

OPERATIONAL ANNUAL REPORT

2012

LAI F

Latin America
Investment Facility

The LAIF is implemented in partnership with:



LAIF

The Latin America Investment Facility

The Latin America Investment Facility (LAIF) programme was approved on the 18th of December 2009 and officially launched during the European Union-Latin America and Caribbean (EU-LAC) Summit in May 2010. It encourages governments and public institutions to invest in essential projects and programmes in Latin America. The EU created the Latin America Investment Facility to help the region to address the challenges it faces in terms of financing key infrastructure, its need to develop cutting edge technologies and its need to be more competitive in global markets, contributing to the alleviation of poverty.

LAIF is a financing mechanism designed to blend grants with loans from multilateral or bilateral public European Development Finance Institutions as well as Regional Latin American Development Banks. LAIF contributes to achieving the objectives of the Development Cooperation Instrument (DCI) Regulation and the Regional Strategy for Latin America and addresses newly identified challenges such as climate change and its impact on the environment. Pooling resources through LAIF improves the coordination and coherence of donor actions and directly contributes to the principles agreed by the Paris Declaration and the Accra Agenda for Action. The LAIF has strengthened the visibility of the EU and its leverage as a development and cooperation partner towards Latin American countries. LAIF forums, which are events organised by the European Commission and a Latin American country to discuss projects that could receive LAIF funding, are evidence of the high level of interest shown by a diverse range of stakeholders in this Facility throughout Europe and Latin America.

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Conception/pre-press: EWORX S.A.

Cataloguing data can be found at the end of this publication.

Luxembourg: Publications Office of the European Union, 2013

ISBN 978-92-79-30744-7

ISSN 1977-6454

doi: 10.2841/26132

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Printed in Belgium, 2013

LAIF

what is the LAIF?

The Latin America Investment Facility (LAIF) is an innovative financial mechanism that combines grants and loans and that was set up by the Development Cooperation Instrument. Its primary objective is to finance key infrastructure projects in transport, energy, social and environmental sectors as well as to support private sector development in the Latin American region, in particular small- and medium-sized enterprises (SMEs).

The main purpose of the LAIF is to mobilise additional financing to support investment in Latin America, encouraging beneficiary governments and public institutions to carry out essential investment in projects and programmes that could not be otherwise financed either by the market or by development Finance Institutions alone.

As part of its efforts to achieve this objective, LAIF pursues three interconnected and mutually reinforcing strategic objectives:

- Improving interconnectivity between and within Latin American countries, in particular establishing better energy and transport infrastructure, including energy efficiency, renewable energy systems and the sustainability of transport and communication networks.
- Increasing the protection of the environment and supporting climate change adaptation and mitigation actions.
- Promoting equitable and sustainable socio-economic development through the improvement of social services infrastructure and support for small- and medium-sized enterprises (SMEs).

Financing and implementing large infrastructure projects requires considerable amounts of finance. The aim of LAIF is to create a partnership, pooling together grant resources from the European Commission and using them to leverage loans from European and Latin America Finance Institutions as well as own contributions from partner countries in Latin America.

ELIGIBLE EUROPEAN FINANCE INSTITUTIONS

- Multilateral European Finance Institutions: currently, the European Investment Bank (EIB) and the Nordic Investment Bank (NIB);
- European bilateral development finance institutions from one of the Member States: currently, Agence Française de Développement (AFD), Agencia Española de Cooperación Internacional para el Desarrollo (AECID), KfW Entwicklungsbank (KfW), Oesterreichische Entwicklungsbank AG (OeEB), Società Italiana per le Imprese all'Estero (SIMEST) and Sociedade para o Financiamento do Desenvolvimento (SOFID).

REGIONAL LATIN AMERICAN PARTNERS

- Latin American Regional Development Banks: currently, the Central American Bank for Economic Integration (CABEI); (CAF) Development Bank of Latin America and the Inter-American Development Bank (IDB).



LAIF

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LAIF FOREWORD

Andris Piebalgs

Supporting Latin America's efforts to reduce poverty and inequality and to pursue sustainable development is at the core of the European Union's policy priorities in its relations with the Latin America region.

Efforts to end poverty must go hand in hand with strengthening Latin American regional integration and interconnectivity, making it an effective tool to foster social cohesion, sustainable development and growth. To this end the Commission set up the Latin America Investment Facility (LAIF) to enable Latin American countries to combine their funding with financing from European financial institutions and the EU budget in order to facilitate investments in key infrastructure projects and programmes.

LAIF contribution to projects achieves stronger development impact, improves project sustainability and increases implementation speed. Equally important, LAIF contribution increments the financial discipline and ownership of our partners in Latin America and opens up policy dialogue to carry out necessary reforms. Given the right support to policies in Latin America, one of the regions of the world with the greatest inequalities, will help to raise region's productivity and access to high quality public services, thus contributing to its sustainable development and reducing social disparities and poverty.

The LAIF has already made impressive progress, supporting the financing of large scale operations through several finance institutions and improving donor coordination and the harmonisation of procedures, thus directly contributing to the principles agreed by the Paris Declaration and by the Accra Agenda for Action.

Since its inception, the grant contributions approved by the LAIF Board amounted to over € 160 million, leveraging total new investments of about € 4.2 billion. That equates to more than 26 euro raised for every euro contributed by LAIF.

Regional problems like climate change, lack of energy access and scarcity of resources such as water threaten to reduce the gains made in fighting poverty. Latin America and the Caribbean contribute only 11% of the emissions that cause global warming and it is home to roughly a third of all plant and animal species, being its countries especially vulnerable to climate change effects. The region needs to increase dramatically the investment in climate change adaptation and mitigation in the coming decades. As the world leader in fighting climate change, the EU is committed to supporting mitigation and adaptation actions. LAIF has shown itself to be an efficient mechanism in this area, with 19 out of the 20 operations approved (98% of the total of LAIF contributions) being related to climate change. Once again, the 2012 results demonstrate the potential of LAIF. Now fully operational, an overall contribution of € 126 million was approved in 2012, supporting 12 projects in which nearly € 2.7 billion were invested. The projects covered the water/sanitation, energy, environment, social and private sector development (SMEs) sectors.

The LAIF is a pioneer initiative in creating constructive synergies between partner countries, EU member states and both European and Latin American finance institutions. It has demonstrated a streamlined way of providing support to leverage new financial investments, supported strategic infrastructure projects and improved the coordination and coherence of donor actions. It has equally promoted the creation of European-Latin American consortia and made possible the financing of operations which could not otherwise have been financed either by the market or by the development financial institutions alone.

I am pleased to introduce this Annual Report by recognising the excellent results that LAIF achieved in 2012 and, by looking at the pipeline of future projects, acknowledging its potential for the years ahead. In light of the outstanding outcomes of LAIF and similar facilities, the Commission is keen to increase the role of innovative financial mechanisms in the next Multiannual Financial Framework 2014-2020.



Andris Piebalgs
Commissioner for Development

A stylized, handwritten signature in dark ink, likely belonging to Andris Piebalgs.

LAIF¹ at a glance

At 31/12/2012



LAIF resources allocated
to the 20 projects
approved

€ 160.6 million

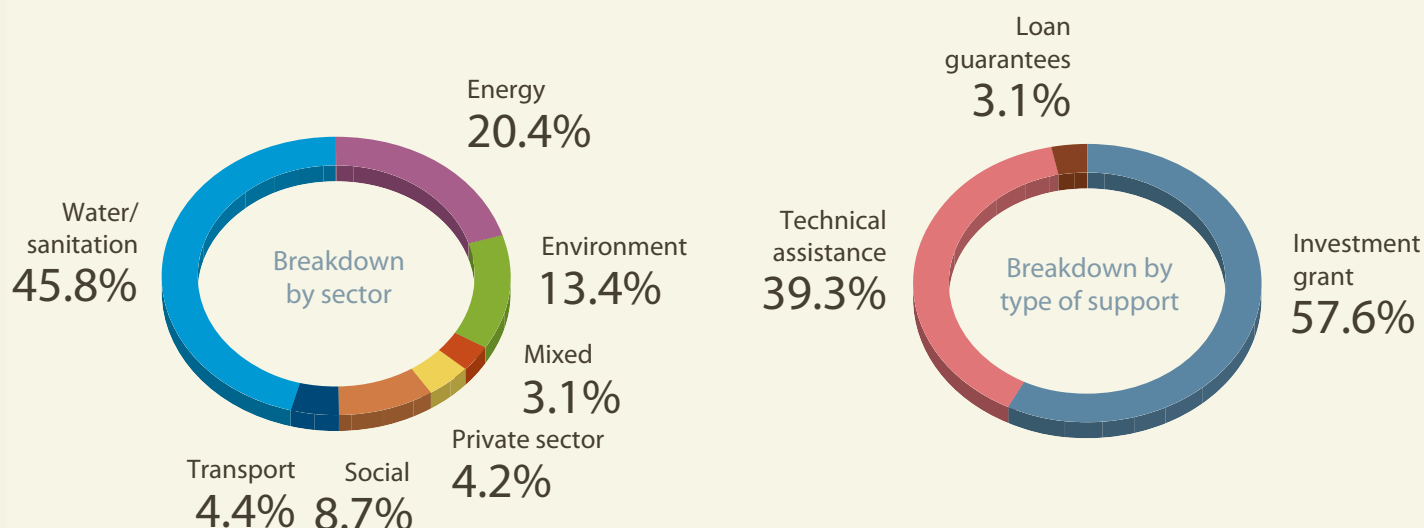
Fls loans to
approved projects

€ 3.7 billion

LAIF support
leveraged around

€ 4.2 billion

LAIF Portfolio - % of total LAIF contribution



Total programme budget (2009-2013)
€ 192.15 million

LAIF funds from EU
budget Regional
Latin America

€ 124.85 million

LAIF funds from EU
budget earmarked
for Nicaragua

€ 50 million

LAIF funds from
EU budget earmarked
for Climate Change
Window

€ 17.3 million



LAIF 2

2012 highlights

In 2012:

LAIF approved 12 operations, four more than the number of projects approved since its inception, granting a total contribution of € 126.1 million to the Latin American region.

