

INTER-AMERICAN DEVELOPMENT BANK
IDB LAB

TRINIDAD AND TOBAGO

**ECOMICRO – CENTRAL FINANCE FACILITY - GREEN FINANCE TO BUILD
CLIMATE RESILIENCE OF LOW-INCOME HOUSEHOLDS**

TT-T1095

**ECOMICRO PROGRAM FACILITY (RG-O1649)
DOCUMENT FOR PROJECT APPROVAL**

PROJECT DOCUMENT

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PROJECT SUMMARY

EcoMicro - Central Finance Facility - Green Finance to Build Climate Resilience of Low-Income Households

TT-T1095

The impact of COVID-19 and the growing threat of climate change adds to the growing case for Trinidad and Tobago to strengthen its energy security, diversify its energy mix, and build its resilience, turning the above identified challenges into an opportunity to promote a more inclusive, resilient, and green sustainable development pathway in a fossil-fuel based economy. Thus, facilitating green finance as a means to increase access to RE/EE products, and to assist in adaptation to climate change becomes a key opportunity to promote sustainable recovery and resilience of the country post-COVID-19. This is particularly relevant for MSMEs and low-income households who are among the hardest hit by the pandemic yet are least able to withstand its impact.

The objective of this project is therefore to build climate resilience of MSMEs and low-income households in Trinidad and Tobago, through new green finance that enables the acquisition of RE/EE, adaptation, and other low-consumption technologies. This will be achieved through the development of green finance products that will support access to: (i) RE/EE technologies (mitigation finance), and (ii) adaptation technologies/measures (adaptation finance) for both the MSME and housing sectors. Under Mitigation Finance, the project will increase access to clean and efficient energy and low-consumption technology products and services by low-income households and MSMEs in retail trade, distributive trade, light manufacturing and construction sectors etc. Lower energy costs will reduce operational costs and improve the competitiveness of MSMEs, while energy savings will increase the disposable income of low-income households. Under Adaptation Finance, the project will allow MSMEs and low-income home mortgage clients to invest in climate-proofing new construction and retrofitting existing structures to make them more resilient to extreme weather events. The project, along with targeted green finance products, will also implement a risk modeling framework to evaluate the impacts of climate change on the participating Financial Institutions' loans portfolio and elaborate a greening policy to reduce the environmental impact of their facilities. This project is innovative as it is the first EcoMicro to pilot adaptation and mitigation finance in the context of a hydrocarbon-based economy.

This project will be Bank-Executed. Under this project, the following CUs will participate in all project components: Central Finance Facility (CFF), Teachers Credit Union, VENTURE, and PECU. Participation in the Caribbean EcoMicro Program presents a unique opportunity for the CFF and its members to stimulate innovation in the marketplace on the one hand and provide individual consumption loans in the form of green finance instruments on the other, to capitalize on the emerging opportunities in the green economy.

This project is well-aligned with IDB's "Vision 2025" strategy, importantly the pillars which focus on (iii) climate, (iv) small- and medium-sized enterprises, and (v) gender. Key to this alignment is the project approach to pilot green finance for MSMEs (including small farmers) and low-income households. The project will also complement the work being carried under the existing EcoMicro Caribbean Program (RG-X1131), whose main outcome is, inter alia, to strengthen FIs and increase the resilience of MSMEs and households. The project also aligns with the ongoing loan operation in Trinidad and Tobago (TT-L1056 and TT-L1057) which has as key objectives enhancing housing conditions for low-income households and strengthening the capacity of supply side stakeholders to satisfy effective housing demand and urban development needs.

ANNEXES

ANNEX I	Results Matrix
ANNEX II	Milestones Table

AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF IDB LAB PROJECT INFORMATION SYSTEM

ANNEX III	<u>Diagnostic of Executing Agency Needs (DNA)</u> [includes Integrity Due Diligence Analysis]
ANNEX VII	Reporting Requirements and Compliance with Milestones and Fiduciary Arrangements
ANNEX VIII	(Draft) Procurement Plan

ACRONYMS AND ABBREVIATIONS

BEO	Bank-Executed Operation
CBA	Country Office in Barbados
CCB	Caribbean Country Department
CCF	Canada Cooperation Framework
CFF	Central Finance Facility
COF	IDB Country Office
CSD	Climate Change and Sustainability Division
CTT	Country Office in Trinidad and Tobago
DICI	Assessment of Integrity and Institutional Capacity
EA	Executing Agency
ECLAC	Economic Commission for Latin America and the Caribbean
EE	Energy Efficiency
FI	Financial Intermediary
GAC	Global Affairs Canada
GDP	Gross Domestic Product
GHG	Greenhouse Gas Emissions
IDB	Inter-American Development Bank
IDBG	Inter-American Development Bank Group
IDB Lab	Multilateral Investment Fund
kWh	Kilowatt-hour
LAC	Latin America and the Caribbean
MSME	Micro, Small and Medium Enterprises
NDF	Nordic Development Fund
PC	Project Coordinator
PSG	Project Specific Grant
PSR	Project Status Report
RE	Renewable Energy
VAT	Value Added Tax

PROJECT INFORMATION
TRINIDAD AND TOBAGO
EcoMicro - Central Finance Facility - Green Finance to Build Climate Resilience of Low-Income Households
TT-T1095

