ("**NDF**"), and the Inter-American Development Bank (the "**Bank**") (together referred to as the "**Parties**", and individually either of them, a "**Party**").

WHEREAS, the Bank has designed and approved Project No. NI-T1234 titled, "Promoting Energy Savings Insurance (ESI) for Small and Medium Enterprises (SMEs) in Nicaragua" (the "**Project**"), as described in the attached Project Document (the "**Project Document**");

WHEREAS, NDF has agreed to support the execution of the Project by providing a project specific grant (PSG) contribution to be administered by the Bank; and

WHEREAS, the Bank is prepared to receive and administer the contribution funds to be made available by NDF for the Project.

NOW, THEREFORE, the Parties hereby agree as follows:

TRANSFER AND MANAGEMENT OF FUNDS

1. NDF will make available to the Bank a contribution of EUR480,000.00 (four hundred eighty thousand Euros) (the "**Contribution**") to be administered by the Bank to finance the Project.
2. The Contribution will be solely for the purposes indicated in the Project Document. Any material deviations from the objectives and activities of the Project described in the Project Document will require NDF's written approval.
3. Following the signature of this Administration Agreement by the Parties, NDF shall, subject to Article 12 below, transfer the Contribution to the Bank in one single installment, upon the Bank's written request. The Contribution will be deposited in an account indicated by the Bank in writing. Upon receipt of such deposit, the Bank will convert the amount of the Contribution into United States dollars and will deposit them into an account held by the Bank in said currency for the administration of the Contribution (the "**Account**").
4. The Bank will administer the Contribution in accordance with the provisions of this Administration Agreement and the Bank's applicable policies and procedures, including those applicable for third party resources administered by the Bank. The Bank will exercise the same care in the discharge of its functions, as described in this Administration Agreement, as it exercises with respect to the administration and management of resources from other donors and will have no further liability to NDF in respect thereof.

5. a) The Contribution will be accounted for separately from the Bank's assets, and will be administered separately from other contributions received by the Bank, but may be commingled with other contributions from NDF.

b) The Bank may freely exchange the Contribution funds into other currencies as may facilitate their administration and disbursement. The Bank will not be responsible for foreign exchange risk in the receipt, conversion or administration of Contribution funds. Any adverse impacts of potential foreign currency fluctuations during the implementation period shall be discussed by the Parties and appropriate remedial measures and amendments shall be negotiated if necessary. Notwithstanding the foregoing, neither NDF nor the Bank shall be obliged to contribute any additional funds as a result of any foreign currency fluctuations.

c) Pending disbursement in connection with the Project, the Bank may at its discretion invest and reinvest the resources of the Contribution, following the Bank's investment policies, procedures and practices. Income earned from such investment and reinvestment shall be credited to the Account and returned to NDF, upon request from NDF or when the Account is closed, whichever occurs later.
6. To assist in the defrayment of the administrative costs in relation to the Contribution, the Bank will charge and retain a non-refundable fee equal to five percent (5%) of the total amount of the Contribution. In addition, the Bank may also use the resources of the Contribution to cover the costs charged to the Bank related to the maintenance and transactions of the Account.

IMPLEMENTATION

7. The Bank's policies and procedures will be applicable to any relevant operational, financial and fiduciary aspects of the Project, including the procurement of goods, works, and consulting and other services, carried out with the Contribution, as required by the different components of the Project. Further, NDF accepts that:
 - a) the resources of the Contribution will be completely untied; and
 - b) the consultancy services financed with the Contribution may be provided and executed by companies, specialized institutions or individuals from any Bank member country.
8. The Bank shall inform NDF of any review missions undertaken by it related to the Contribution and provide to NDF a report setting out the main findings or results of such mission. The Bank shall invite NDF to join any Project review missions, including supervision missions and the mid-term review during the implementation of the Project and upon its completion. NDF shall be responsible for its own costs and obtaining any official approvals that may be required with respect to participation in any Project review missions.