LAIF support leveraged almost € 2.7 billion of investments (an average leverage ratio of 1:21).

The total EU budget of the LAIF for the period 2009-2013 is just over € 192 million (nearly € 125 million is for the overall region of Latin America, € 50 million earmarked for Nicaragua and just over € 17 million earmarked for the Climate Change Window).

A total of € 72.61 million was contracted during the year.

The allocation for the Climate Change Window, initially planned to be shared with the NIF, was finally entirely used for LAIF projects.

LAIF

Out of the 12 operations approved in 2012:

Five obtained the highest Rio Marker rating available (2, i.e. where 100% of the LAIF funding will be used to combat climate change).

The majority of LAIF funding (58%) went on projects/programmes in the water/sanitation sector, which is a new sector for LAIF.

Thanks to LAIF funding, Chile will be building Latin America's first ever Concentrated Solar Power (CSP) plant.

Four of the projects approved have a regional scope.

Five countries (Brazil, Chile, Colombia, Mexico and Nicaragua) all directly benefited from LAIF contributions, corresponding to eight projects with a total of € 93.3 million.

LAIF³

Supporting EU policy initiatives throughout the Latin American Region

The LAIF was officially launched by the European Commission and the Spanish Presidency of the European Union during the VI EU-Latin America and the Caribbean (EU-LAC) Summit in 2010. It was set up by the European Commission to help Latin American countries to invest in key infrastructure projects by bringing together grants from the Commission with loans from European development finance institutions and Latin American development banks.

As laid down in LAIF's strategic orientations, its key priorities are to improve interconnectivity between and within the Latin American countries, in particular by establishing better energy and transport infrastructure, increasing the level of protection for the environment and combatting climate change and supporting the development of the small and medium enterprises (SMEs). It also complements other regional programmes such as EUROCLIMA, EUROsociAL, RALCEA and AL-INVEST.



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The LAIF is helping Latin American countries improve their water supply systems.

In 2012, LAIF contributed a total of €126.1 million of funding to 12 projects and programmes, mainly in the water/sanitation, energy and environment sectors.

Combatting climate change, a major EU policy priority, was a major theme in 2012. Since 2011, the LAIF has put in place a Climate Change Window, which ensures that LAIF support for actions in this area is tracked more effectively and has a higher profile. For this period, five of the 12 projects/programmes receiving LAIF support obtained the highest Rio Marker rating available (Rio Marker 2), which means that 100% of the LAIF funding will be used to combat climate change.

One of these is the Chilean Solar Energy Programme. Its overall aim is to support the Chilean government in its efforts to move towards using more low carbon energy. Thanks to LAIF funding, the first Concentrated Solar Power (CSP) plant in Latin America will be built. This has the twin benefits of cutting the country's greenhouse gas emissions and reducing its dependence on imported fossil fuels. It may also pave the way for similar projects in the region. This is a good example of the EU's commitment to stepping up levels of cooperation and research on technologies for renewable energies, as stated in the 2008 EU-LAC Lima Declaration and in the 2009 EU-Rio Group Joint Statement.

Another example of a Rio Marker 2 programme is the Ecocasa Programme in Mexico, which aims to promote the construction of low carbon houses by providing financial incentives. A specific aim of the programme is to build around 27,000 low carbon houses by 2019, which is expected to cut CO₂ emissions by around 20%.

As for the water/sanitation sector, a major programme here is the Spanish Cooperation Fund for Water and Sanitation. Via this programme, Latin American countries will be working to adapt to climate change and improve the energy efficiency of their water and sanitation systems thanks to LAIF technical assistance.

One more initiative will support a number of Latin American countries in enhancing their water supply, sewage and wastewater treatment systems. LAIF support will finance studies whose conclusions will provide govern-

ment decision makers with key elements to carry out investments in water and sanitation infrastructure. Overall, the programme aims to improve the population's living conditions and to reduce environmental damage in a number of towns in Latin America.

LAIF also facilitates the creation of favourable conditions for sustainable economic development in Latin America through initiatives like the Programme for Entrepreneurial Development and Promotion of MSMEs in Central America. Here, LAIF funds will be used to build the capacities of entrepreneurial development centres so that they can improve their levels of support for entrepreneurs.

In general terms, the Latin America Investment Facility has encouraged the creation of an open dialogue between partner countries, member states, and both European and Latin American finance institutions. Since the facility was set up, partner countries have been associated with and have contributed to its strategic orientations, offering their guidance about the common objectives, thus increasing the effectiveness and serving the objectives of the Paris Declaration, the Accra Agenda for Action and the European Consensus on Development.

LAIF approvals

		no. projects (*)
2010	€ 21 million	5
2011	€ 13.5 million	3
2012	€ 126.1 million	12

* Refers to number of approvals in the year. In some cases the LAIF project contribution was split into separate tranches approved in different years. Net of cancellations.

LAIF signatures

		no. projects (**)
2010	€ 12.1 million	5
2011	€ 22.86 million	3
2012	€ 72.61 million	6

**Refers to projects for which an agreement was signed during the year. In some cases more than one agreement was signed for the same project.

LAIF payments

		no. projects (***)
2010	€ 3.14 million	2
2011	€ 10.435 million	6
2012	€ 19.29 million	5

*** Indicates number of projects under which a disbursement took place over the year.



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The LAIF contribution encompasses the implementation of the water resources management plan in the emblematic pilot project of Lake Tota.

LAIF 4

Operations in 2012

4.1 Operational Overview

In 2012, 12 projects received final approval from the LAIF Board. The total LAIF contribution for these projects reached a total of € 126 million, with the total investment cost of the projects supported by LAIF coming to nearly € 2.7 billion.

In terms of geographical allocation of the LAIF grants, four of the 12 projects approved have a regional scope. A total of € 32.8 million of LAIF funding was awarded to regional projects, 26% of all the LAIF contributions during the year.

Five countries (Brazil, Chile, Colombia, Mexico and Nicaragua) will all directly benefit from LAIF contributions. LAIF support of € 93.3 million was agreed relating to eight projects located in these countries. As for the distribution of LAIF grants by sector, more than half of LAIF support in 2012 targeted on projects related to the water/sanitation sector, corresponding to a total of € 73.5 million, 58.3% of the total contributions approved during the year. This was followed by investments in the energy sector (€ 19.8 million, 15.7% of the total), the social sector (€ 14 million, 11.1% of the total), the environment sector (€ 10 million, 7.9% of the total), mixed sectors (€ 5 million, 4% of the total) and the private sector (€ 3.8 million, 3% of the total). The type of support that was offered by the LAIF in 2012 was Technical Assistance (TA) and investment grants. The amount of TA, which ensures the quality of project preparation and implementation, came to € 47 million (36.9%). Investment grants came to € 79.5 million (63.1%). Overall, out of the 12 projects supported, seven projects received exclusively Technical Assistance support, two projects solely investment grant support and three received LAIF contributions for both technical assistance and investment grants.

All the operations that were approved were presented in consortia between European finance institutions and regional Latin American development banks. The financial leverage effect of LAIF contributions was high, with € 126.1 million leveraging total investments of about € 2.7 billion. This means that, for every euro provided by the LAIF, more than € 21 of investment were leveraged.

In 2011, the Commission approved additional funds for the Climate Change Window aiming to support projects with a primary objective of contributing to mitigation and/or adaptation objectives of the Rio Convention on climate change. In 2012, two projects were approved and financed with Climate Change Action funds with a total contribution of € 17.3 million.



Brazil, Chile, Colombia, Mexico and Nicaragua will all directly benefit from LAIF contributions.

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4.2 Projects approved in 2012

In 2012, **12 projects** were approved for a total LAIF contribution of **€ 126.1 million**.

ENERGY

Brazil

Improving service delivery and investment planning in the power sector



Total cost: € 214.5 million

LAIF grant: € 1.5 million

Lead finance institution: AFD (€ 71.4 million)

Co-financier: IDB (€ 106.5 million)

Type of LAIF support: Technical Assistance

Brazil is the world's tenth biggest energy consumer and the biggest in South America. In a world dominated by fossil fuels, Brazil generates remarkably large amounts of renewable energy. In all, renewable energies account for around 44% of its energy mix (mainly thanks to sugar cane and hydropower) and 72% of its installed power generation capacity (Brazil energy balance 2012).

In August 2012, the Brazilian Senate approved financing for the Power Distribution Company of Rio Grande do Sul (CEEE) with AFD and IDB loans to modernise the electricity transmission system for the metropolitan area of Porto Alegre (the capital of the state of Rio Grande do Sul).

Energy efficiency is one of the Brazilian National Energy Plan priorities. Deploying high voltage transmission lines will contribute to improving efficiency in electricity transmission as these lines are less susceptible to energy loss.

Brazil is looking to move towards a less energy intensive economy as part of its overall aims to reduce greenhouse gas (GHG) emissions and improve access to energy ('Luz para todos' - 'Light for everyone') and therefore needs a more efficient and reliable power distribution system. The country's national climate change action plan specifically targets the reduction of power distribution losses.