Country and Geographic Location:	Trinidad and Tobago		
Executing Agency:	Bank-Executed Operation (BEO)		
Focus Area:	Inclusive Cities		
Coordination with Other Donors/Bank Operations:	<p>This project comprises part of RG-O1649, which expanded the EcoMicro Program to the Caribbean MIF-AT-1143-4. It will be financed by Global Affairs Canada, through resources from the Canada Cooperation Framework (CCF), managed under RG-X1131 ATN/CN-15796-RG. The project will be executed in coordination with relevant activities of the IDB Climate Change and Sustainability Division (CSD) in the Caribbean Region.</p> <p>This project will also be carried out in close collaboration with the loan operation (TT-L1056) and (TT-L1057) which has as key objectives enhancing housing conditions for low-income households and strengthening the capacity of supply side stakeholders to satisfy effective housing demand and urban development needs.</p>		
Project Beneficiaries:	The project is expected to directly benefit 150 MSMEs and low-income households and train 100 managerial and technical staff belonging to Central Finance Facility and its 3 participating member Credit Unions: Teachers Credit Union, VENTURE, and PECU.		
Budget:	Counterpart (cash and in-kind):	US\$187,840	38.5%
	Co-financing from Canada Cooperation Framework (CCF):	US\$300,000	61.5%
	TOTAL PROJECT BUDGET:	US\$487,840	100%
Execution and Disbursement Period:	30 months of execution and 36 months of disbursement.		
Special Contractual Conditions:	Special conditions precedent to first disbursement will be: (i) selection of the EcoMicro pre-qualified consulting partner.		
Environmental and Social Impact Review	This operation was screened and classified as required by the IDB's safeguard policy (OP-703) on October 29, 2020. Given the limited impacts and risks, the proposed category for the project is C.		
Unit responsible for disbursements	COF Trinidad and Tobago. The project will be supervised by the EcoMicro Team within the Barbados Country Office (CCB/CBA), in coordination with the IDB Lab team in the Trinidad and Tobago Country Office (CCB/CTT).		

I. INTRODUCTION

- 1.1. **The EcoMicro Program:** The “Green Finance for Micro, Small and Medium Enterprises (MSMEs) and Low-Income Households: The EcoMicro Program” MIF-AT-1143 (EcoMicro) is a US\$ 17 million facility established to pilot green finance for MSMEs (including small farmers) and low-income households in Latin America and the Caribbean (LAC). The goal of the Program is to facilitate green finance as a means to increase access to Renewable Energy/Energy Efficiency (RE/EE) products, and to assist in adaptation to climate change. The purpose of the facility is to support Financial Intermediaries (FIs) in collaboration with key actors in the broader ecosystem to provide new finance instruments to capitalize on opportunities in green financing, while adjusting their risk management models to climate change risk and incorporating climate impact assessment into their internal policies and operations.
- 1.2. The Program is currently financed with funds from IDB Lab, co-financed by Global Affairs Canada (GAC) through Project Specific Grants (PSGs), and local counterpart funds. It is executed by IDB Lab. It was originally approved on September 20, 2011¹, and was subsequently amended² in 2015 to increase contributions from IDB Lab and NDF and to extend the execution term through December 2020. In 2016, GAC made an additional contribution to increase the outreach of the original program specifically in the Caribbean Region³. GAC-funded Caribbean Projects follow the prescribed modular approach of the EcoMicro Program, which is centered on the execution of three mutually reinforcing and interlocking components⁴. The EcoMicro modular approach was originally approved by the IDB Lab Donor’s Committee by Resolution MIF/DE-33/11 on September 20, 2011 (MIF/AT-1143-2) and forms the basis of the Administrative Agreement with GAC for the Caribbean EcoMicro Program, signed on March 21, 2016. In August 2018, the disbursement deadline of the Program was extended until November 30th, 2022⁵.
- 1.3. **Selection of Consulting Firm during Design Phase.** In accordance with Section C: Execution and Administration of the Program of the Donors Memorandum for the EcoMicro Program (RG-M1205), IDB Lab pre-qualified 18 consulting firms are eligible to participate in the Caribbean EcoMicro Program; and contracting of the EcoMicro consulting partner will be via Single Source Selection. In this instance CFF and IDB Lab/EcoMicro will agree on the selected firm from the pool of pre-qualified firms prior to contracting. The Consulting Firm will support the design and execution of project activities.
- 1.4. This is the **twenty-seventh EcoMicro project** and the **ninth to be funded by GAC**, through resources from the Canada Cooperation Framework (CCF), under MIF-AT-1143-4 the EcoMicro Operation ATN/CN-15796-RG, Project: RG-X1131 EcoMicro2/EcoMicro3 – Green Finance for MSMEs and Low-Income Households.

¹ Resolution MIF/DE-33/11 (MIF/AT-1143-2)

² Resolutions DE-89/15 and MIF/DE-38/15 (MIF/AT-2243-3)

³ Resolutions DE-46/16 and MIF/DE-43/16 (MIF/AT-1143-4 and MIF/AT-1143-5 respectively)

⁴ The three intervention areas are: (i) design and implementation of the green finance product; (ii) assessment of the institution’s loan portfolio vulnerability to climate change; and (iii) greening the FI through development of environmental guidelines and policies.

⁵ See Memorandum: Approval of Program Extension – The EcoMicro Program Facility (RG-O649) in EZSHARE-1770217548-5.

- 1.5. Delegation of Authority to IDB Lab Management for Project Approvals: The Donors delegated authority to the IDB Lab Chief General Manager for the approval of projects under the EcoMicro Program (MIF-AT-1143-2, Resolution MIF/DE-33/11, Par.4.).