9. NDF will not be responsible for the activities of any person or third-party engaged by the Bank as a result of this Administration Agreement, nor will NDF be liable for any costs incurred by the Bank in terminating the engagement of any such person.

REPORTING AND AUDIT

10. The Bank shall provide NDF with:

- a) reports on implementation of the activities funded by the Contribution and other reports and information as NDF may reasonably request concerning the progress of the Project that the Bank can provide in its normal course of business, and ii) promptly, no later than six months following the completion of the Project, a final Project report;
- b) annual non-audited activity and financial reports of the Project, and, ii) promptly, and no later than six months from financial closure of the Project, a terminal financial report showing the receipts, income and expenditures under the Account and the remaining balance, if any (for the avoidance of doubt, the Bank will not provide audited financial statements for the Project); and
- c) should NDF require an external audit of the Account upon completion of the Project, NDF shall request in writing from the Bank such an external audit. The cost of this audit shall be charged against the Account, provided funds are available after settlement of all expenditures related to the Project. Alternately, upon agreement by NDF and the Bank, the cost of such external audit shall be paid separately by NDF.

CONSULTATIONS, AMENDMENTS, TERMINATION AND DISPUTE SETTLEMENT

11. As soon as possible upon completion of the Project, the Bank shall return to NDF any remaining uncommitted Contribution funds, including, if applicable, any income from investment or reinvestment in accordance with Article 5(c) above, unless otherwise agreed to in writing by the Parties.
12. NDF acknowledges that the Bank's commitment to use the Contribution as contemplated herein shall be subject to the Bank's formalization of all internal approvals necessary for the Project and/or the Project Document, and the Bank acknowledges that NDF's disbursement in accordance with Article 3 above is subject to such internal approvals.
13. The Bank shall endeavour to maximize opportunities to highlight the identity of NDF's contribution to the Project (e.g., through related signage, documentation and public information about the activities, including the use of NDF's logo), and invite NDF representatives to participate in key events related to the Project. NDF shall be

responsible for its own costs with respect to any participation in such events, unless NDF and the Bank agree otherwise on a case-by-case basis.

14. a) The Bank shall inform NDF promptly of any condition which significantly interferes, or threatens to interfere, with the performance by the Bank of its commitments under this Administration Agreement.

b) The Bank shall notify and consult with NDF whenever the Bank identifies a major change of scope in relation to any activities financed under the Contribution. If any such changes occur, which in the opinion of the Bank or NDF impairs significantly the developmental value of the Project, NDF and the Bank shall consult on measures to resolve the problem and possible courses of action. In the event of such changes, NDF, however, may decide to terminate this Administration Agreement or agree with the Bank on an amendment thereof.

15. The offices responsible for coordination of all matters and receiving any notice or request in writing in connection with this Administration Agreement or the Project will be the following:

a) For the Bank:

Inter-American Development Bank
1300 New York Avenue, NW
Washington, D.C. 20577
UNITED STATES OF AMERICA
Attention: Chief, Grants and Co-financing Management Unit
Office of Outreach and Partnerships (ORP/GCM)
Tel.: ++ 202-623-2018
E-mail: orp-gcm@iadb.org

b) For NDF:

Nordic Development Fund
P.O Box 185, Fabianinkatu 34FIN
00171 Helsinki
FINLAND
Attention: Managing Director
Tel.: ++ 358 618 002
Fax: ++ 358 9 622 1491
E-mail: info.ndf@ndf.fi

16. This Administration Agreement will come into force on the date of its signature by each of the Parties and shall remain in full force and effect until the date on which the Contribution has been fully disbursed by the Bank and all activities financed under the Contribution have been completed as set out in the Project Document.