The project covers a power network of 66,000 kilometres of distribution lines in the state of Rio Grande do Sul. The principal objective is to improve the quality of service to the population served by the Power Distribution Company of Rio Grande do Sul (CEEE) by reducing interruptions in the distribution of energy and to reduce energy losses from the network. More specifically, the project aims to modernise and extend the power distribution system of CEEE in the State of Rio Grande do Sul in order to improve the quality and reliability of the service and to modernise the information and control systems of the CEEE.

In 2010, 18.7% of the total amount of electricity sent into the distribution network was lost. This project is expected to reduce this figure to 15.1% in 2015 and reduce it further afterwards. This will in turn reduce the supply of power needed from back-up diesel generators and the associated emissions of CO₂.



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Brazil will be reducing energy losses from its energy distribution network thanks to the LAIF.

Chile

Chilean Solar Energy Programme



Total cost: € 342.7 million

LAIF grant: € 15 million

Lead finance institution: KfW (€ 100 million)

Co-financier: IDB (€ 106.6 million)

Type of LAIF support: Investment grant

Chile is currently highly dependent on two main sources of power: hydropower and fossil fuels. The country's domestic fossil fuel production levels are very limited, making it highly dependent on oil imports. This energy dependence on imports and the resulting exposure to price volatility puts the Chilean economy in a potentially vulnerable situation. Furthermore, droughts have reduced the reliability of hydropower production, causing supply shortfalls and blackouts.

The diversification of power sources through solar energy production will make a significant contribution towards securing Chile's energy supply. The potential for solar energy technologies in the country is enormous.

The overall aim of the programme is to support the Chilean government in its transformation towards a low carbon energy sector through supporting the development of concentrated solar power (CSP), as well as large-scale photovoltaic (PV) projects in Chile. This will furthermore support Chile in reducing the country's dependence on imported fossil fuels and will open the door for similar projects in the region.

A specific programme aim is to support the Chilean government in its unique effort to enable the construction of Chile's first CSP plant. For this purpose the Republic

of Chile has published a public tender for an USD 20 Mio. government investment grant on the 28th of February 2013. The outcome of this will be known in September 2013. The potential winner of this public tender would also have access to an attractive financing package through preferential investment and credit facilities of KfW, IDB and CTF as well as the LAIF investment grant. If the public tender of the first CSP plant in Chile is successful, this first CSP power plant would also be the first CSP plant in South America. The expected capacity of the plant is 50 megawatts (MW).

A 50 MW CSP plant is expected to create around 1,125 jobs during the construction period and 64 full-time jobs while the plant is operating. It might also lead to other CSP plants being built in Latin America in the future. From an environmental perspective, generating clean energy using CSP technology will reduce greenhouse gas emissions. Another benefit of CSP is that it will improve the security of energy supply.

The Chilean Solar Energy Programme is a joint initiative of the Chilean Ministry of Energy, the European Commission, the German development institutions KfW and the Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German government, the Inter-American Development Bank and the Clean Technology Fund (CTF).



The first Concentrated Solar Power (CSP) plant in South America will be built with the help of funding from LAIF.



KfW IDB

The broader context for the programme

In the past, Chile focused especially on two sources of energy with the result that more than half of the electricity generated came from conventional power plants (coal, natural gas, oil) and about 40% came from hydropower plants. Investments in renewable energies were not profitable for private investors in the Chilean energy sector, who had focused on cheap gas imports from Argentina. However, supply bottlenecks and price increases for fossil fuels as well as droughts in the last few years have increasingly threatened Chile's energy security. Chile has a high level of demand for energy. The country's electricity requirement is expected to rise by some 6% per annum in the medium to long term.

The Chilean government now wants to actively counter this energy shortage. According to the National Energy Strategy published in January 2012, the promotion of energy efficiency and renewable energies such as solar and wind power are high on the political agenda. In turn, this political aim is supported by the law passed in January 2008 which provides for a binding share of renewable energies in energy generation from 2010.

Mexico

Bii Nee Stipa II Wind Project



Total cost: € 115 million

LAIF grant: € 3.3 million

Lead finance institution: SIMEST (€ 11.6 million)

Co-financier: IDB (€ 25 million)

Type of LAIF support: Investment grant

The project is a significant part of the Mexican government's plan to develop the huge wind resources of the Tehuantepec Isthmus together with the private sector. The wind resources in Oaxaca are among the best in the world due to the mountainous topography that levels off at a point where the land mass tapers down to a narrow isthmus. This creates a natural wind tunnel for air currents flowing between the Gulf of Mexico and the Pacific Ocean. These excellent wind conditions make the development of wind energy projects in the region an attractive proposition and several large-scale projects are either being planned, built or are operational.

The Mexican government estimates the country's wind power potential to be around 71 gigawatts (GW), of which 10 GW is in the Isthmus of Tehuantepec, enough to provide power to around two thirds of the population.

The Bii Nee Stipa Wind Farm Project is a three-phase 200 MW wind farm project located in Oaxaca, Mexico. This is phase two of the project, consisting of installing a 74 MW wind farm with 37 wind turbine generators in the Tehuantepec Isthmus.

The project focuses on the generation of renewable energy from wind resources. The project is expected to reduce greenhouse gas (GHG) emissions by generating electricity from clean energy technologies rather than fossil-fuel fired power plants. The total CO₂ emissions reduction in the first 6.5 operating years of the wind farm is estimated to be about 828,000 tonnes.

Other benefits of the project are to reduce the country's dependence on fossil fuels, diversify its sources of energy, improve the energy transportation infrastructure to be able to tap into the Oaxaca area's huge wind resources and create jobs during both the plant construction and operation phases in Oaxaca, which is one of Mexico's poorest and most backward states.

LAIF's € 3.3 million contribution represents less than 3% of the total cost of the project but will account for nearly half of the cost of the infrastructure connection from the wind farm to the national grid, an asset that will be fully owned by the public sector.

ENVIRONMENT

Regional: Latin America

Facility for Performance Based Climate Finance in Latin America



Total cost: € 60 million

LAIF grant: € 10 million

Lead finance institution: KfW (€ 25 million)

Co-financier: CAF (€ 25 million)

Type of LAIF support: Investment grant and technical assistance

There is considerable potential to reduce greenhouse gas emissions (GHGs) in Latin America, especially in the areas of renewable energy, energy efficiency and waste management systems. Structuring effective mechanisms to promote greenhouse gas mitigation projects and to leverage public and private sector funding is crucial for the sustainable and climate-friendly development of Latin American countries.

The main idea is to set up a facility supported by the EU allowing the early implementation of pilot measures that are part of sectoral greenhouse gas mitigation schemes. These pilot measures will directly lead to emission reductions and will continue to cut emissions after the programme has come to an end. The programme supports Latin American countries in their initiatives in favour of climate-friendly reforms in CO₂ intensive sectors.

The initiative aims to implement pilot schemes for performance based approaches that lead to monitored and verified CO₂ emission reductions and contribute to the overall objective of fighting global warming. Other aims include generating important data and experience about key elements of new climate finance mechanisms and supporting the design and implementation of robust monitoring/reporting/verification (MRV) systems.

As part of the initiative, at least two pilot schemes will be developed and underlying projects will be implemented with verified emission reductions.

Initially, the facility will be funded with investment grant which can support the pilot schemes. Funds will be disbursed where emissions reductions are actually achieved (e.g. a pre-defined amount will be paid out by the facility for every verified tonne of CO₂ reduction within a pilot scheme).

It is estimated that, with a LAIF investment grant of € 8 million, complemented with a € 2 million technical assistance support, the pilot schemes receiving support could generate around one million tonnes of CO₂ emission reductions.

WATER AND SANITATION

Colombia

Integrated Water Resources Management (IWRM)



Total cost: € 142.5 million

LAIF grant: € 4.5 million

Lead finance institution: AFD (€ 78.8 million)

Co-financier: CAF (€ 59 million)

Type of LAIF support: Technical assistance

Colombia has abundant but poorly distributed water resources and near the cities this is exacerbated by its poor quality. This leads to serious pressure, which causes conflicts between water users. Other difficulties include the fact that there are arid zones, floods and inefficient water flow regulation.

Colombia's Integrated Water Resources Management (IWRM) policy, approved in 2010, is based on managing resources according to five macro river watersheds: the Magdalena and Cauca river watershed (which includes 70% of the country's population), the Caribbean watershed, the Amazonas river watershed bordering with Brazil, the Orinoco watershed shared with Venezuela and the Pacific watershed.

The aim of this project is to help the Colombian government further develop its policy for Integrated Water Resources Management (IWRM) and to support its short-term water plan for 2014. The project is expected to contribute to protecting the environment by improving the

quality of water resources and to improve the quantity of water available to the population, which will reduce water-related conflicts among the local population.

Among other things, LAIF support for the implementation of the IWRM policy provides Colombia's autonomous environmental authorities with additional financial resources to carry out environment protection actions and direct investments towards priority river basins, thereby reducing the number of conflicts over water.

The project will help to preserve biodiversity and the natural environment, lower the cost of waste water treatment, minimise the flow of water provided in the summer and generate around €17.8 billion of economic benefits.

The LAIF contribution encompasses i) technical assistance to the Ministry of Environment in the following areas: a) draft of the strategic management plans for three macro watersheds (Pacífico, Orinoco, and Amazon) b) implementation of the water resources management plan in the emblematic pilot project of Lake Tota together with High Upia and High Chicamocha Watersheds, and ii) funding for communication about the IWRM, including the renovation of the historical house of Salto de Tequendama (facing the breathtaking waterfalls of Bogotá river downstream of Bogotá city) to convert it into a museum of environment and water, with workshops and exhibitions highlighting the importance of water resource management.

This was the first project approved by the LAIF Board in the water sector (additional contributions were approved by the Board for three other projects by the end of 2012). The project is jointly co-financed by the Agence Française de Développement (AFD) and the Latin American Regional Development Bank (CAF) and could become a point of reference for other countries.