II. THE PROBLEM

A. Problem Description

- 2.1. Trinidad and Tobago is a small, open, hydrocarbon-dependent economy whose economic growth and development performance has been shaped by global energy prices and the life cycle of the oil and gas industry. In 2020, the energy sector accounted for around 75% of exports and 40% of GDP⁶. The COVID-19 crisis, however, has caused an unprecedented drop in oil and gas prices. From January to April 2020, oil prices decreased by almost US\$41 per barrel, a decline of nearly 71%, while natural gas prices dropped by 14.3% over the same period⁷. Combined with increased expenditures from the pandemic, Trinidad and Tobago's budget deficit for 2020 is estimated at 11% of GDP⁸.
- 2.2. Beyond immediate questions of fiscal stability, the negative effects of climate change also pose a potentially existential threat. As an island nation with a peak altitude of just 83 meters, or 272 feet, above sea level, Trinidad and Tobago is especially vulnerable to rising sea levels and coastal erosion, leaving citizens vulnerable to increased flooding and other extreme weather events. Moreover, Trinidad and Tobago's high consumption of polluting fossil fuels also makes it a significant contributor to climate change relative to its population. Natural gas makes up 99.5% of the energy matrix, followed by diesel at .5%⁹. In 2018, the World Bank ranked the country second in the world on carbon emissions per capita, behind only Qatar¹⁰.
- 2.3. The impact of COVID-19 and the growing threat of climate change adds to the growing case for Trinidad and Tobago to strengthen its energy security, diversify its energy mix, and build its resilience, turning the above identified challenges into an opportunity to promote a more inclusive, resilient, and green sustainable development pathway in a fossil-fuel based economy. According to a 2020 report by the Economic Commission for Latin America and the Caribbean (ECLAC)¹¹, low oil and gas prices, although increasing the risk of regression in the short run, should deliberately be turned into an opportunity to implement reforms that fight climate change and policies to decarbonize, phase out fossil fuel subsidies, integrate more renewable energy and upscale energy efficiency across economic sectors and promote greater mitigation and adaptation to climate change.
- 2.4. Under these new circumstances, facilitating green finance as a means to increase access to RE/EE products, and to assist in adaptation to climate change becomes a key opportunity to promote sustainable recovery and resilience of the country post-COVID-19. This is particularly relevant for MSMEs and low-income households who

⁶ Energy Transitions Initiative, 2020. Trinidad and Tobago Energy Snapshot 2020.

⁷ Ibid, 2020.

⁸ Ibid, 2020.

⁹ Ibid, 2020.

¹⁰ Ibid, 2020.

¹¹ Economic Commission for Latin America and the Caribbean. Navigating transfer pricing risk in the oil and gas sector: Essential elements of a policy framework for Trinidad and Tobago and Guyana, 2021.

- are among the hardest hit by the pandemic yet are least able to withstand its impact. According to an online survey organized by the IDB in collaboration with Cornell University, 68% of low-income survey participants in Trinidad and Tobago suffered a job loss while 60.2% suffered a business closure as a result of the COVID-19 crisis¹².
- 2.5. Importantly, encouraging the adoption of climate resilient and sustainable solutions through green finance can promote new dimensions of private sector resilience and technology adoption that can reduce costs, ensure business continuity, and promote higher levels of productivity, enabling this particularly vulnerable segment of the population to resume its substantial contribution to the economy better able to withstand present and potential future unforeseen crises (such as extreme weather and climatic events).
 - 2.6. Notwithstanding the potential gains to be derived from ‘going green’, several key barriers continue to hamper the country’s transition to a green economy as follows:
 - 2.7. ***Low energy prices driven by fossil fuel subsidies.*** Trinidad and Tobago’s electricity rates are some of the lowest in the Caribbean at approximately \$0.04 per kilowatt-hour (kWh), well below the regional average of \$0.33/kWh¹³. Fossil fuel subsidies continue to generate an excessive reliance on fossil fuels, artificially lower energy prices and, on a per capita basis, contribute to Trinidad and Tobago being one of the highest energy users in the world. Recognizing the heavy fiscal burden that these subsidies impose, the disproportionate benefit they bring to higher income groups, and the inefficient energy usage they encourage from a national economy perspective, subsidy reform is now underway. Beginning in 2021, the fuel subsidy (on premium and super gasoline) has been removed allowing the prices to be set by market forces. Further discussions around reforming the natural gas subsidy to the electricity sector are also ongoing; if accomplished, this will see electricity rates in the residential and business sectors similarly follow market prices. This was raised once again in the latest 2021/22 budget along with potential removal of subsidies in the water sector.
 - 2.8. ***Partially favorable regulatory framework.*** In Trinidad and Tobago, there is no installed clean energy generating capacity and no policies to encourage the development thereof. However, there are a few fiscal incentives to promote RE and EE, including import duty exemptions on machinery, equipment materials and parts for the manufacture or assembly of solar water heaters, 0-Rated value-added tax (VAT) granted for solar water heaters, solar PV panels and wind turbines, and tax credits for solar water heaters¹⁴. Also, as part of the 2021/22 budget new tax incentives will be introduced for electric vehicles and CNG.
 - 2.9. ***Limited awareness and knowledge on the benefits of investing in RE/EE and climate adaptation technologies.*** Huge information asymmetries exist among the population on the energy and cost savings benefits to be derived from “going green”. This is driven in large part by the low energy costs, which have served as a disincentive to explore and adopt potential RE/EE and climate adaptation technologies. Further compounding this reality is the fact that no savings culture presently exists given the lost cost of energy and limited promotion of energy efficiency measures. Thus, alongside the rollout of green finance products, mass

¹² Bontan et al, 2020. IDB/Cornell Coronavirus Survey: Methodological Notes. Technical Note IDB-TN-1936. Inter-American Development Bank: Washington, D.C

¹³ Energy Transitions Initiative, 2020. Trinidad and Tobago Energy Snapshot 2020.

¹⁴ Market Study and Partner Scoping in the Caribbean - The EcoMicro Program, Econoler 2016.

sensitization is needed to address inertia and behavioral change and to encourage adoption of RE/EE and adaptation technologies¹⁵ among MSMEs and low-income households, making this a worthwhile venture in the medium and long term.

