

General Template of the Annual Performance Report (APR)

Reference Number (FP063): Promoting private sector investments in energy efficiency in the industrial sector in Paraguay

Inter-American Development Bank

*Annual Reporting Period Covered in this Report:
(From 16-01-2019 to 31-12-2019)*

Sections in this report:

- Section 1: General Information
- Section 2: Implementation Progress
- Section 3: Report on Environmental and Social Safeguards Gender

SECTION 1: GENERAL INFORMATION

This section provides general information on the funded activity.

1. Funded Activity Title:	<i>Promoting private sector investments in energy efficiency in the industrial sector in Paraguay</i>
2. Funding Proposal Number:	<i>FP063</i>
3. Date of Board approval - Board Meeting Number:	<i>2/28/2018 B.19</i>
4. Accredited Entity:	<i>Inter-American Development Bank</i>
5. Focal Point of the Accredited Entity for this Project:	<i>Gloria Visconti, Climate Change Lead Specialist / Maria Netto, Lead Capital Markets and Financial Institutions Specialist / GLORIAV@iadb.org / MNETTO@iadb.org / +1 202-623-3360 / +1 202-623-2009</i>
6. Executing Entity(ies):	<i>Agencia Financiera de Desarrollo (AFD)</i>
7. Implementation Period:	<i>From: 1/16/2019¹ To: 1/15/2025</i>
8. Current year of Implementation:	<i>Year 1</i>
9. Date of Submission of the Report:	<i>2/28/2020</i>
10. Annual Reporting period covered in this report:	<i>From: 1/16/2019 To: 12/31/2019</i>
11. Total Project Budget²:	<i>Loan: USD 40,000,000 Grant: USD 3,000,000 Total: USD 43,600,000</i>
12. Total amount of GCF Proceeds Approved:	<i>Loan: USD 20,000,000 Grant: USD 3,000,000 Total: USD 23,000,000</i>
13. Total amount of GCF Proceeds disbursed (cumulative) to the Accredited Entity:	<i>Loan: USD 0 Grant: USD 3,000,000 Total: USD 3,000,000</i>

¹ The effectiveness date is 16 January 2019 in accordance with the "Notice of Effectiveness of the Funded Activity Agreement FP063 – IDB Paraguay."

² Total project budget including co-financing as reflected in the relevant Funded Activity Agreement.

SECTION 2: IMPLEMENTATION PROGRESS

On February 28th, 2018, the Green Climate Fund (GCF) Board approved the operation: Promoting private sector investments in Energy Efficiency (EE) in the industrial sector in Paraguay with Agencia Financiera de Desarrollo (AFD) and the Inter-American Development Bank (IDB).

Component 1

The first component started its implementation on April 7th, 2019. By the end of 2019 Fiscal Year, USD 122,566.67 have been disbursed from GCF funds for the activities and sub-activities, most of which have been dedicated to the hiring of consultants that performed advisory work for AFD.

A business unit dedicated for EE financing and project and pipeline development has been established within the AFD (The Executing Unit). The unit has permanent advice from specialists in areas of: Industrial production processes, management of social and environmental risks, and evaluation and monitoring of financing programs. The following are the main milestones reached by the Executing Unit during 2019:

- Through consultancies on market research, there is a prospective loan portfolio with 21 projects worth 7.1 USD million.*
- Evaluation and monitoring templates, as well as source of information and assessment methods have been developed.*
- A product manual designed to facilitate the conditions and requirements of the credit line to the Intermediary Financial Institutions (IFIs) and eventual beneficiaries has also been developed.*
- An Environmental and Social Management Manual has been developed. This manual allows the evaluation and monitoring of the risks of credit operations financed by the program.*
- A guide for projects that use biomass from forest origin as the main source of energy and that aim to reduce the use of such source. These guides help the users to identify which is the applicable legal documentation to be requested regarding the legal origin of biomass.*

The Project Team is currently validating a tool that will allow both micro, Small and Medium-sized Enterprises (SMEs) and Technology Service Providers (TSP) to estimate the savings that investments in infrastructure and equipment can generate in terms of energy consumption and emission of greenhouse gases.