17. If at any time either Party determines that the purposes of this Administration Agreement can no longer be effectively or appropriately carried out, either Party may give notice of termination of this Administration Agreement. Such termination shall enter into effect three (3) months after notice has been received, subject to the settlement of any outstanding obligations made prior to the notice being received. In the event of termination by either Party, both Parties shall cooperate to ensure that all arrangements made hereunder are settled in a fair and orderly manner. Upon termination, the Bank shall return the Contribution funds to NDF in accordance with Article 11 above.
18. The Parties may amend any provision of this Administration Agreement in writing.
19. Subject to consultation with the other Party and their respective policies and procedures with respect to the disclosure of information, the Parties may make this Administration Agreement publicly available.
20. Nothing in this Administration Agreement may be construed as creating an agency relationship between the Parties.
21. The Parties acknowledge and agree that the Contribution constitutes the sole financing for the Project provided by NDF. The Administration Agreement will be considered joint financing for purposes of the provisions of the "Cooperation Agreement between the Nordic Development Fund and the Inter-American Development Bank for the Cofinancing of Programs and Projects", amended and restated as of January 26, 2010, and as further amended and restated as of January 1, 2016 (the "NDF-IDB Cofinancing Agreement"). For the avoidance of doubt, the provisions of the NDF-IDB Cofinancing Agreement will apply to this Administration Agreement, except that in the event of conflict, the provisions of this Administration Agreement will prevail.

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22. The Parties will seek to settle amicably any disputes that may arise from or relate to this Administration Agreement.

IN WITNESS WHEREOF, the Nordic Development Fund and the Inter-American Development Bank, each acting through its duly authorized representatives, have signed this Administration Agreement in the English language, on the dates indicated below.

**NORDIC DEVELOPMENT
FUND**



Pasi Hellman
Managing Director

Date: 14 Dec. 2016


**NORDIC DEVELOPMENT
FUND**



Leena Klossner
Vice President
Deputy Managing Director

Date: 14 Dec 2016

**INTER-AMERICAN
DEVELOPMENT BANK**



Bernardo Guillamon
Manager
Office of Outreach and Partnerships

Date: DECEMBER 8/2016

Technical Cooperation Document

I. Basic information

▪ Country:	Nicaragua
▪ TC Name:	Promoting Energy Savings Insurance (ESI) for Small and Medium Enterprises (SMEs) in Nicaragua
▪ TC Number:	NI-T1234
▪ Associated Loan/Guarantee Name:	N/A
▪ Associated Loan/Guarantee Number:	N/A
▪ Team Leader/Members:	Christian Schneider, CMF/CNI, Team Leader; Omar Villacorta, IFD/CMF, Co-Team Leader; Maria Netto, IFD/CMF Gloria Lugo, IFD/CMF; Alexander Vasa, IFD/CMF; Alison Arauz Herrera, IFD/CMF; Hector Baldivieso, ENE/CNI; Ignacio Barragan, LEG/SGO; Santiago Castillo, FMP/CNI; Miguel Aldaz, ORP/PTR y Claudia Ogliaro, ORP/GCM.
▪ Date of TC Abstract authorization::	October 2016
▪ Beneficiary:	<i>Banco de Fomento a la Producción (Produzcamos)</i>
▪ Executing Agency and contact :	Capital Markets and Financial Institutions Division (IFD/CMF)
▪ Donors providing funding:	Nordic Development Fund (NDF)
▪ IDB Funding Requested:	US\$530,000 ¹
▪ Local counterpart funding, if any:	US\$100,000 (in kind)
▪ Disbursement period:	24 months (30 months execution period)
▪ Required start date:	December, 2016
▪ Types of consultants:	Firm and individual consultants
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	Institutions for Development Sector (IFD/IFD)
▪ TC Included in Country Strategy:	No
▪ TC included in CPD:	No
▪ GCI-9 Sector Priority	(i) challenges related to productive development and innovation; and (ii) cross-cutting topic of climate change and environmental sustainability

II. Objectives and Justification of the TC

- 2.1 The objective of the TC is to promote private investments in energy efficiency (EE) projects by small and medium-sized enterprises (SMEs) in Nicaragua. The project aims to endorse these investments by supporting the national development bank in Nicaragua, *Banco Produzcamos*,² in structuring and deploying an integral strategy