Mr Juan Gabriel Uribe, Colombia's Minister for the Environment, during the official launch of a technical cooperation aimed at promoting sustainable management of water resources.

Nicaragua

Phase 1 – Integrated Sector Programme for Human Water and Sanitation (LIFE Programme)



Total cost: € 252.3 million

LAIF grant: € 50 million

Lead finance institution: AECID (€ 74.6 million)

Co-financiers: EIB (€ 41.7 million) and CABI (€ 83.4 million)

Type of LAIF support: Investment grant and technical assistance.

The Nicaraguan Company for Aqueducts and Sewers (ENACAL) is responsible for service provision in urban areas in Nicaragua, running a large number of drinking water and sanitary sewer systems. The following information gives an insight into the scale of the challenge facing Nicaragua when it comes to the provision of water and sanitation services. The drinking water system reached 2.8 million people directly through 541,825 domestic connections in 2011 in the cities where ENACAL administers the system. This equates to 89.4% of the population. Only 52% of all service connections had water pipelines in good condition at that time.

The project is the first phase of Nicaragua's LIFE programme. It aims to improve access to clean drinking water and sanitation in 19 cities in Nicaragua, which have a combined population of approximately 520,000 inhabitants as well as prepare the conditions for investment for a second phase in 17 cities populated by about 470,000 inhabitants.

In 15 cities (total population of 490,000), the aim is to increase the coverage of drinking water from 72% to around 96% and in 13 cities the aim is to improve sanitation services (in 11 of these there is no current service).

The overall programme is expected to run until 2018 and cover the following cities: Camoapa, Chinandega, Chichigalpa, Acoyapa, Santo Tomás, Condega, La Trinidad, Nandaime, Malpaisillo, Managua, Masaya, Jalapa, Bilwi, Bluefields, El Rama - La Esperanza, Nueva Guinea, San Carlos, Cardenas and Rivas.

The LAIF grant will be used to fund construction work in the cities of Santo Tomás, Acoyapa, Bilwi and Bluefields.

The project is the first phase of the national programme for the water and sanitation sector (VIDA), which will be carried out over a period of 20 years. The total cost of the programme is around € 1,576 million (USD 2,027 million), of which around € 673 million (USD 865.4 million) is to be spent in the first five years (2012-2017).



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LAIF is helping Nicaragua improve access to clean drinking water and sanitation.



The broader context for the programme

One of the priorities of Nicaragua's 2009-2012 National Human Development Plan (NHDP) is to guarantee access to drinking water and sanitation. The NHDP also envisages the implementation of a development strategy for water and sanitation sector that aims to overcome structural problems in the medium and long-term.

As per the Millennium Development Goals, Nicaragua has committed itself to reducing the water coverage gap by 50% by 2015. This means reaching higher levels of coverage of drinking water and sanitation both for rural and urban areas.

The main purpose of the LIFE Programme is to improve the water supply and sewage pipeline systems. The broad objective of this specific project coincides with the main objective of the LIFE PROGRAMME: "to contribute to the social well-being and standard of living of Nicaraguan families through solidarity and sustainable access to services of drinking water supply and urban and rural sanitation, respecting and fostering the rights of Mother Earth".

Regional: Latin America

SPANISH COOPERATION FUND FOR (FCAS)- Promoting Climate Change Adaptation and Integrated Water Resources Management Investment for the water and sanitation sector in Latin America



Total cost: € 615 million

LAIF grant: € 15 million

Lead finance institution: AECID (€ 300 million)

Co-financier: IDB (€ 300 million)

Type of LAIF support: Technical assistance



The broader context for the programme

The Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean is a special grant fund created by the Spanish government to help countries in Latin America and the Caribbean to expand water and sanitation services and support their efforts to reach the Millennium Development Goals for the sector. Due to the regional mandate of the LAIF, its contribution will cover only Latin America.

One of the fund's two strategic goals is to contribute to the implementation of the human right to water and sanitation. The other is to work together with Spain's development partners in Latin America and the Caribbean in their progress towards meeting one of the Millennium Development Goals: to halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation.

The Spanish government has gone into a partnership with the IDB to facilitate project identification and preparation, supervise project execution and evaluate each project's results.

Any member country of the Ibero-American Community of Nations may apply for grants from this fund. National, regional and local government entities are eligible, as are companies, cooperatives and other types of entities that provide public water and sanitation services.

The fund can provide grants for projects related to drinking water, sewage systems, wastewater treatment, urban rainwater drainage systems, water resources management, solid waste management (when it contributes to the sustainability of water and sanitation infrastructure), and efficiency and operations management.

Latin America has plenty of water resources but 50 million people still have no access to drinking water, and 125 million lack access to sanitation. Less than half of the region's population is connected to a conventional sewage system and a third depends on individual systems where there is often no guarantee of safe management of the excreta. This has turned the treatment of waste water into a critical problem throughout the entire region. Only 15% of urban waste water is treated.

The Cooperation Fund for Water and Sanitation (FCAS) is the main financial instrument of Spain's commitment to work to improve water and sanitation in Latin American countries. Through the FCAS, Spain is committed to improving the water and sanitation sector to combat poverty in Latin America and the Caribbean. Since 2009, the FCAS has already committed around € 800 million in 19 Latin American countries via 62 programmes and projects.

The programme comes under two main areas: climate change adaptation and the integrated management of water resources (IMWR). Under the climate change adaptation heading, the LAIF grant focuses on reducing the vulnerability of human or natural systems to the impacts of climate change and climate-related risks (mainly related to droughts and floods) in the areas of selected FCAS projects. Under the IMWR heading, the aim is to improve the management and energy efficiency of water and sanitation systems. Here, there will be a special focus on small cities through the development and promotion of solutions adapted to their needs and capacities. In one of the proposed activities, ten pilot projects will be selected to put in place condominial sanitation systems and low-cost wastewater treatment systems.

Condominial sanitation systems, also known as 'simplified sewerage' are low-cost sewer systems that collect all household wastewater (wastewater from toilet facilities and wastewater generated by domestic activities such as laundry, dishwashing and bathing) in small-diameter pipes laid at fairly flat gradients. Simplified sewers are laid in the front yard, back yard or under the pavement rather than in the centre of the road, as with conventional sewerage.

The programme aims to stimulate additional investment. Specific investment plans will be split into different phases for which the private sector is being encouraged to participate.

In addition, both areas will contribute to climate change mitigation by improving energy efficiency in water supply and sanitation systems by promoting low cost treatment technologies with low energy requirements and by economising energy in the way in which the systems are run.

Possible country locations for projects include Brazil, Paraguay, Guatemala, Honduras, El Salvador, Ecuador, Nicaragua, Uruguay and Bolivia.

Regional: Latin America

Water and Wastewater Investment Programme



Total cost: € 200 million

LAIF grant: € 4 million

Lead finance institution: KfW (€ 80 million)

Co-financier: CAF (€ 80 million)

Type of LAIF support: Technical assistance

High per capita water consumption levels and less water availability (in terms of access and quality) present challenges for most Latin American countries in urban areas. Rising greenhouse gas emissions and the degradation of the environment are other major challenges.

This programme seeks to foster sound environmental and climate-friendly investments. The overall aim is to facilitate and increase public and private investments in water and sanitation infrastructure. Specific objectives of the programme include improving the living conditions of the population targeted, reducing water-borne diseases in selected towns and reducing environmental damage in these towns.

Funds will be provided by CAF and KfW to finance environmentally-friendly investments in water and sanitation infrastructure in areas such as water supply, drainage and wastewater treatment. The studies financed by LAIF technical assistance will allow investment in water and sanitation infrastructure, thus contributing to the improvement of the population's living conditions and reducing environmental damage in selected towns in Latin American countries.

Projects in Uruguay, Colombia, Ecuador and Brazil have been identified on a preliminary basis. Expected results include feasibility studies and predesign of rain-water drainage systems in the western watershed of Barranquilla (Colombia), a feasibility study and preliminary design of the treatment and possible reuse of sewage sludge (Colombia and Uruguay), prefeasibility studies in selected towns relating to an environmental sanitation programme for community development (Ecuador) and the proposal of a risk management system for enhanced flood monitoring in selected areas of Manaus (Brazil).

The studies and the subsequent investments will directly benefit a population of 5.8 million people and indirectly benefit around 17 million people. Direct positive effects arise for people directly connected to networks, treatment plants, etc. where indirect benefits arise for people that capitalise on improvements through master plan studies, environmental sanitation efforts, etc.



LAIF wants to help boost public and private investment in water and sanitation infrastructure.

SOCIAL

Mexico

Compact Cities in Mexico: Housing and Urban Development



Total cost: € 294 million

LAIF grant: € 7 million

Lead finance institution: AFD (€ 100 million)

Co-financier: IDB (€ 187 million)

Type of LAIF support: Technical assistance

Mexico's population has more than quadrupled in 60 years, rising from 25.8 million in 1950 to over 112 million in 2010. The population living in urban areas has exploded during this period. Whereas it accounted for 28% of the total population in 1950, it accounted for 71.6% in 2010.

A major challenge for Mexico is that the country has experienced a relatively unplanned expansion of cities. This has led to a situation in which housing production has been dominated by informal settlements, leading to extended and fragmented cities.

To deal with the challenge of the housing deficit and the uncontrolled growth of informal urbanisation, the authorities reformed the housing policy in close association with the private sector, putting in place several tools allowing the mass production of housing for middle and working classes. As a result, more than four million units were produced between 2002 and 2011.

But difficulties remained, including poor living conditions due to, for example, poor quality construction of housing and a huge increase in CO₂ emissions due to an increase in distances to town centres and in car use.