- 2.10. **Lack of diversified green finance product offerings.** Although RE/EE and adaptation technologies and providers are available, Trinidad and Tobago offer few opportunities for RE/EE and adaptation finance given the unfavorable framework conditions (i.e. very low energy prices)¹⁶.

B. Project Beneficiaries

- 2.11. The direct beneficiaries of this project are 150 MSMEs and low-income households serviced via Central Finance Facility (CFF) and its 3 participating member Credit Unions (CUs) – VENTURE Credit Union, PECU Credit Union and Teachers Credit Union. This includes 75 beneficiaries from CFF's 1 branch located in Chaguanas with 30% in MSME and 60% in low-income household loans; 75 beneficiaries from VENTURE branches with a indicative split of 25 MSMEs and 75 low-income households; 50 beneficiaries from PECU branches; and 50 beneficiaries from Teachers branches. Specifically, CFF and its 3 member CUs will target MSMEs in the mortgage, house repair, home renovation, home upgrade sectors and low-income households under the home mortgage segment of their portfolios.
- 2.12. The project will also benefit 100 managerial, technical and support staff that belong to CFF and the 3 participating CU affiliates, 80 of whom are women and 20 who are men. The team comprises 10 managerial staff, 20 technical staff including Credit Committee, Loans Officers, Compliance, Collections, Business Analysis, Facilities), and 4 support staff. Staff will receive technical training and awareness building in areas relating to the key components of the project: design and piloting of green finance, climate vulnerability and risk assessment, and institutional greening.
- 2.13. CFF and its 3 participating member CUs will receive specialized technical assistance to design and pilot new green finance products. This will allow them to diversify their product offering, differentiate themselves from other FIs, and attract new clients. GOB is increasingly aware of the risks of climate change and the impact on the productivity of its clients as well as the positive impact on disposable income that can be derived from energy savings from RE/EE technologies.
- 2.14. CFF and its 3 participating member CUs will also benefit from institutional capacity building to analyze the vulnerability of their loan portfolio to climate change and incorporate climate risk management into future credit decisions, therefore reducing their portfolio at risk. In addition, the project will enable them to generate energy savings, reduce Greenhouse Gas (GHG) emissions and promote environmental sustainability through the implementation of institutional greening policies and implementation plans to be developed by the consulting partner.

¹⁵ Market Study and Partner Scoping in the Caribbean - The EcoMicro Program, Econoler 2016.

¹⁶ Ibid, 2016.

III. THE INNOVATION PROPOSAL

A. Project Description

- 3.1. The objective of this project is to build climate resilience of MSMEs and low-income households in Trinidad and Tobago, through new green finance that enables the acquisition of RE/EE, adaptation, and other low-consumption technologies. This will be achieved through the development of green finance products that will support access to: (i) RE/EE technologies (mitigation finance), and (ii) adaptation technologies/measures (adaptation finance) for both the MSME and housing sectors.
- 3.2. **Mitigation Finance** will increase access to clean and efficient energy and low-consumption technology products and services by low-income households and MSMEs in retail trade, distributive trade, light manufacturing, and construction sectors etc. This includes, *inter alia*, (i) lighting: replacement of obsolete lighting such as incandescent bulbs and fluorescent lighting with efficient lighting including LEDs; (ii) cooling equipment: replacement of window units and split air conditioning with inverter-based units and/or efficient central air conditioning central systems and commercial refrigeration; (iii) building envelope: measures such as roof cooling, ecological windows with polarized films, window seals and door sealants that reduce the heat gain of the buildings window and roof insulation and/or measures that reduce energy losses such as automatic door closers, occupancy sensors and programmable thermostats; and renewable energy: technologies such as photovoltaic pumps, solar water heaters, solar dryers and low flow plumbing technology. Lower energy costs will reduce operational costs and improve the competitiveness of MSMEs, while energy savings will increase the disposable income of low-income households.
- 3.3. **Adaptation Finance** will allow MSMEs and low-income home mortgage clients to invest in climate-proofing new construction and retrofitting existing structures to make them more resilient to extreme weather events, including, for example, sustainable retrofits for flooding resilience, hurricane straps, etc.
- 3.4. **Gender.** CFF's overall portfolio includes more female than male, with a distribution of 75 % and 25% respectively. VENTURE's overall portfolio includes more male than female, with a distribution of 56 % and 44 % respectively. PECU's overall portfolio includes more male than female, with a distribution of 60% and 40% respectively. Teachers' overall portfolio includes more female than male, with a distribution of 75% and 25% respectively. The project will conduct an initial assessment of the gender distribution of the relevant portfolio segments of the participating CUs. The project will also conduct a full gender analysis - using the Toolkit for Mainstreaming Gender in MIF Projects - to establish whether specific measures will be needed to address possible gender inequalities during execution.
- 3.5. **Innovation.** This project is innovative as it will demonstrate how green finance can be deployed within the context of a fossil-fueled based economy in support of the transition to a low-carbon economy. Bridging the current financing gap and boosting the level of green investment will unlock the deployment of RE/EE and climate smart technologies for a vulnerable segment of the private sector and households that remain reliant on a fossil-fuel based energy system, enabling them to realize associated cost savings and productivity improvements which are particularly needed in the post-COVID-19 recovery. The EcoMicro modular approach is also unique as it

incorporates three mutually reinforcing interlocking interventions: (i) design and implementation of the green finance product; (ii) assessment of the institution's loan portfolio vulnerability to climate change; and (iii) greening the FI through development of environmental guidelines and policies.

