



PROJECT IDENTIFICATION FORM (PIF)

PROJECT TYPE: Full-sized Project
THE GEF TRUST FUND

S

Submission Date: November 19, 2009

PART I: PROJECT IDENTIFICATION

GEFSEC PROJECT ID¹:
 GEF AGENCY PROJECT ID:
 COUNTRY(IES): Chile
 PROJECT TITLE: ENCOURAGING THE SETTING UP AND CONSOLIDATION OF AN ENERGY SERVICE MARKET IN CHILE
 GEF AGENCY(IES): IADB
 OTHER EXECUTING PARTNER(S): In Chile – Programa País Eficiencia Energética (PPEE)
 GEF FOCAL AREA (S): Climate Change,
 GEF-4 STRATEGIC PROGRAM(S): CC-SP2
 NAME OF PARENT PROGRAM/UMBRELLA PROJECT:

| INDICATIVE CALENDAR | |
|------------------------------|----------------|
| Milestones | Expected Dates |
| Work Program (for FSP) | Mar 2010 |
| CEO Endorsement/Approval | Jun 2010 |
| GEF Agency Approval | Aug 2010 |
| Implementation Start | Sep 2010 |
| Mid-term Review (if planned) | Sep 2012 |
| Implementation Completion | Sep 2018 |

A. PROJECT FRAMEWORK (Expand table as necessary)

Project Objective: Contribute to the creation of an energy efficiency market in Chile, by promoting the active participation of the engineering firms and energy service companies (ESCOs), as intermediaries, in the development of saving and energy efficiency usage projects.

| Project Components | Inv, TA, STA | Expected Outcomes | Expected Outputs | Indicative GEF Financing* | | Indicative Co-financing* | | Total (\$) |
|---|--------------|---|---|---------------------------|----|--------------------------|----|------------|
| | | | | 000' \$ | % | 000' \$ | % | |
| 1. Design of a financial mechanism geared towards Engineering Firms (EF) and Energy Service Companies (ESCOs) | TA | A financial mechanism and institutional framework for the promotion and implementation of energy efficiency projects and programs in medium to large-scale energy users have been created and are full operational. | - Institutional framework for leading and promoting energy efficiency through EF and ESCOs - The legal and financial documentation required to support the structuring of the financial mechanism provided - Financial mechanism operating manual created and socialized - Performance monitoring plan carried out - Media plan implemented | 134 | 49 | 140 | 51 | 274 |

¹ Project ID number will be assigned initially by GEFSEC.

| | | | | | | | | |
|---|-----|--|---|--------------|-----------|---------------|-----------|---------------|
| | | | <ul style="list-style-type: none"> - End-users professional associations, financial institutions and EF and ESCOs trained and informed about the financial instrument through/out manuals, brochures and workshops - At least 3 performance contract models adapted to the Chilean context | | | | | |
| 2. Implementation of the financial mechanism to support the activities of the EF and ESCOs | Inv | <ul style="list-style-type: none"> - Access to financing for EF y ESCOs has been facilitated and is catalyzing EE investments and the development of value added products and services in the EE market in Chile has increased. - Levels of investment in energy saving by EF and ESCOs has reached a relevant average in the EE market. | <ul style="list-style-type: none"> - A platform for evaluating the projects to be financed standardized - Process to verify the technical viability of the projects to be financed defined - Mandate contracts with the financial entity/ies that collaborate in implementing the mechanism signed | 2,157 | 15 | 12,531 | 85 | 14,689 |
| 4. Project management | | | | 73 | 25 | 214 | 75 | 287 |
| Total project costs | | | | 2,364 | 16 | 12,886 | 84 | 15,250 |

B. INDICATIVE FINANCING PLAN SUMMARY FOR THE PROJECT (000' \$)

| | Project Preparation* | Project | Agency Fee | Total |
|--------------|----------------------|---------------|------------|---------------|
| GEF | 0 | 2,364 | 236 | 2,600 |
| Co-financing | 150 | 12,886 | | 13,036 |
| Total | 150 | 15,250 | 236 | 15,636 |

* Please include the previously approved PDFs and planned request for new PPG, if any. Indicate the amount already approved as footnote here and if the GEF funding is from GEF-3.

C. INDICATIVE CO-FINANCING FOR THE PROJECT (including project preparation amount) BY SOURCE and BY NAME (in parenthesis) if available, (US\$)

| Sources of Co-financing | Sources of Co-financing | Amount (000' US\$) |
|--|-------------------------|--------------------|
| Project Government Contribution (PPEE and CORFO) | Grant | 3,969 |
| GEF Agency(ies) (IADB) | Grant | 150 |
| Bilateral Aid Agency(ies) | (select) | |
| GEF Agency(ies) | (select) | |
| Private Sector (Beneficiaries) | Unknown at this stage | 8,917 |
| NGO | (select) | |
| Others | (select) | |
| Total co-financing | | 13,036 |

D. GEF RESOURCES REQUESTED BY FOCAL AREA(S), AGENCY (IES) SHARE AND COUNTRY(IES)*

| GEF Agency | Focal Area | Country Name/ Global | (in \$) | | | |
|----------------------------|------------|-------------------------|---------------------|---------|------------|-------|
| | | | Project Preparation | Project | Agency Fee | Total |
| (select) | (select) | | | | | |
| (select) | (select) | | | | | |
| (select) | (select) | | | | | |
| (select) | (select) | | | | | |
| (select) | (select) | | | | | |
| (select) | (select) | | | | | |
| Total GEF Resources | | | | | | |

* No need to provide information for this table if it is a single focal area, single country and single GEF Agency project.