The aim of this project is to revitalise and repopulate empty inner cities, as most of their inhabitants have fled to new developments in the distant periphery, which have been the only option up to now for those looking for social and affordable housing solutions.

The project comes under Mexico's *Desarrollos Urbanos Integrales Sustentable* (DUIS) [Integral Sustainable Urban Development] concept. This was created by a group of five Mexican government ministries and institutions to address the problem of sustainable urban and housing development and planning. UIS is a public policy that allows the Mexican government to grant support and initiate the development of sustainable regional development poles, both in inner cities (intraurban UISs) and in continuity with the urban area (semi-urban UISs) or in some cases new development poles. The LAIF contribution will focus on intraurban UISs, which will help cities take advantage of existing land that is available,

promoting solutions from vertical housing to mixed-used development. Vertical housing is promoted to support the construction of compact cities.

Mixed-used development means that urban planning aims at developing cities and areas with many services offered at the same place from housing to jobs, from education and health services to shops (as opposed to strictly residential areas which also generate transportation since people need to go to their companies, which can be far away).

The city of Puebla is a good example of a UIS. Here, the population fell from 340,000 inhabitants in 1978 to 108,000 today, leading to unoccupied urban fringes, abandoned buildings and derelict neighbourhoods. The aim here is to get 110,000 people back to the city centre.

This programme will focus on two pilot projects located in the cities of Puebla and Aguas Calientes, which will serve to showcase the feasibility of urban regeneration. They will be developed on carefully chosen sites, such as temporarily abandoned or available houses (many houses in Mexican inner cities are indeed abandoned as they are in very bad conditions) or land, without any eviction and therefore no related risks.

Technical assistance financed by the LAIF grant will focus on capacity building, exchange of expertise and studies (on the housing needs, housing supply observation, etc.). It will help with the design of new housing products and new operational and financial mechanisms to be financed and implemented in particular by the *Sociedad Hipotecaria Federal* (SHF - Mexican Federal Mortgage Corporation), a decentralised agency of the Mexican government, with AFD/IDB credit lines.

The project complements the *Ecocasa* programme by targeting the same final objective, namely a sustainable housing production system. However, in this case, its focus is on making inner cities more compact whereas the *Ecocasa* programme's focus is on low emitting houses.



LAIF support is helping Mexico to work out how to revitalise and repopulate its empty inner cities so that it can reduce CO₂ emissions and improve people's living conditions.

Mexico

Ecocasa Programme



Total cost: € 168.3 million

LAIF grant: € 7 million

Lead finance institution: KfW (€ 80 million)

Co-financier: IDB (€ 81 million)

Type of LAIF support: Investment grant and technical assistance

The demand for energy in emerging economies in Latin America is expected to increase sharply in the coming decades as population levels rise. Without a fundamental shift in their energy supply structure, this will quickly lead to an increase in the amount of greenhouse gas emissions released into the atmosphere. The use of efficient technologies will reduce expected energy consumption levels in emerging economies and is a highly cost-effective strategy to cut greenhouse gas emissions. Promoting energy efficiency is one of the main elements of a Mexican law, passed in April 2012, on climate change, which states that climate change is a long-term priority of the government.

The residential sector currently accounts for nearly 5% of national greenhouse gas emissions. If no action is taken, this figure is likely to grow given the expected rise in demand for residential buildings by up to 25% from 2012 to 2030. The building sector is the biggest contributor to greenhouse gas emissions but also holds the biggest potential to reduce these emissions. This can be achieved through improvements in terms of the energy efficiency of buildings.

The overall aim of the Ecocasa programme is therefore to contribute to the Mexican government's efforts to reduce greenhouse gas emissions generated by the residential sector by providing financial incentives for energy efficiency investments and low carbon houses to the low and middle income population of the country. Specifically, the aim is to increase the construction of low carbon houses by providing these financial incentives and to increase the supply of finance for low carbon housing.

These energy efficiency investments will use technologies in the following types of areas: insulation in the roof and walls, reflective paint, efficient gas boilers, efficient refrigerators, solar water heaters and energy saving windows, etc.

Expected benefits of the programme are to reduce energy consumption, to reduce the energy-related costs and to improve the living conditions of Mexican households who are on low and middle incomes. The programme is estimated to cut CO₂ emissions by just over one million tonnes. A major concrete use of the funds from the programme will be to build around 27,000 low carbon houses by 2019. This is expected to lead to a 20% reduction in CO₂ emissions.

LAIF investment grants will be provided to buyers of passive houses. The objective is build up to 800 passive houses, resulting in a CO₂ emission reduction of between 70% and 90% compared to normal standards. Examples of energy efficient measures in a passive house are window frames with insulation, windows with triple glazing and sun protection and roof insulation.

KfW and the Inter-American Development Bank (IDB) are, with the support of the German government and the Clean Technology Fund (CTF) respectively, acting as co-financiers by providing concessional loans to the Sociedad Hipotecaria Federal (SHF- Mexican Federal Mortgage Corporation) for the promotion of sustainable houses under the framework of the Nationally Appropriate Mitigation Action (NAMA) for Sustainable Housing. SHF is responsible for the execution of the programme.



KfW IDB

The broader context for the programme

The programme is part of the first National Appropriate Mitigation Action (NAMA) for Sustainable Housing worldwide, launched by the Mexican government in December 2011. NAMAs were introduced at the United Nations Climate Change Conference in Bali in 2007 as a voluntary mitigation contribution of the developing and transition countries, supported by industrialised countries with financial and technological promotion as well as capacity building. By contrast with traditional project-based mitigation actions and projects, NAMAs focus on building a sustainable low-carbon structure in climate-relevant sectors of the countries.

The main objectives of the NAMA are to extend the penetration of basic efficiency standards to the entire new housing market in Mexico and to upgrade efficiency standards to more ambitious levels. The NAMA has the potential not only to reduce greenhouse gas emissions within the context of this programme but to have a transformational effect if the Mexican building industry adapts to the demand for energy efficiency houses. In this context, the Ecocasa Program serves as a financing vehicle for the initial implementation of the NAMA. The National Housing Commission (CONAVI) coordinates the overall implementation of the NAMA for Sustainable Housing where different governmental agencies are involved.

MIXED

Colombia

'Bridging the gap': Towards a sustainable development of cities and regions in Colombia



Total cost: € 212 million

LAIF grant: € 5 million

Lead finance institution: AFD (€ 150 million)

Co-financier: IDB (€ 57 million)

Type of LAIF support: Technical assistance



© AFD

Colombia has major differences in terms of levels of development from one region to another. One example of this is the fact that the income per capita in Bogota, the capital, is five to six times higher than it is for residents in the departments of Choco and Vaupes. Another example is that, in Bogota, less than 20% of the population has unsatisfied basic needs while in other regions (La Guajira, Vichada and Choco) this figure comes to over 65%.

In order to reduce these disparities, Financiera de Desarrollo Territorial (FINDETER), which is dependent on the Ministry of Finance and Public Credit of Colombia, has come up with several strategies to create and strengthen the capabilities of local institutions; to formulate long-term visions for development for departments and regions; to identify, classify and replicate regional initiatives and to execute projects with a big regional impact.

The LAIF grant will focus on supporting FINDETER in its efforts to support local entities. The first component consists in an institutional strengthening process aiming at helping FINDETER to build a team and various tools that will support local entities in improving their institutional capacities and, as a result, the generation of sustainable urban projects.

The second component of LAIF funding (3.7 million euro) will be spent on preparatory studies to develop sustainable projects in emerging cities ('Sustainable and competitive cities'), strategic cities lacking of institutional capacities ('Emblematic cities') and cities strongly involved in the development of their region. These studies will contribute to identify priority infrastructure projects improving the basic needs and living conditions of the inhabitants of the cities selected under this program.

Finally, best practices and knowhow acquired from the pilot towns will be disseminated at international forums and workshops.

LAIF funding will contribute to the necessary preparatory studies to develop priority infrastructure projects.



The broader context for the programme

FINDETER (Financial Corporation for the Territorial Development of Colombia) was set up by the Colombian government in 1989 and provides finance to investment projects. Its mission is to foster development and improve the competitiveness and quality of life in all the country's regions by providing financial services and technical assistance to public entities and the private sector.

FINDETER plays a major role in supporting investment in infrastructure, public and urban services, thus reducing divergences in the quality of life of different regions in Colombia.

This programme will contribute to regional convergence and urban development, as emphasised by the country's 2010-2014 national development plan, by improving access to financial resources and technical assistance.

The main expected outcome is to increase investment in Colombian urban areas with a comprehensive approach based on a strategic vision of urban development designed for each particular city. The aim is to help ensure that buildings are in harmony with the natural environment while fostering economic development and social inclusion.

SMEs

Central America

Programme for Entrepreneurial Development and Promotion of Micro, Small and Medium-sized Enterprises (MSMEs) in Central America

Total cost: € 54.2 million

LAIF grant: € 3.8 million

Lead finance institution: KfW (€ 40 million)

Co-financier: CABI (€ 10.4 million)

Type of LAIF support: Technical assistance



© European Commission

The importance of providing continuous support to the financial sector addressing MSMEs in Central America has become even clearer in the light of the global economic and financial crisis.

Promoting an entrepreneurial environment to facilitate the creation of new and innovative enterprises and supporting the development of the financial sector so that it provides adequate access to finance for MSMEs are two key aims of the programme.

It includes technical assistance for entrepreneurial development centres and to new innovative enterprises (technical assistance provided via development centres for pre-investments and mentoring follow-up). The LAIF contribution will also support financial institutions that offer financing for MSMEs.