¹ These funds will be administered by the IDB through a non-reimbursable Project-Specific Grant (PSG). The Nordic Development Fund (NDF) will contribute 480.000 euros equivalent to US\$530,000 at an Exchange rate 1 EUR = US\$1.12 as of October 4th, 2016. This PSG will be administered by the IDB pursuant to document SC-114. In accordance with that document and the Framework Agreement signed by the NDF and the IDB, the commitment of NDF resources for each PSG will be established through Administrative Agreements.

² *Produzcamos* is the national development bank of Nicaragua whose principal objective is to support productive development in micro, small and medium-sized companies and producers in the industrial and agricultural sectors. It is the only specialized entity able to receive, channel, and perform financial and credit management of international funds earmarked for productive development.

that combines financial and non-financial instruments needed to address the barriers that prevent private investments in EE initiatives. The activities of the TC are structured on the basis of existing experiences that IDB's Capital Markets and Financial Institutions Division (IFD/CMF) has accumulated with other national development banks (NDBs) in Latin America³ developing integral financial strategies to promote green private investments,⁴ mobilizing in many cases international sources of climate finance resources.⁵

- 2.2 The TC is consistent with the Institutional Strategy Update (UIS) 2010-2020 (GN-2788-5) and is aligned with: (i) the development challenge of productivity and innovation, promoting and supporting the use of modern technologies, efficient and sustainable energy savings by MSMEs; and (ii) the cross-cutting topic of climate change and environmental sustainability, supporting the reduction of greenhouse gas (GHG) emissions generated by investments in energy efficiency. It is also aligned with the Country Strategy with Nicaragua 2012-2017 (GN-2683) under Energy as priority sector.
- 2.3 Nicaragua has a large potential for the implementation of EE measures given its high energy intensity and high energy cost linked to its significant reliance on petroleum derivatives for energy generation. Among other measures, replacement of air conditioning and refrigeration equipment has been estimated to have an energy savings potential of up to 29% compared to its baseline.⁶ While EE investments represents one of the most cost-effective investments that a country can make to reduce its increasing energy bill,⁷ these investments, particularly at the level of SMEs, encounter many barriers, including, among others:⁸ (i) limited availability of credit at adequate conditions; (ii) lack of knowledge of local Financial Institutions (FI) on the risks and returns of such projects, and on how to market, analyze, structure and finance them; (iii) lack of knowledge by potential beneficiaries about the benefits of this type of investments; (iv) relatively higher costs and longer payback periods than other investment projects funded by FIs; (v) high, real or perceived, risks by investors, FI and/or Energy Efficiency Services and Technology Providers (ESTPs), including regulatory risks; (vi) the perception that EE projects are not "business as usual" investments; and (vii) lack of financial capacity by ESTPs.⁹

³ Smallridge, D. et al. (2012). The Role of National Development Banks in Intermediating International Climate Finance to Scale Up Private Sector Investments.

⁴ The TC will include lessons learnt from other IDB's TCs underway (ATN/MC-13341-RG, ATN/OC-13283-RG, ATN/FI-13401-RGR, ATN/OC-14741-RG, ATN/OC-13944-RG and ATN/FI-14376-RG) through which the Bank has been supporting NDBs in the design and implementation of green finance programs. The experience with those TCs showed the importance of tailoring green financing strategies to specific conditions of sectors and countries where the NDBs work and the need to consider "integrated" approaches that offer a combination of financial and non-financial activities to support both the supply of and the demand for financing.

⁵ Examples include, for instance, blending IDB and NDB resources with Clean Technology Fund (CTF) resources in the cases of Colombia and Mexico. For more information see also: IDB-BK-116, chapter 6, IDB-MG-148 and IDB-TN-437. The implementation of the proposed program will also benefit from the experience in implementing the Regional Energy Savings Program ATN/CF-15453-RG.