*A portfolio of projects with the potential to be funded by the program has also begun to be formed. Strategies have been defined that allow the identification of private initiatives that can support the objectives of this program. Technical assistance services are currently being provided to SMEs and TSPs for the structuring of projects that can meet the requirements of IFIs and program conditions. During the prospection phase, program technicians had meetings with four banks and two chambers (German and Paraguayan Industrial and Trade Chamber and Dairy Chamber of Paraguay). About 750 SMEs were identified, as well as 80 TSPs. From interviews with 16 **ESPT**, the team has built a prospective portfolio of EE projects.*

This component also considered the development of a set of financial and non-financial instruments comprehended under the Energy Savings Insurance mechanism (ESI). The development of such instruments has been rescheduled to be carried on during 2020, because, based on previous experiences of the implementation of the ESI scheme in Colombia and Mexico, it was observed that the ESI scheme was more easily adopted by market actors once all market actors involved (ESTPs, LFIs and companies, insurers and validators) had received some technical assistance introducing them to the topic of investing on EE, and there were some demonstrative pilot projects implemented with simpler schemes.

Progress has been made to establish an electronic registration system for monitoring and evaluation of projects and program results. The indicators that will be evaluated and monitored with their respective sources of verification have been defined, templates were designed with the tables that will be reported, frequencies and contents of the various reports that are required by both the Inter-American Development Bank and the Green Climate Fund were defined. The actions developed allowed laying the foundations and conditions for hiring a company that will develop the automation of the processes of: application submission, credit evaluation, disbursement, monitoring and reporting. This recruitment is ongoing, and tasks are expected to begin in Q1 2020.

Component 2

The second component started its implementation on April 7th, 2019. By the end of 2019 Fiscal Year, U\$D 145,168.85 from GCF funds have been disbursed for the activities and sub-activities according to the program schedule for this component. Most of such costs comprehend the consultants which performed advisory work for the Vice Ministry of Mines and Energy (VMME) that has been closely collaborating with AFD in developing regulation supportive to the promotion of EE and reduction of use of biomass.

Within the framework of component 2, work has been carried out to adapt, update and prepare regulatory framework drafts with the objective of encouraging and increasing energy efficiency and sustainability including: (i) the law for the independent energy producer (a modification of law 3009) which considers cogeneration from residual heat, and (ii) the resolution that regulates Decree 4056/2015 which establishes the certification, control and promotion of the use of bioenergy from forest plantations or managed native forests in order to help reduce deforestation and its adverse effects on biodiversity.

In addition, an Energy Efficiency seminar on opportunities for the industrial sector, has been organized by the Vice Ministry of Mines and Energy (VMME is the acronym in Spanish), the Financial Development Agency (AFD) and the IDB with the objective of presenting regulatory projects and promoting opportunities for financing from the program credit line supported by the GCF and the IDB. Successful cases from the region and national EE projects in the industrial sector were presented, which was very useful to ignite interest in companies that could use similar technologies. This has contributed to the capacity building of participants and AFD officials (composed of 62% women).

Component 3:

The implementation has been delayed with respect to the funding proposal indicative timeframe due to, as foreseen when preparing the FAA, externalities uncontrollable by the Program Execution Unit. Paraguayan Law requires that any kind of national indebtedness should be approved by the Congress. The loan contract was signed (between IADB and AFD) on February 21st, 2019, the execution entity submitted a required Budgetary Reprogramming Application to the Ministry of Finance before submitting the loan approval request. The Ministry of Finance finally submitted the Loan Agreement to the Congress in August 2019, but it is not expected to get congressional approval before March 2020.

SECTION 3: IMPLEMENTATION OF ENVIRONMENTAL AND SOCIAL SAFEGUARDS AND GENDER ELEMENTS

Although component 3 is still pending and therefore the environmental and social impacts of the projects cannot be assessed, efforts have been focused on the review of the supporting documentation of the Energy Efficiency Program, including the analysis and cross-checking of the agreements stipulated in both the AFD-IDB Contract, as well as those embodied in the Operational Regulations, the Environmental and Social Management Framework and the national legislation associated with the subject, highlighting at the same time, the meetings with the key actors involved. This analysis allowed progress in the development of tools that facilitates the process of project implementation by the Local Financial Institutions (LFIs), by designing and incorporating to the forms that collect information from projects the social, environmental and gender aspects needed to duly assess the impact generated by this program.

In this context and based on current regulations and meetings held with representatives of the Vice Ministry of Mines and Energy and the National Forestry Institute (INFONA), the Project Team developed, a guide for projects that use biomass from forest origin as the main source of energy and that aims to reduce the use of such source. This guide helps the users to identify which is the applicable legal documentation to be requested regarding the legal origin of biomass. The program contributes in this way to a more efficient use of sustainable and formal biomass, which in turn promotes the formalization of the wood market in the long term. Also, given the fragility of the Western Region's ecosystems (CHACO) and its exposure to land use change processes, the program excludes the use of biomass that comes from this region.