- 3.6. **Knowledge.** The project will serve as an important case study, generating real evidence and best practices on how green finance can be deployed within the context of a fossil-fueled based economy, supporting MSMEs and low-income households to mitigate and adapt to the impacts of climate change through market-based green finance solutions that support of the transition to a low-carbon economy. As part of the EcoMicro Program facility, this project will benefit from knowledge derived from other EcoMicro projects communicated via periodic Newsletters, as well as have access to multiple tools and knowledge products generated across all projects resident in the EcoMicro Library.
- 3.7. **Component I: Design & Implementation of Green Finance Products.** The objective of this component is to design and pilot two complementary climate finance products, for mitigation and adaptation, that will allow MSMEs and low-income households to invest in RE/EE and adaptation technologies. CFF and its 3 participating member CUs will mobilize its balance sheet to finance the pilot loans. The selected EcoMicro Consulting Firm will implement the following activities under this Component in collaboration with CFF and the 3 participating CUs: (i) Landscape Analysis and Market Study and Portfolio Analysis, including a Gender Analysis - using the Toolkit for Mainstreaming Gender in MIF Projects. The Portfolio Analysis will also include a critical diagnosis of the financial and socio-economic diagnosis impact of COVID-19 on the current loan portfolio and end-clients of CFF and participating Member CUs. This in turn will provide a foundation on which to position the green finance products. (ii) Review of Technologies, Technology Providers and Strategic Alliances. This is intended to provide CFF and its 3 participating member CUs with specific technology selection guidance/best practice manuals to help FIs evaluate key technology providers. (iii) Building capacity of the climate finance ecosystem, through identification, engagement with and capacity building of key local agents such as Green Building Council, CARIRI, Association of Engineers, Bureau of Standards, Ministry of Energy, etc. so that they are better positioned to serve MSMEs and low-income households in the long run. This will involve stakeholder outreach, training of direct beneficiaries, training of trainers, fostering networks and linkages - including with private service providers. This is a particularly key area of need and a key strategy for ensuring long-term potential for scale and sustainability of climate finance post-pilot; (iv) Design and implementation of Green Finance Products.; (v) Elaboration of Operational Guide and Internal Processes for the new green finance products. (vi) Training of loans officers and other key staff; (vii) Beneficiary Outreach and Awareness Building among clients on the potential benefits of green finance; (viii) Interim and Final Evaluation of the performance of the green finance product, including implementation of improvements; (ix) Scale Strategy and Action Plan, including recommendations for scaling and potential private/donor funds to scale.
- 3.8. **Component II: Analyzing the Vulnerability of the Finance Institution Loan Portfolio to Climate Change.** Under this component, the selected EcoMicro Consulting Firm will implement the following activities in collaboration with CFF and the 3 participating CUs: (i) analysis of the loan portfolio of CFF and its 3 participating member CUs for vulnerability to climate change. The analysis will include a map of

climate change risks (determined based on existing publicly available information and activities under the project), and their specific impact on the clients of CFF and its 3 participating members CUs. This will inform (i) the priority sectors and overall % of the total portfolio to be assessed for climate risk; and (ii) design of a climate risk assessment tool and technological systems/software modules (if necessary) to incorporate analysis of climate risks into future credit decisions of the areas to be prioritized. The selected EcoMicro Consulting Firm will also train relevant staff on use of the climate risk management tool and on monitoring climate change impact on future loans. The selected EcoMicro Consulting Firm will also develop an accompanying climate risk policy with specific recommended actions to reduce the exposure of CFF and its 3 participating member CUs to climate change.

3.9. **Component III: Reducing the Environmental Impact of the Finance Institution.**

In order to achieve a strong commitment to building resilience to climate change through green finance, this component will emphasize staff training and awareness raising. CFF and its 3 participating member CUs, with the guidance of the selected EcoMicro Consulting Firm, will conduct energy walkthroughs of their Main Offices (owned). Based on these assessments, the selected EcoMicro Consulting Firm will design an institutional greening policy and action plan for CFF and its 3 participating member CUs that will: (i) foster "green" habits among employees and management teams in its Main Office; (ii) establish targets to reduce CFF and its 3 participating member CUs' overall carbon footprint; and (iii) recommend investments to realize energy savings. The policy will incorporate a methodology to measure the institutional carbon footprint (GHG accounting methodology and a GHG baseline) and an energy efficiency baseline and improvements over time.

3.10. **Component IV: Knowledge Management and Communications.** The objective of this component is to capture, synthesize and disseminate the knowledge generated at the project level, including lessons learned, best practices, and key factors of success. One of the main components of the EcoMicro program is directly related to the systematization, documentation and dissemination of the knowledge generated by each of the individual projects under the facility. FIs will participate in knowledge sharing events with other EcoMicro project partners to share experiences and lessons learned. CFF and its 3 participating member CUs in collaboration with their selected EcoMicro Consulting Firm will develop and disseminate knowledge products under the project via the EcoMicro Program website and events, including project-specific sub-regional workshops. Developing successful initiatives will be crucial to creating demonstration effects for replication. In addition, this component will generate strategic knowledge for private and financial sector adoption to ensure scalability of this intervention.

3.11. **Plan for Scale:** All EcoMicro pilots that have concluded, have gone on to scale. Some institutions have continued to offer loans with their own resources while others have attracted private investment. The potential to scale this pilot will be assessed under the project by the selected EcoMicro Consulting Firm, subsequently informing the development of a scale strategy post-pilot.

B. Project Results, Measurement, Monitoring and Evaluation

3.12. **Project Results.** By the end of this project the following results are expected: (i) 150 MSMEs and low-income households adopting RE/EE and adaptation technologies;

(ii) US\$500,000 in financing mobilized from the balance sheet of CFF and its 3 participating member CUs for RE/EE and adaptation technologies and strategies accessed by MSMEs and low-income households; (iii) 100 FI employees across CFF and its 3 participating member CUs trained in RE/EE and adaptation green product(s); (iv) 1 climate risk management tool and portfolio vulnerability reduction plan approved by CFF and its 3 participating member CUs; (v) 90% of facilities owned and occupied by the FI have completed energy walkthroughs and are implementing recommendations; and (vi) CFF and its 3 participating member CUs have participated in knowledge sharing events to disseminate best practice and lessons learned.