The LAIF funds will be used to build the capacities of entrepreneurial development centres so that they can provide adequate support to entrepreneurs. The programme will support about ten entrepreneurial development centres that are already operating in Central America. The funds will also be used to create new enterprises and implement innovative ideas. Here, at least 115 new / innovative enterprises will be supported. In addition, 11 financial institutions will be supported and around 13,000 MSMEs (including innovative enterprises) financed.

The countries covered by this project are: Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica (CABI's founding member countries). Panama may be added at some point in the future.

KfW's programme promotes the development of an entrepreneurial environment that facilitates the creation of new and innovative enterprises and the development of the financial sector, thereby improving access to finance for MSMEs.



KfW



The broader context for the programme

Micro, Small and Medium-sized Enterprises (MSMEs) have an important role to play in improving the competitiveness of the economies of Central American countries. Up to 95% of private enterprises are MSMEs, which provide jobs for nearly half the labour force of the region.

However, MSMEs' situation has become tougher in recent years, in particular due to the financial and economic crisis, which has severely hit the portfolios of financial institutions. The loan portfolio and number of clients of financial institutions that are part of the Central American Microfinance Network (REDCAMIF) fell from just over € 610 million and just over 830,000 clients to just over € 570 million and just under 657,000 clients in December 2011.

One of the main obstacles facing the sector is the recovery of confidence of these international sources of funds on the financial

sector serving MSMEs. Nicaragua's MSME sector, for example, was left without the sufficient liquidity to finance portfolio growth.

A lack of tailor-made financing for new enterprises and ideas is a major obstacle for entrepreneurial development in Central America. This is confirmed in a study, coordinated by the Central American Bank for Economic Integration (CABI) and KfW in 2010, on the entrepreneurial situation in Central America.

CABI, the regional development bank in Central America, has shown a strong commitment to the development of the MSME sector by facilitating the access of MSMEs to financial services. CABI supports the development of the financial sector serving MSMEs and contributes to entrepreneurial development and their productivity and growth.

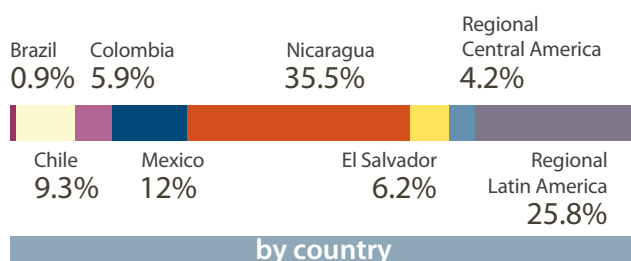
LAIF 5

Analysis of LAIF portfolio 2010-2012

20 projects have been approved since the launch of the Latin America Investment Facility (LAIF) in 2010. A total of **€ 160.6 million** of LAIF support has been approved in support of projects with total investment cost of around **€ 4.2 billion**.

Geographical breakdown

The overall geographical distribution of the LAIF funds has been balanced, with a total of 160.6 million spread among 6 projects covering the overall region, 2 covering Central America and 12 located in 6 concrete countries. From a country perspective, the country that has received most LAIF support has been Nicaragua (€ 57 million, 35.5%) followed by Mexico (€ 19.3 million, 12%). The other Latin American countries have each received less than 10% of LAIF funding. The next biggest beneficiary is Chile followed by El Salvador, Colombia and Brazil.



Sector distribution

Since 2010, the sector that has received most LAIF funding (46 %) is the water/sanitation sector, which received approvals for a total LAIF contribution of € 73.5 million for four projects, with a prominence in 2012 approvals.

The share of LAIF investments in the fields of energy reached € 32.8 million (20.4%) and were followed by the environment sector, € 21.5 million (13.4%) and the support to the social sector, € 14 million (8.7%). The transport sector received a contribution of € 7 million (4.4%) of LAIF's total contributions. LAIF support to private sector was focused on SMEs amounting € 6.8 million (4.2%). Additionally, a mixed sector project received € 5 million (3.1%) of LAIF contribution.

Joint European Operations

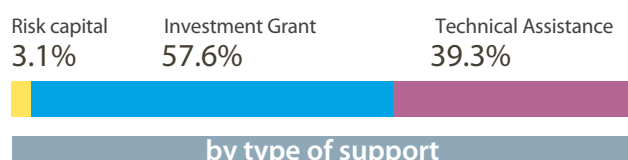
All 20 operations have involved at least one European finance institution working with at least one Regional Development Bank from Latin America. This demonstrates that LAIF is a very good example of joint European-Latin America operations and its potential for creating constructive synergies.

Financial and qualitative leverage

The 20 approved projects benefiting from LAIF funding of €160.6 million will leverage over € 4.2 billion of financing from finance institutions and other donors. This is a multiplier effect of 26:1. This means that LAIF has leveraged € 26 for every € 1 of its support. If we take into consideration financing from Finance Institutions participating in LAIF only, LAIF funding had an impressive multiplier effect of 23:1.

Type of LAIF support

Most LAIF support has been channelled to projects in the form of a contribution to the project investment cost (i.e. as an investment grant) representing 57.6% of total LAIF contribution. Other contributions took the form of technical assistance (39.3%) and loan guarantees (3.1%). Nearly all the projects (16) benefited from technical assistance support, and three of them received a combination of technical assistance and investment grants and one from a combination of technical assistance and loan guarantees. Four projects received solely investment grant contribution. This is due to the fact that technical assistance contributions tend to be smaller than investment grant contributions.



Absorption of funds

Since 2010, 12 out of the 20 projects approved for Latin America Investment Facility funding have been contracted out, representing 65 % of the total grant amounts approved to date. A total of € 107 million of funding has been contracted out. LAIF funding for nine out of the twenty projects was being disbursed by the end of 2012. More than 20% (€ 32.86 million) of LAIF funding has been disbursed.

Implementation status

The 20 projects funded by the Latin America Investment Facility are making steady progress in terms of implementation. As for the tendering of LAIF-financed components, the tender process has been launched in six projects of which four have moved into the construction phase. Advisory services to the final beneficiaries have already started in four out of the 16 projects benefiting from a TA support (25%).

LAIF 6

Combating climate change

Context

Climate change has profound effects both in developed and developing countries both on the environment and society. The challenges that the population of the world is now facing due to the changes in the climate require the establishment of timely and appropriate measures that demand significant amount of resources.

In Cancun in December 2010, developed countries made a commitment to achieve the goal of jointly mobilising USD 100 billion per year by 2020 to address the needs of developing countries in the context of meaningful mitigation action and transparency in terms of the implementation of projects. A European Commission Staff Working Document¹ provides an assessment, from an EU policy perspective, of the potential sources needed to scale up climate finance. A mixture of public finance, carbon market finance and private finance (with some of these sources being leveraged by development banks) will be required to deliver this amount of funding.

In order for the EU to meet its commitments in terms of climate finance, as announced by EU Commissioners Füle, Hedegaard and Piebalgs in November 2010, specific Climate Change Windows (CCWs) have been created in

EU regional blending mechanisms such as the LAIF. The CCWs encompass both public and private investments in strategic areas such as transport, energy, environment, water, sanitation and forests.

Objectives

The main objectives behind the establishment of **Climate Change Windows (CCWs)** in regional investment facilities are as follows:

1. Establish a tracking system for climate change related operations;
2. Ensure transparency of EU financing of climate change projects, including by making the distinction between programmed funds within geographical instruments and new, additional resources;
3. Guarantee better tracking and EU visibility for all its climate actions;
4. Mainstream the fight against climate change in projects (co)-financed by the EU;
5. Attract additional financing for climate change.

As a first step towards delivering its commitment to attract additional resources to the CCWs, in 2011 the EU allocated an additional budget of € 17.3 million, to be shared between the CCWs of the LAIF and of the NIF. In 2012, this allocation was entirely attributed to the LAIF, enabling it to contribute to two projects for which climate change is a significant objective:

Project	LAIF CCW contribution (in € millions)	Description
ECOCASA Programme (Mexico)	€ 7 million	ECOCASA is a joint initiative within the framework of the Mexican National Appropriate Mitigation Action for Sustainable Housing (NAMA) launched by the Mexican government. It contributes to the Mexican government's efforts to reduce greenhouse gas emissions related to the residential sector. LAIF funding has been used for the construction of 'Passive Houses'. Passive Houses are the NAMA's most ambitious standard as they are expected to achieve a reduction of around 80% of CO ₂ emissions with respect to the baseline reference case.
Performance Based Climate Finance Facility (PBCF)	€ 10 million	This programme promotes the implementation of sectoral greenhouse gas mitigation schemes in Latin American countries at an early stage in the international discussions. The project aims at promoting development and early implementation of sector-based mitigation schemes by providing incentives linked to emission reductions that have been achieved (performance based payments). The Facility will develop innovative carbon based financing schemes to finance the necessary investments and to initiate international showcase projects and test key elements of sector approaches. Ultimately, the project will provide the European Commission, EU Member States and host countries with data, information and initial experience that can be fed into international discussions on NAMAs.

¹ SEC(2011) 487 final: http://ec.europa.eu/economy_finance/articles/financial_operations/pdf/sec_2011_487_final_en.pdf

Results

The CCW is managed in the same way and follows the same rules and implementation modalities as for the LAIF in general.

Concretely, the CCW is designed to generate investments in

1. Mitigation measures

- Mitigating climate change by limiting the emission of GHGs caused by humans;
- Improving energy efficiency and energy savings;
- Increasing the production and use of renewable energy;
- Protecting and/or enhancing GHG sinks and reservoirs.