⁶ SE4ALL 2013 Rapid Assessment Gap Analysis Nicaragua.

⁷ IEA 2014 World Energy Investment Outlook; IEA 2014 Energy Efficiency Market Report 2014.

⁸ Sarkar, A. & Singh, J. (2010): Financing energy efficiency in developing countries – lessons learned and remaining challenges.

⁹ Although ESTPs are knowledgeable on EE technologies, and on structuring technically robust EE projects, they tend to have an insufficient capital base to invest directly on these technologies under performance contracts. In other more advanced economies, ESTPs are able to finance EE projects more

- 2.4 The project aims to address these barriers by empowering *Banco Produzcamos* to coordinate and support the structuring of innovative EE financing strategies that combine a dedicated financing line with adequate payback period and with risk mitigation instruments that address any real or perceived risk by firms and their financiers. Thus ensuring that the projects financed generate savings to repay the investments made by SMEs.¹⁰ In particular, the project proposes to replicate the “Energy Savings Insurance” (ESI) mechanism developed by the IDB with other NDBs in the region,¹¹ in which an specific financing line for EE projects is accompanied with: (i) a standard contract which distributes the performance risk of EE projects between SMEs and ESTPs; (ii) the energy savings expected from individual SME projects as well as a mechanism to verify and validate the technical capacity of ESTPs; and (iii) a guarantee instrument to cover any potential energy savings shortfall stemming from supported EE project.
- 2.5 The project will also build on a previous experience from the IIC in supporting the energy efficiency program “Greenpyme” in Nicaragua. The relevant lessons learnt that are reflected in this TC activities include: (a) the structuring and linking of bankable projects resulting from energy efficiency potential assessments with the supply of lending with adequate terms and conditions (interest rate and loan maturity); (b) the need for mitigating risks through standardized contracting and technical risk assessment and assurance for local financial institutions and investing clients; and (c) the initial limitation to specific technologies that can demonstrate impact to market actors before scaling-up the program to additional energy efficiency measures. This program supported energy audits for more than 70 SMEs and assessed potential technology packages with potential to be promoted and financed.
- 2.6 Through the proposed methodology, it is expected that the proposed project would have an important long-term transformational effect in the local market, as it aims to expand the client base for efficient equipment of ESTPs, as well as to familiarize first-tier local financial institutions with the real risks and returns associated with this type of projects. The TC is also expected to support the creation of an enabling environment for EE investments, supporting ESTPs to develop pipelines of technically-robust, bankable EE projects with relatively low risks, and eventually enhancing the capacity of ESTPs.

III. Description of activities/components and budget

- 3.1 In order to develop and effective ESI strategy implementation, the TC is organized under two components:
- 3.2 **Component 1 – Preparation – Market analysis and strategy.** *Banco Produzcamos* will be supported to assess the demand and supply gap of EE financing in the SME market and to develop a tailored and ready-to-implement strategy in order to

easily under the Energy Service Company (ESCO) model. See Fang, W. S., Miller, S. M., & Yeh, C.-C. (2012). *The effect of ESCOs on energy use*.

¹⁰ Mills, E. (2003). *Risk transfer via energy-savings insurance*; Jones, et al. (2014). *Quantifying the Financial Value of Insurance for Energy Savings Projects*.

¹¹ The Energy Savings Insurance Mechanism was acknowledged by the *Global Innovation Lab for Climate Finance* as one of the most promising instruments to mobilize private sector investments in EE. It is currently being piloted with NDBs in Brazil, Colombia, El Salvador, Mexico and Peru. The key innovation of the solution is to provide an insurance product covering projected energy savings for specifically defined and verifiable EE measures as agreed upon in a standard contract between SMEs and energy efficiency services and technology providers.

penetrate the market successfully. The following combination of activities will be held to achieve this objective:

- (i) **Demand study and development of institutional financing strategy.** Tasks are planned to fall under activities as follows: (a) feasibility and market assessment which includes potential SMEs' EE lending demand and ESTP supply to determine market characteristics, delimitate size and key barriers within *Banco Produzcamos*' priorities and highlight EE potential sectors and technologies; (b) assessment of relevant financial actors and their services and products including local financial institutions (FI), insurance and surety players and products; (c) identification and assessment of technical and performance validators of EE projects; (d) economic and cost-benefit analysis, determination of financing requirements and availability; (e) review of existing regulatory frameworks related to SMEs, lending, surety and EE; (f) identification and alignment of prior or existing initiatives and public/private efforts (including Greenpyme in Nicaragua); and (g) design of a comprehensive institutional strategy, technical feasibility methodology and financial products.
 - (ii) **Development of standard performance contract between ESTP and SMEs.** This activity will help *Banco Produzcamos* in the development, revision and adaptation of a standardized performance contract for EE projects which regulates the rights and responsibilities of the potential clients (SMEs) and of the technology service providers (ESTP) and provides incentives to deliver promised energy savings.
 - (iii) **Methodologies for assessment and validation of energy savings.** The main objective of this activity is to develop, adapt, and disseminate the protocols, forms, and procedures needed to facilitate the validation, verification, and monitoring of future EE projects under the EE program. The protocols and procedures to be developed are an integral part of the EE financing program to provide confidence to SME beneficiaries and FIs that the proposed EE projects are technically sound.¹²
 - (iv) **Information management system.** This assignment aims to assist *Banco Produzcamos* in structuring an information technology system to support the program management and monitoring functions that can ultimately be integrated into *Produzcamos*' existing information systems.
 - (v) **Project technical backstopping and management.** Consultancy services will be hired to build institutional capacity in *Banco Produzcamos* and first tier local financial institutions so as to ensure the support and involvement of key partners (e.g., sector associations, providers of energy efficiency services, surety/insurance companies, equipment suppliers, local financial institutions, etc.) in executing a financing strategy aimed at promoting energy efficiency projects in the eligible sector(s). Support in the establishment of a guarantee instrument applying the standard contract and the validation and verification procedures.
- 3.3 **Component 2 – Implementation process.** This component will support *Banco Produzcamos* with the implementation of its strategy, through the following activities, among others:

¹² See also the analysis of the Energy Savings Insurance in Global Climate Finance Innovation Lab.

- (i) **Piloting.** This activity, according to the ESI methodology, will help *Produzcamos* in assessing the quality of eligible EE projects and compliance of ESTP and SMEs in their implementation. In particular a consulting firm (an independent entity) will support *Produzcamos* in the validation, technical verification, and monitoring of a sample of energy efficiency early projects.
- (ii) **Promotion and deployment of the strategy.** This assignment will include the strategy launching, project-matching events with relevant stakeholders, and preparation of public documents to further the awareness of the EE program benefits. It will also include collection of lessons learned during the implementation and further dissemination, including through a dedicated web page for NDBs to share experiences in promoting green finance managed by the IFD/CMF in collaboration with the Association of Latin American Development Banks Association (ALIDE).
- (iii) **Drafting of technical proposals.** These resources is allocated to assess the need for additional financial resources and to draft funding proposals to gain access to international sources of climate finance.
- (iv) **Monitoring and reporting.** This activity consists in the design of specific methods to sample, collect, maintain and analyze relevant data to assess progress and results of the project.