- 3.13. **Measurement.** CFF and its 3 participating member CUs will measure project results using their existing banking software and management information systems. CFF and its 3 participating member CUs will ensure that data capture systems satisfy reporting requirements under the project and results matrix. Where necessary, additional monitoring and evaluation systems will be developed to generate data for the project. These results will be rolled-up at the programmatic level to allow for donor reporting, in accordance with donor requirements. Data captured will be broken down according to green finance product type (RE vs. EE vs. adaptation), technology type, sector, loan type and value, region, number of MSME clients or low-income household by gender (e.g. women- or men-led), beneficiaries or staff trained, and outreach to stakeholders.
- 3.14. **Monitoring and Evaluation.** The baseline will be verified during the start of the project with inputs from key assessments to be conducted by the consulting partner, including the market study in Component 1, vulnerability analysis in Component 2 and the institutional greening diagnostic in Component 3. Baseline information will include key ex-ante data such as: (i) current productivity and energy costs of MSMEs and low-income households accessing the mitigation and adaptation finance products; and (ii) GHG emissions and energy costs of CFF and 3 CU facilities. The selected Consulting Partner will prepare intermediate progress reports and a Final Report that analyzes the results obtained across all components with audio-visual evidence of beneficiaries (both male and female), technology installations, and beneficiary training. The Final Report will capture the overall experience and project results, including challenges, lessons learned and best practices. The final report will serve as a key input to the scale plan to be developed by CFF/Consulting Partner. CFF will report information on scale-up, by the three participating CUs, one year following completion of the project. Scale data will include number of new loans placed in the market post-pilot, funds mobilized from respective CU balance sheet for scale, private investment for scale, as well as post-pilot maintenance of strategic partnerships and engagement across the broader climate finance ecosystem.
- 3.15. Within IDB/IDB Lab, the project will be executed and supervised by the IDB Lab EcoMicro Program Team within CCB/CBA. The Country Office in Barbados will retain responsibility for disbursements.
- 3.16. **Reports.** The IDB Lab/EcoMicro Team in Barbados will be responsible for presenting Project Status Reports (PSRs) within thirty (30) days after the end of each semester, or more frequently as determined by the IDB Lab. The PSR will contain information

on the progress of project execution, achievement of milestones, and completion of project objectives as stated in the results matrix and other operational tools. The PSR will also describe issues encountered during the execution and outline possible solutions. Within ninety (90) days after the end of the execution term, IDB Lab will submit a Final PSR, which will highlight results achieved, project sustainability, evaluation findings, and lessons learned. These reports are necessary to comply with the Program Evaluation Plan that requires annual reports to the Donor's Committee describing the progress, performance, and all recorded results.

- 3.17. **Final Evaluation:** IDB Lab will commission a case study that captures the experience, outcomes and lessons learned under this project, with resources from its contribution under the EcoMicro Program (RG-M1205). The evaluation of EcoMicro Projects may be undertaken individually or in a cluster with other projects.

IV. ALIGNMENT WITH IDB GROUP, SCALABILITY, AND RISKS

A. Alignment with IDB Group

- 4.1. This project is aligned with the IDBG (extended) Institutional Strategy (2010-2020) policy objective of accelerating economic and social development in a sustainable way, through increasing productivity and innovation. The project relates directly with the objective to support expansion of new and more sophisticated MSMEs - through the facilitation of enhanced use of technology, with the goal to stabilize climate change.
- 4.2. The project is aligned to the IDB Climate Change Action Plan, approved in December 2017, which calls for the development of innovative financial models and promotion of new technologies to address climate change in the private sector. According to the 2015 Joint Report on Multilateral Development Banks' Climate Finance tracking, 100% of total funding for this project is invested in climate change mitigation/adaptation activities aimed at encouraging MSMEs and low-income households to adopt climate change mitigation/adaptation technologies or practices. This contributes to the IDBG's climate finance goal of 30% of operational approvals by year's end 2021.
- 4.3. The project will also complement the work being carried under the existing EcoMicro Caribbean Program (RG-X1131) to build climate resilience of MSMEs and low-income households, by recognizing the importance of building broader resilience in order to sustain momentum for climate finance throughout the region.
- 4.4. The project supports the overall objective of the IDB's Country Strategy for Trinidad and Tobago 2016-2020 (extended) to focus on increasing firms' access to credit and assisting companies to achieve productivity gains through investments promoting innovation and adoption of modern business practices. The project also supports the cross-cutting priorities of gender and climate change.
- 4.5. The project will be executed in collaboration with the ongoing loan operations in Trinidad and Tobago (TT-L1056 and TT-L1057) which has as key objectives enhancing housing conditions for low-income households and strengthening the

capacity of supply side stakeholders to satisfy effective housing demand and urban development needs. Specifically, synergies will be harnessed with Component 3 *Affordable Housing Subsidies*, which will finance specific investments to further improve habitation for low-income households through reducing the qualitative and quantitative housing deficits, as well as sustainability of the build environment.