2. Adaptation measures

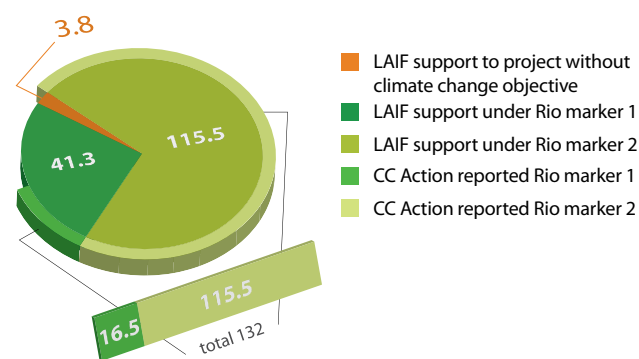
- Reducing the vulnerability of human systems and nature to the impact of climate change;
- Promoting climate change adaptation technologies, including the necessary and related infrastructure;
- Emergency prevention and preparedness measures, including insurance schemes, to cope with natural disasters.
- The climate change projects under the LAIF CCW are tracked according to their contribution to the mitigation and/or adaptation objectives of the Rio Convention on Climate Change:
- **Rio Marker 1:** projects for which such a contribution is a **significant objective**.²
- **Rio Marker 2:** projects for which such a contribution is the **principal objective**.³



Between 2010 and 2012, 19 out of the 20 projects approved under the Facility benefited from LAIF support amounting to € 156.8 million. Out of the € 156.8 million, € 132 million can be reported as climate action support according to the Rio Convention on Climate Change (Rio marker 1: 40% of the LAIF grant, Rio marker 2: 100% of the LAIF grant contribution).

Since it was launched, LAIF has supported 10 projects with a Rio Marker of 2, with LAIF contributions totalling € 115.5 million. Another nine projects were reported as Rio Marker 1, with LAIF contributions of € 41.3 million and only 40%, or € 16.5 million, was reported as climate change action.

LAIF support towards climate action (in € million)



The full list of projects approved by the LAIF Board to date is available in Annex I. It includes the detailed amounts by project to be reported as climate action support in accordance with the Rio Markers accounting system.

LAIF promotes the use of renewable energies contributing to mitigate climate change.

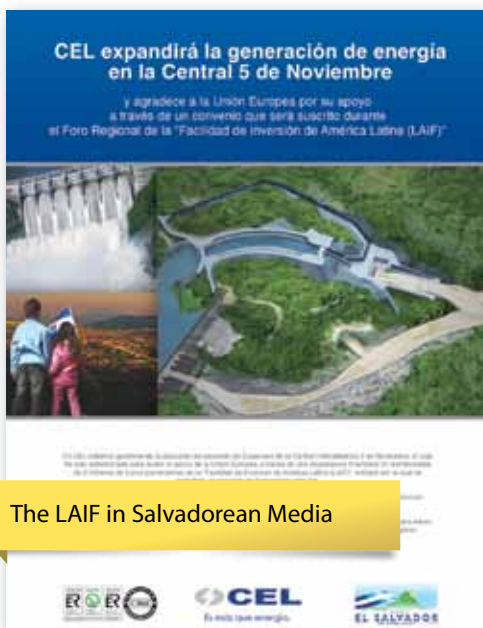
² 40% of the LAIF contribution can be reported as climate action support.

³ 100% of the LAIF contribution can be reported as climate action support.

LAIF 7

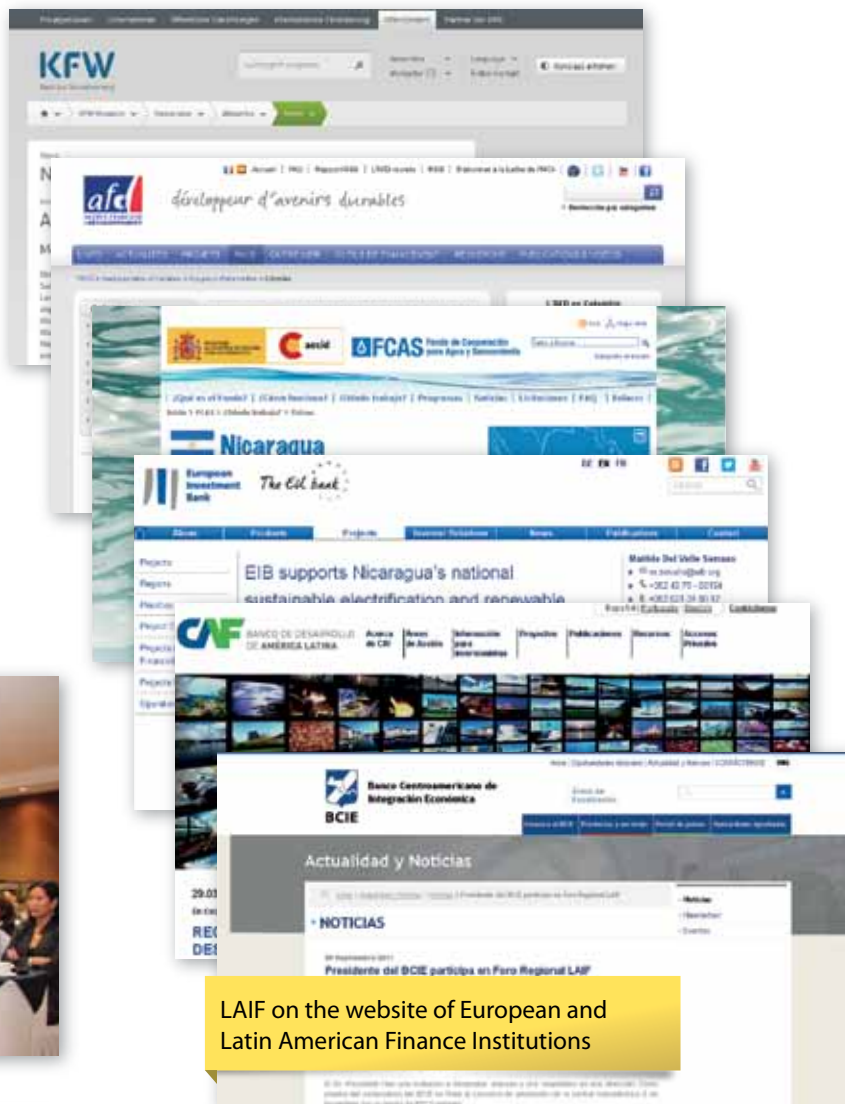
Getting visible

The European Commission has joined forces with EU delegations and European and Latin American finance institutions in their use of communication tools to ensure that our partner countries and their populations are fully aware of LAIF opportunities and its results. The EU uses the various means of communication at its disposal to publicise EU contributions when the projects and programmes are formally agreed.





LAIF Banner



LAIF on the website of European and Latin American Finance Institutions



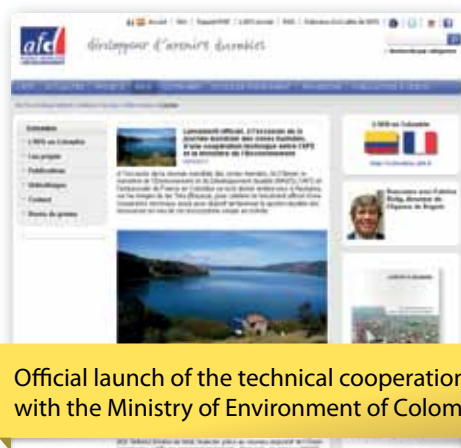
LAIF regional forum



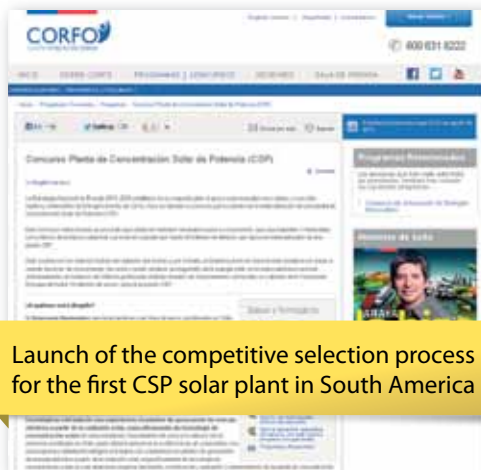
Signature ceremony of Extension 5th November



Signature of Nicaraguan Program of Sustainable Electrification and Renewable Energy (PNESER)



Official launch of the technical cooperation with the Ministry of Environment of Colombia



Launch of the competitive selection process for the first CSP solar plant in South America

LAIF8

Organisation

LAIF is structured according to the principle of a 'Three-tier Governance Architecture', ensuring the achievement of the objectives of the Development Cooperation Instrument (DCI) Regulation and the Regional Strategy between the EU and the Latin American countries (LAC).

The main decision bodies of the LAIF are: the Strategic Board, the Financial Institution Group (FIG) and the LAIF Board.

The way in which LAIF is organised ensures visibility and political leverage for the European Union, guaranteeing at the same time that EU development and cooperation policies stay at the heart of the decision-making process. The participation of the Member States in the LAIF contribution decisions enhances transparency and provides accountability with regard to the management of funds towards the EU budgetary authority (European Parliament and Council) as well as EU supervisory bodies.

Other benefits of this structure include increased coordination between the different stakeholders, specifically between the Commission and the European and Latin America finance institutions.

Finance Institutions Group (FIG)

The partner countries submit projects to the European finance institutions for financing. The European finance institutions designate one of their institutions as a Lead Finance Institution, which presents the project's financing requirements to the Finance Institutions Group (FIG). The FIG is a group composed of all the eligible European Finance Institutions and is chaired by the European Commission.

The FIG includes Latin American Regional Development Banks, namely CABEL, CAF and IDB. The FIG assesses whether the projects are in line with the objectives of the EU's Latin America policy, in particular the action plans agreed between the European Union and the partner countries and with the strategic orientations and eligibility criteria of the LAIF. The FIG also assesses the justification for the LAIF grant request, its added value and the concessionality required.