The Project Team has held meetings with representatives of the Air Quality Directorate of the Ministry of Environment and Sustainable Development (MADES) to guarantee the technical adequacy of the process of handling and replacement of equipment with Ozone Depleting Substances (ODS), so that it is made in accordance with the national regulations and through a provider certified on the management of such substances or with national license. The Project Team also received from MADES information on the registry of certified technicians and storages facilities. MADES is working in collaboration with the association of refrigeration technicians on the development of storage facilities.

Status of compliance with applicable laws and regulations and the conditions and covenants under FAA

Applicable laws and regulations/conditions and covenants	Status of compliance
Law 294/96 Environmental impact evaluation	Compliant
Law 2524 "On the prohibition of activities that transform forest land in the Eastern Region" and its modifiers.	Compliant
Law 422 Forestry Law	Compliant
Decree 4056 in 2015	Compliant

The monitoring systems are not yet in operation because component 3 is not yet operational, but it is expected that they can be implemented as soon as the execution of component 3 of the program begins and projects are underway.

<i>Implementation of the stakeholder engagement plan</i>			
<i>(i) activities implemented during the reporting period</i>	<i>(ii) dates and venues of engagement activities</i>	<i>(iii) information shared with stakeholders</i>	<i>(iv) outputs including issues addressed during the reporting period</i>
<i>Meetings with representatives of the National Forestry Institute</i>	<i>INFONA</i>	<i>Issue about the legality of biomass.</i>	<i>Meetings to understand and have detailed information on procedures to determine the legal origin of biomass, how the forest tree plantations work, the Forest Plantation Registry, forestry utilization regulations and plans and Transfer guides. Output: The Project Team developed a guide for projects that use biomass as a source of energy.</i>
<i>Meetings with representatives of the Air Quality Directorate of the Ministry of Environment</i>	<i>MADES</i>	<i>Handling and recycling of equipment containing CFC gases and its respective technicians' certifications.</i>	<i>The objective of the meetings to better understand the legal requirements and procedures for the management of equipment containing ODS gases and the compliance with the Montreal Protocol. Output: The Project Team incorporated considerations on the management of equipment containing ODS gases in order to comply with the Montreal Protocol.</i>
<i>Meeting with representatives of the Vice Ministry of Mines and Energy</i>	<i>VMME</i>	<i>Status of Decree 4056. Regulations associated with the traceability of firewood.</i>	<i>From the promulgation of Decree 4056 in 2015, VMME has competence to work in the Biomass Certification process, coordinating actions with INFONA. The objective of the meeting was to better understand the status of Decree 4056 / 2015 in order to elaborate the guide for projects that use biomass as a source of energy.</i>

3.1. GENDER ACTION PLAN

In the process of developing the VMME 2019-2023 Sustainable Energy Agenda, various socialization and consultation workshops have been organized with participants from different government and private sector institutions. One of them was about the Role of Women in the Energy Sector of the Country, carried out in the VMME. It was the first gender equality workshop focused on the energy sector in Paraguay and had the participation of 20 women with relevant positions in companies and institutions, and concluded with the presentation of the diagnosis, obstacles and objectives determined by the teams formed during the workshop.

The AFD application forms collect information from sub-projects include gender indicators which will allow the collection of data disaggregated by gender to perform the disaggregated analysis that helps to know the owned and directed SMEs by women and thereby determine access to credit.

In the field of training and monitoring on assistance, it is important to highlight the participation of 33% of women from areas of Agribusiness, International Cooperation, Energy, Finance and Government, in the event on Energy Efficiency held in November.

In accordance with the Gender Action Plan, once component 3 is operational, aligned with capacity - building activities, a training agenda will be established, first within the AFD, taking care that participation includes at least 20 % of women. The training will be on mechanisms and methodologies of the project (business models, environmental and social safeguards associated with each type of technology and the corresponding regulatory framework). These trainings will be replicated in the IFIs, contemplating that both men and women benefit equally in these trainings.

Similarly, together with the AFD, an agenda will be developed to design and implement workshops aimed at women business leaders, that consider capacity development in the area of finance and seek to promote the empowerment of women in these areas.