B. Scalability

- 4.6. Post-pilot, CFF and its 3 participating member CUs will play a key role in fostering scale across the remainder of their portfolios as well as across the portfolios of the CUs belonging to the broader CFF membership. This includes through the dissemination of knowledge on best practices and lessons learned under the pilot to its wider membership. Roll-out of the mitigation and adaptation finance products represents a key opportunity for the CFF and its 3 participating member CUs to attract new clients and position the CU movement among the leading change agents for the transition towards a green economy in Trinidad and Tobago.
- 4.7. The selected EcoMicro consulting partner will assist CFF and its 3 participating member CUs to facilitate scale through: (i) completion of requisite analysis to support a scale strategy, including demand projections and financial analysis based on the results of the pilot; (ii) preparation and presentation of the scale strategy to the respective Boards of participating CUs for approval; and (iii) training of technical staff within the three CUs and wider CFF membership to ensure readiness for scale.
- 4.8. During the project, CFF and its 3 participating member CUs, with the support of the selected EcoMicro consulting partner, will develop a logo, branding and marketing strategy for the new green finance product. The marketing strategy will incorporate events and PR materials to facilitate the national launch of the new green finance products.
- 4.9. Once the pilot has successfully concluded, the EcoMicro Program can support efforts to scale by linking the project partner with IDB Invest and other relevant funds for potential financing for scale.

C. Project and Institutional Risks

- 4.10. **Limited appetite among MSMEs and low-income households for green financing given low cost of energy and impact of COVID-19.** The project will address potential limited demand by devoting significant resources to an initial market study, review of technologies and technology suppliers and product design. This will help to determine local demand for green lending, appropriate parameters of the green loans. The project will also establish strategic alliances and partnerships with local suppliers and other key actors and conduct direct outreach and training within beneficiary communities to stimulate awareness and demand for the new green finance products. In addition, continuous assessments, and a final evaluation of the performance of the RE/EE and adaptation loan products in the market will be prepared, with a view to making necessary adjustments to scale post-pilot.
- 4.11. **Limited number of RE/EE and adaptation technology suppliers in fossil-fuel based economy.** The market is dominated by a limited number of key suppliers and their respective distribution agents. Given that new green finance will result in an

increase in the demand for RE/EE technologies and adaptation by MSMEs and low-income households, the project will establish alliances between CFF and its 3 participating member CUs and leading suppliers to ensure that this increasing demand can be met.

V. INSTRUMENT AND BUDGET PROPOSAL

- 5.1. The project has a total cost of US\$487,840, of which US\$300,000 (61.5%) will be provided by the Government of Canada, via the EcoMicro Program Facility (EcoMicro RG-O1649) with resources from CCF, and US\$187,840 (*US\$37,000 cash and US\$150,000 in-kind*) (38.5%) by CFF and its 3 participating member CUs consisting of cash and in-kind contributions. The expected execution period for this Project is 30 months and the expected disbursement period is 36 months. The project budget does not allocate resources for Contingencies, Audit and Evaluations, as these are already covered in the budget by the broader Program (RG-M1205/RG-X1131).
- 5.2. This project falls under the EcoMicro Program Facility (RG-O1649). The instrument to be used is non-reimbursable, given that most of the knowledge generated by this project is considered a public good.
- 5.3. The retroactive recognition of Counterpart funds is not applicable under this operation.

Table 1: Project Budget

ACTIVITY	CCF	COUNTERPART	TOTAL
Component I: Design & Implementation of Green Finance Products	160,000	68,640	228,640
Component II: Analyzing the Vulnerability of the Loan Portfolio to Climate Change	125,000	19,200	144,200
Component III: Reducing the Environmental Impact of the Finance Institution	10,000	16,200	26,200
Component IV: Knowledge Management and Communications	5,000	10,000	15,000
Project Administration	0	73,800	73,800
TOTAL	US\$300,000	US\$187,840	US\$487,840
% Allocation (Total)	61.5%	38.5%	100%

VI. EXECUTING AGENCY (EA) AND IMPLEMENTATION STRUCTURE

A. Executing Agency(s) Description

- 6.1. This project will be Bank-Executed given that EcoMicro project model centers on the delivery of technical services via one selected consulting firm (see section 1.3). Thus, IDB Lab will sign a contract with the selected consulting partner who, following submission and approval of their technical and financial proposal, will deliver technical services to CFF and its 3 participating member CUs under the three core

areas of the project: (i) design and implementation of the green finance product; (ii) assessment of the institution's loan portfolio vulnerability to climate change; and, (iii) greening the FI through development of environmental guidelines and policies. The agreed upon Payment Schedule for the deliverables under the contract with the consulting firm will form the basis of the financial progress/disbursements under the project.

- 6.2. Under this project, the CUs that will participate in all project components are detailed in continuation. This process of determining the final selection of individual CUs was facilitated by CFF and in collaboration with its broader membership and was concluded on the basis of self-selection in response to the criteria of having to mobilize their balance sheet and provide cash and in-kind contributions under the project.
- 6.3. *Central Finance Facility (CFF)* – established in May 2002, CFF serves as the “Credit Unions’ credit union” and providing opportunities for investments through pooling of resources to enable higher rates of return. Their mission is to “facilitate Cooperative Financing, Innovation, Market Leverage and Thought Leadership in the Cooperative Credit Union Movement through Cooperation among Cooperatives”. The CFF has one office situated at First Floor, Plaza de Montrose, Main Road, Chaguanas and has a thirty-eight (38) Credit Unions members as of June 2021 the value of the loan portfolio was US\$4.5 million covering institutional, mortgage and small business loans.
- 6.4. Teachers Credit Union - a cooperative financial institution founded in December 1962. Alongside its Main Office in Maraval Road, New Town Port of Spain, Teachers Credit Union has three (3) branches located in San Fernando, Sangre Grande, and Tobago. As of September 2019, there are approximately 16,200 members. The total value of its loan portfolio is US\$100,396,829. This covers housing/home mortgage, motor vehicles, agricultural loans, personal loans/MSE loans, vacation, educational and medical expenses, etc. The average loan size is between US\$148 and US\$102,942, with a repayment period up to ten (10) years.
- 6.5. VENTURE – a cooperative financial institution founded in November 1960. VENTURE Credit Union has 3 branches located in Arouca, Couva, San Fernando with a head office also in Cova. The total value of the loan portfolio is US\$81,200 million in home loans and in US\$24,300 million in MSMEs.
- 6.6. PECU - a cooperative financial institution founded in 1970. The Credit Union is located at 50 Park Street, Port of Spain. The total value of its loan portfolio is US\$14.7 million with 6000 members.
- 6.7. Altogether, CFF along with its 3 participating member CUs account for an aggregate portfolio value of US\$199.5 million. Participation in the Caribbean EcoMicro Program presents a unique opportunity for the CFF and its members to stimulate innovation in the marketplace on the one hand and provide individual consumption loans in the form of green finance instruments on the other, to capitalize on the emerging opportunities in the green economy.