LAIF Operational Board

The projects are then formally submitted by the European Lead Finance Institution for consideration and presented to the Operational Board for provisional or

final approval. Decisions are taken on the basis of the assessment provided by the FIG. The Operational Board is composed of the EU Member States and chaired by the European Commission. All eligible European finance institutions participate as observers as well as the Latin American regional development banks.

The Operational Board met three times throughout 2012 and also adopted decisions through two written procedures.

LAIF Strategic Board

The LAIF Strategic Board, which is chaired by the European Commission and the European External Action Service, is composed of representatives from the EU Member States. The LAIF partner countries and the European and Latin America finance institutions take part in the strategic meetings of the Board as observers. During these meetings, the overall strategy of the LAIF is examined, reviewed and established. In March 2010, the Strategic Board decided on the Strategic Orientations of LAIF, which will be reviewed during the next Strategic Board meeting.

Secretariat

2011 was a year of internal reorganisation in the Commission. A new Directorate-General for Development and Cooperation – EuropeAid, incorporating the former DG Development and EuropeAid, was created. It is responsible for designing EU development policies and delivering aid through programmes and projects across the world. Within this new structure, the LAIF Secretariat was transferred into a new unit, called 'Financial Instruments', which is responsible for coordinating all the regional investment facilities managed by EuropeAid, including the newly created Caribbean Investment Facility (CIF).

Such coordination within EuropeAid allows for a more efficient and streamlined management of all investment facilities, including as the single entry point for the grant requests presented by the finance institutions and in terms of the organisation and follow-up of the whole assessment and decision-making process. The unit is responsible for forming the Commission's opinion on the grant requests after consultation with the relevant departments of the Commission, the EU delegations and approval by the competent authorising officer. The Financial Instruments Unit is also in charge of preparing the contracting arrangements for LAIF contributions in cooperation with the relevant directorates while the EU delegations are responsible for monitoring the implementation of these contracting arrangements.

LAIF

CLOSING REMARKS

Jolita Butkeviciene

The LAIF is actively and successfully pursuing three interconnected and mutually reinforcing strategic objectives. The first of these is to improve interconnectivity between and within Latin American countries. The main aim here is to improve energy and transport infrastructure. The second is to give a boost to environmental protection and to improve the focus on and exert more control over the impacts of climate change. The third is to promote equitable and sustainable socio-economic development by improving social services' infrastructure and support for Small- and Medium-sized Enterprises (SMEs).

In terms of the environment, LAIF's Climate Change Window is proving particularly useful in helping the region to include the fight against climate change in their projects and programmes. In 2012, five of the 12 projects receiving LAIF support obtained the highest Rio Marker rating available (2), which means that 100% of the LAIF funding will be used to combat climate change.

For example, LAIF funding will be helping Chile to build Latin America's first Concentrated Solar Power (CSP) plant, which should turn out to be an excellent example of how a country can cut its greenhouse gas emissions whilst at the same time improving its energy security and reducing its dependence on imported fossil fuels. Without a policy intervention from the European Union and the Government of Chile for the promotion of CSP technology, it was expected that the new capacity needed in the North of Chile for the next decade would be covered by fossil fuels, increasing emissions even further. Solar power needs further acceptance in the Latin American market, fostering technology transfer and the development of a solar energy market in the region could lead to other Latin American countries embarking on similar renewable energy projects.

Another project I would like to highlight is phase 1 of the Integrated Sector Programme for Human Water and Sanitation (LIFE Programme) for Nicaragua. Coverage of drinking water in Nicaragua is around 90%, however only 52% of all service connections have water pipes in good conditions, while sewage systems reach less than 40% of the population. The programme aims at improving access to clean drinking water and sanitation in 19 cities in Nicaragua, which have a combined population of approximately 520,000 inhabitants as well as prepare the conditions for investment for a second phase in 17 cities populated by about 470,000 inhabitants.

LAIF activities have demonstrated that this instrument is developing rapidly and is looking to expand its reach and objectives both in terms of quantity and quality. A reflection of its potential is the increasing number of projects in the pipeline covering a wide range of countries and sectors.

The fact that LAIF has expanded its coverage to the water/sanitation sector is a testament to how successful it has been. Indeed, it is not just one project/programme in this sector that has been approved but four. In addition, two of these are regional in scope. That also shows the appeal of the LAIF. The central idea is that such initiatives will both improve people's living conditions and reduce environmental damage.

There are also more and more countries that are drawing on LAIF funds for projects in their countries alone. Currently LAIF is present in projects in Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua and Uruguay, and there are projects in the pipeline in Bolivia, Costa Rica, Paraguay and Peru, reaching a coverage of more than 80% of the countries eligible to LAIF.

I would like to conclude by emphasising that the combination of individual country and regional programmes bodes well for the future and that the pipeline of operations for future years will certainly result in further successes while keeping its innovative approach.



Jolita Butkeviciene
Director for the Latin America and Caribbean and
Chair of the LAIF Operational Board

A handwritten signature in black ink, appearing to read 'Jolita Butkeviciene'.

Annex: List of approved projects

Country	Year of approval	Title of the project		Consortium of Finance Institutions	Sector
Brazil	2012	Improving service delivery and investment planning in the power sector		AFD, IDB	Energy
Chile	2012	Chilean Solar Energy Programme		KfW, IDB	Energy
Colombia	2012	Integrated Water Resources Management		AFD, CAF	Water/Sanitation
Colombia	2012	'Bridging the gap': Towards a sustainable development of cities and regions		AFD, IDB	Mixed
El Salvador	2010	Extension of the existing hydropower plant "5 de Noviembre" in El Salvador		KfW, CABI	Energy
El Salvador	2011	Rural Roads Program		AECID, IDB	Transport
Mexico	2010	Linking REDD+ mechanism with local implementation, the forest component of the Special Climate Change Programme of Mexico (PECC)		AFD, AECID, IDB	Environment
Mexico	2012	Bii Stipa II Wind Power Plant		SIMEST, IDB	Energy
Mexico	2012	Ecocasa Programme		KfW, IDB	Social
Mexico	2012	Compact Cities in Mexico: Housing		AFD, IDB	Social
Nicaragua	2010	National Program of Sustainable Electrification and Renewable Energy in Nicaragua (PNESER)		EIB, AECID, IDB, CABI	Energy
Nicaragua	2012	Phase 1 – Integrated Sector Programme for Human Water and Sanitation (LIFE Programme)		AECID, EIB, CABI	Water/Sanitation
Regional Central America	2010	RE and EE for SMEs in Central America		KfW, CABI	Private Sector
Regional Central America	2012	Programme for Entrepreneurial Development and Promotion of Micro, Small and Medium-sized Enterprises (MSMEs)		KfW, CABI	Private Sector
Regional Latin America	2010	Climate Change Program		KfW, CAF	Environment
Regional Latin America	2011	Sustainable Transport Networks		AFD, CAF	Transport
Regional Latin America	2011	Latin America Carbon Finance Facility		KfW, CAF	Environment
Regional Latin America	2012	Spanish Cooperation Fund for Water and Sanitation		AECID, IDB	Water/Sanitation
Regional Latin America	2012	Water and Wastewater Investment Programme		KfW, CAF	Water/Sanitation
Regional Latin America	2012	Facility for Performance Based Climate Finance		KfW, CAF	Environment
					TOTAL



Projects with a Rio Marker of 1 or 2 are regarded as having a particularly positive impact on the environment and therefore come under the EU's Climate Change Window. The relevant projects have a Climate Change Window stamp on the pages where the projects are summarised in this operational report.

Total project cost (€ million)	LAIF contribution (€ million)	Amount to be reported as Climate Action support (€ million)	Type of LAIF support	Status	Tendering of LAIF-financed projects components started?	Construction of the project started?	LAIF- financed TA services started?
214.5	1.5	0.6	TA	Approved	No	No	No
342.7	15.0	15.0	Investment Grant	Approved	No	No	Not applicable
142.5	4.5	1.8	TA	Approved	No	Not applicable	No
212.0	5.0	2.0	TA	Approved	No	Not applicable	No
132.4	6.0	2.4	Investment Grant	Disbursing	Yes	Yes	Not applicable
45.5	4.0	4.0	TA	Disbursing	No	Yes	No
337.6	2.0	2.0	TA	Disbursing	Yes	Yes	Yes
115.0	3.3	1.32	Investment Grant	Approved	No	Yes	Not applicable
168.3	7.0	7.0	Investment Grant/TA	Disbursing	No	No	No
294.0	7.0	2.8	TA	Approved	No	No	No
308.8	7.0	2.8	Investment Grant	Disbursing	Yes	Yes	Not applicable
252.3	50.0	50.0	Investment Grant/TA	Disbursing	No	No	No
36.3	3.0	3.0	TA	Disbursing	Yes	Not applicable	Yes
54.2	3.8	0	TA	Approved	No	No	No
303.0	3.0	3.0	TA	Disbursing	Yes	Not applicable	Yes
403.0	3.0	1.2	TA	Disbursing	Yes	No	Yes
26.5	6.5	6.5	Loan Guarantees/TA	Disbursing	No	No	No
615.0	15.0	15.0	TA	Approved	No	No	No
200.0	4.0	1.6	TA	Approved	No	No	No
60.0	10.0	10.0	Investment Grant/TA	Disbursing	No	No	No
4263.6	160.6	132.0					

LAIF

Latin America Investment Facility

For more information:

European Commission
EuropeAid Development and Cooperation Directorate-General

Website:

http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/index_en.htm

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Publications Office

ISBN 978-92-79-30744-7



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