Indicative Results Matrix

	Unit	Baseline		Year 1-2		Expected Completion Date	Data Source, means of verification
		Value	Year	Planned	Actual		
Market analysis and strategy							
Feasibility and market assessment completed, identifying financial and non-financial barriers to be addressed	#	0	2016	1		05/2017	IDB systems information systems (Monitoring System for Technical Cooperations)
Standard performance contract for risk sharing between SMEs and ESTPs prepared	#	0	2016	1		12/2017	IDB systems information systems (Monitoring System for Technical Cooperations)
Insurance policy covering energy savings developed	#	0	2016	1		12/2017	IDB systems information systems (Monitoring System for Technical Cooperations)
Methodologies accounting for technology / project level energy savings developed	#	0	2016	1		12/2017	IDB systems information systems (Monitoring System for Technical Cooperations)
Electronic registry systems developed	#	0	2016	1		02/2018	IDB systems information systems (Monitoring System for Technical Cooperations)
Implementation process							
Percentage of firms supported with simple or detailed EE audits under GreenPYME engaged in market assessment, surveys or outreach activities	%	0	2016	100%		07/2018	IDB systems information systems (Monitoring System for Technical Cooperations)

	Baseline		Year 1-2		Expected completion date	Data source for validation
	Unit	Value	Year	Start and End		
Promotion Number of LFIs, ESTPs, <i>Producecamos</i> staff informed about the Project mechanisms and opportunities and participating*	#	0	2016	5/20/5	07/2018	IDB systems information systems (Monitoring System for Technical Cooperations)
Number of events organized for training and outreach*	#	0	2016	20	07/2018	IDB systems information systems (Monitoring System for Technical Cooperations)
Validation of supported pilot projects**	#	0	2016	~100	12/2018	IDB systems information systems (Monitoring System for Technical Cooperations)

Note: *The training sessions for FIs, technical validators, technology solution providers, and Banco *Producecamos* staff, as well as the number of loan applications**, aim at reaching a female participation of at least 30% for firms with women in management roles or representing significant share of employee group (i.e. more than 40%). The participation of female experts will be explicitly encouraged in the invitations to the training and awareness raising events organized. The actual participation will be assessed according to participation lists.

**Subject to the establishment of a financing line and the securing of loan resources.

- 3.4 The total cost of this TC is US\$530,000. There will also be in-kind counterpart resources from *Banco Producecamos*¹³.

Indicative Budget

Activity	Amount (US\$)
Demand study and development of institutional financing strategy	35,000
Development of standard contract between ESTP and SME	40,000
Methodologies for assessment and validation of energy savings	45,000
Information management system (registry)	25,000
Project technical backstopping and management	40,000
Sub-total	185,000
Piloting	200,000
Promotion and deployment of the strategy	20,000
Drafting of technical proposals	10,000
Monitoring and reporting	40,000
Sub-total	270,000
Contingencies	48,500
Fee (5%)	26,500
Total	530,000

- 3.5 The Nordic Development Fund (NDF) expects to commit 480,000 Euros to this project, which is equivalent to US\$530,000, based on the exchange rate found in the intranet page of the Bank's FIN department, as of October 4th, 2016. Final resources in US\$ will be dependent on the exchange rate of the date when the resources are received by the Bank from NDF in Euros and converted into Dollars, pursuant to the terms of the arrangement to be entered into between NDF and the Bank, as further

¹³ *Banco Producecamos* will be providing in kind resources for US\$100,000 including staff time, facilities for events, and office space for consultants.

detailed below. If a significant adverse movement in exchange rates reduces the amount of dollars contemplated in this budget from NDF's contribution and such amount cannot be covered by the contingency line item, the activities contemplated in the project will be decreased appropriately and the budget will be adjusted accordingly by the project team.

- 3.6 Resources of this project to be received from NDF will be provided to the Bank through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABS, Ad-Hocs and CLFGS and a Proposal to Unify Them as Project Specific Grants (PSGs)" (Document SC-114). As contemplated in these procedures, and in the "Cooperation Agreement between Nordic Development Fund and the Inter-American Development Bank for the Cofinancing of Programs and Projects", dated as of October 2, 1994, amended and restated as of January 26, 2010 (Article IV, Section 6), the commitment from NDF will be established through a separate administrative arrangement. Under such arrangement, the resources for this project will be administered by the Bank and the Bank will charge an administrative fee of 5% of the contribution, which is duly identified in the budget of this project. The 5% administrative fee will be charged after the contribution has been received.