B. Implementation Structure and Mechanism

- 6.8. As this project is a BEO, IDB Lab/EcoMicro Team will have overall responsibility for the oversight of this project, including the overall supervision and management of consulting partner contract and final approval of key deliverables. The IDB Lab/EcoMicro Team will also have responsibility for the preparation of all reporting requirements, including biannual PSRs that will provide progress on project implementation to IDB Lab.
- 6.9. As part of the necessary structure to execute project activities locally and liaise with IDB Lab, CFF and its 3 participating member CUs will appoint a Project Coordinator (PC) with responsibility for the day-to-day management and on the ground coordination of activities. The PC will ensure effective coordination of all in-country logistics that support and facilitate the delivery of technical services by the consulting partner. This includes approval of mission dates, events/workshops, trainings, coordination with individual team members, preparation of field logistics, facilitation of engagement with local stakeholders, record keeping, etc. Periodic reporting to the Boards of CFF and its 3 participating member CUs will be required during execution. Required reports, analysis and/or presentations will be facilitated, where relevant, by the consulting partner. Together with IDB Lab/EcoMicro Team, the PC and will review and ensure quality control of all reports and deliverables prior to submission to the Steering Committees and Boards where necessary. Under the PC, there will be an Administrative Officer who will carry out tasks relating to the coordination of administrative and logistical arrangements.
- 6.10. The PC shall report to a local Steering Committee (SC), chaired by the CFF General Manager, and established specifically to provide oversight of this project. Members of the SC will comprise one (1) dedicated focal point person from each of the 3 participating CFF member CUs. The SC will meet once per month in person or via video conference.
- 6.11. The three Member CUs participating in the pilot will be responsible for the day-to-day administration of the project at the level of their respective CUs and will each appoint a Focal Point and a project steering sub-committee to ensure effective coordination of all logistics as well as overall project administration and record keeping. This will involve coordination with internal team members, preparation of field logistics, facilitation of engagement with local stakeholders, and mobilization of counterpart resources and facilities to support contract execution. The focal point will report to their respective Boards and to the PC.
- 6.12. At VENTURE Credit Union, General Manager will serve as the Focal Point and will also form part of the project steering sub-committee.
- 6.13. At PECU Credit Union, Manager will serve as the Focal Point and will also form part of the project steering sub-committee.
- 6.14. At Teachers Credit Union, the Executive Assistant to the Board will serve as the Focal Point and will also form part of the project steering sub-committee.

VII. COMPLIANCE WITH MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS

- 7.1. **Procurement.** Implementation of the procurement policies, terms of reference, and contracts for the acquisition of goods and services, will follow the Operational Guide for BEO Procurements (OP-1155-4). Selection of EcoMicro Consulting Partners follows the Single Source Selection methodology, in keeping with Article 1.3.
- 7.2. **Financial Management.** Disbursements will be made in via lump sum payment to the Consulting Firm based on the Model Lump Sum Contract and in accordance with the Payment Schedule to be agreed with the Consulting Firm.
- 7.3. **Bank Executed Projects.** The TC will be implemented in accordance with Bank-Executed Operational Work of the IDB (GN-2765).

VIII. INFORMATION DISCLOSURE AND INTELLECTUAL PROPERTY

- 8.1. **Information Disclosure.** This project is classified as public for the purpose of the Bank's information disclosure policy.
- 8.2. **Intellectual Property.** The knowledge products and materials produced with the funds disbursed under the project remain the property of the Inter-American Development Bank.

IX. RECOMMENDATION

- 9.1. The Chief of Unit, Discovery Unit, Cesar Buenadicha recommends the approval of this operation by the IDB Lab CEO, under the Delegation of Authority granted by the Donors Committee by Resolution MIF/DE-33/11 adopted on September 20th, 2011 and the use of resources from the CCF EcoMicro allocation to the EcoMicro Program, totaling up to \$300,000 in order to finance the corresponding project.

X. APPROVAL

- 10.1. I hereby approve, according to the Delegation of Authority provided by the President of the Bank according with the facility approved by the Donors Committee by Resolution MIF/DE-33-11 adopted on September 20th, 2011 (MIF/AT-1143-2), up to \$300,000 for the financing of the project "*EcoMicro - Central Finance Facility - Green Finance to Build Climate Resilience of Low-Income Households*" TT-T1095 the "Project," to be considered as part of the EcoMicro Facility.
- 10.2. That the resources of the project shall be utilized to finance the activities described and budgeted in this document chargeable to the resources of the CCF EcoMicro allocation to the EcoMicro Program (RG-X1131) on a non-reimbursable basis.
- 10.3. The commitment and disbursement of these resources shall be made only by the Bank in US\$. The same currency shall be used to stipulate the remuneration and

payment to the consultant, except in the case of local consultants working in their own Borrowing Member Countries who shall have their remuneration defined and paid in the currency of such country.

- 10.4. No resources of the Program shall be made available to cover amounts greater than the amount certified herein above for the implementation of this Project Document.

Approved

Irene Arias Hofman
IDB Lab General Manager

11/16/2021

Date