IV. Executing agency and execution structure

- 4.1 The project will be directly executed by Capital Markets and Financial Institutions Division (IFD/CMF) of the IDB and *Banco Produzcamos* will be the beneficiary. To ensure a consistent working methodology and proper execution, launching, mid-term and final review meetings will be organized with the beneficiary entity and consultants for each of the phases contemplated under the project. IFD/CMF will also ensure that the project execution considers lessons learned from other pilot ESI programs being implemented in the region and promote exchange of experience between *Produzcamos* and other NDBs. The IDB will contract individual consultants, consulting firms, as well as services other than consulting, in accordance with the Bank's current procurement policies and procedures.
- 4.2 IDB and *Banco Produzcamos* have a close working relationship since 2009. *Produzcamos* (formerly known as *Financiera Nicaraguense de Inversiones* or FNI) have completed successfully the execution of two IDB operations (US\$30 million and US\$20 million). Both operations were structured to foster private sector development through the provision of long-term financing to SMEs.
- 4.3 Currently, *Banco Produzcamos* is executing the operation NI-L1080 "Credit Access to Rural Productive Chains" approved in 2014 that has as main objective to improve small and medium agricultural producers (SMPs) productivity, through cooperatives, microfinance institutions and anchor companies of selected agricultural value chains, by providing guarantees, long term financing and technical assistance. The project amount is US\$20 million and is executed under three components: (i) a credit guarantees component to mitigate the risk perceived by the financial sector of lending to the sector; (ii) a credit line to finance SMPs in the sector; and (iii) a technical assistance component to disseminate improvements in production processes and help SMPs integrate into the value chain as well as to help strengthen it.

- 4.4 The project team will be responsible for the preparation and submission to ORP/GCM of the project reporting in compliance with the stipulation of the Administration Agreement.
- 4.5 If at the end of project execution the project was closed with a positive uncommitted and unspent balance, the project team will be responsible for informing ORP/GCM to transfer the unspent balance as agreed to by the NDF and the Bank pursuant to the terms of the PSG Administration Agreement.

V. Major issues

- 5.1 The main risk of the project is related to the up-take/lower than expected momentum of the instrument by Nicaragua's SME energy end-users, energy service providers, FIs and insurance companies. To mitigate this risk, in the framework of the market analysis of the demand and supply for EE investment and financing, extensive stakeholder engagement and consultations will be undertaken with key market actors to confirm interest in EE and the conditions for investment. Furthermore, in the framework of the proposed project each instrument (standardized performance contract, validation processes and formats, insurance policy) will be discussed and socialized with the relevant actors so as to receive and integrate feedback during the structuring and implementation of the financial strategy. These different interactive phases serve to increase the interest of market actors in the mechanism. In addition, the intervention is designed to minimize transaction costs to SMEs, technology solution providers and FIs of entering and participating in the program. This is achieved by standardizing and simplifying documentation and procedures. Initial support to kick-off the market will be provided.
- 5.2 There is also a risk that the project does not create a financing market for EE investments and that the interest of FIs remains dependent on the provision of credit lines supported by concessional financing. In this regard, a key goal of the project and its activities is to demonstrate the profitability of these types of initiatives, and address the currently high risk perception of FIs, towards EE investments through the ESI model. This demonstration is expected to lead to a transformational change in the financing market, as FIs would start to finance EE initiative from their own resources.

VI. Exceptions to Bank policy

- 6.1 N/A.

VII. Environmental and Social Strategy

- 7.1 Following ESG's project classification process (Safeguard Policy Filter and Safeguard Screening Form) requirements, it has been determined that this project falls under Category C. No environmental assessment studies or consultations are required for Category "C" operations. See: Safeguard Policy Filter Report (SPF) and Safeguard Screening Form (SSF).

Required Annexes:

- Request from the client
- Terms of Reference

- Procurement Plan

Additional Annex:

- Explanation Energy savings Insurance Mechanism