PART II: PROJECT JUSTIFICATION

A. STATE THE ISSUE, HOW THE PROJECT SEEKS TO ADDRESS IT, AND THE EXPECTED GLOBAL ENVIRONMENTAL BENEFITS TO BE DELIVERED:

Throughout the last two decades, Chile has established itself as one of the leading economies in Latin America. Between 1990 and 2008 the Chilean economy has been growing at an average rate of 5.5%, strongly driven by high copper prices reached in recent years (Chile is the world's biggest copper producer). This dynamic, combined with the strength showed by the Chilean economy in recent years, has resulted in an energy demand that has achieved growth rates higher than the Gross Domestic Product (GDP). This is in contrast to countries members of the Organization for Economic Co-operation and Development (OECD) that Chile is opting to join, where the intensity of energy consumption has strongly decoupled from GDP growth since the 1980s.

Chile's electricity sector has led this growth. Electricity demand, measured in terms of annual gross generation, has grown from 33,226 GWh in 1998 to 56,679 GWh in 2008, an increase of almost 70% in the last 10 years, similar to the 68% increase in generation capacity experienced over the same period. The sector has not only grown in capacity and demand,

but has also gone through a number of reforms, beginning with its privatization in the 80s which separated the sector into three distinguished businesses: generation, transmission and distribution. Today, there are over 50 generating companies, 10 transmission companies and over 40 distribution companies spread in four territorial areas: Northern Interconnected System (SING, acronym in Spanish) in the northern part of the country, Central Interconnected System (SIC, acronym in Spanish) covering the central and southern territory of Chile, and Aysen and Magallanes, both in the extreme south of the country. Together, they provide an installed capacity of 13,1 GW (2008) of which 72% is installed in the SIC area, 27% in the SING area (where most of the mining operations take place), and the rest 1% in Aysen and Magallanes.

According to information presented in the National Balance of Energy 2007 (BNE, acronym in Spanish), electricity supply in Chile is characterized by a matrix where the main source of primary energy is hydro (38.2%) followed by natural gas (36.8%), coal (15.9%) and diesel (7.4%).

The composition of the energy matrix makes the two interconnected electrical grids in Chile, SING and SIC, highly vulnerable due to their strong dependency on natural gas from Argentina and weather conditions, respectively. Thus, in 1998 there was an extreme energy crisis, mainly associated to the unavailability of water resources resulting from a severe drought. In 2008 the situation was similar, but with an exacerbated impact due to the shortage of natural gas from Argentina. At October 2009, began the operation of Quinteros GNL Plant, that provides 7% of the SIC generation matrix equivalent to all the natural gas residential demand at Metropolitan Region.

Since 2005 a series of measures have been put in place in order to achieve a better performance in EE aspects:

- In 2005, the PPEE was created, depending on the Ministry of Economy, the first public initiative to promote EE,
- In 2005, the first National Action Plan for EE was adopted,
- In 2006, the CNE's Plan for Energy Security reinforced EE as one of the priority actions to undertake in the short term in Chile (CNE, 2009)
- In 2008, as part of the ChG's decision to create an unique institution in charge of energy policy, the PPEE was made part of the CNE, whose chairman is the Minister of Energy,
- Between 2006 and 2009, the budget of PPEE was increased by almost 30 times,
- In 2009, the CNE published new Guidelines for the establishment of a new energy policy entitled "Transforming the energy crisis into an opportunity" (Tokman, 2009) ,
- In 2009, Chile decided to be part of the Peer Review on EE conducted by Asian Pacific Economic Cooperation (APEC) in order to evaluate the existing initiatives on EE

and receive recommendations for the medium and long term policy development;
and

- Currently, the ChG is carrying out an institutional reform for the energy sector. As part of that process, a bill has been submitted to the Congress to create the Ministry of Energy. This reform process also considers EE as an important part of the long-term energy strategy for the country. Following that spirit, the bill proposes the faculty for the Minister of Energy to create a non-profit organization in charge of designing and delivering EE programs for different sectors (Chilean Energy Efficiency Agency).

The reason why EE has been placed as a priority has to do with the untapped EE potential that the country still has on every sector: industrial, commercial, residential, public, and transport. According to official information, the EE policy will cover 20% of energy demand growth between 2008-2020 which is equivalent to 11% of installed capacity.

In order to develop tools to improve the energy performance in the productive sector, the existing barriers to the adoption of EE measures were analyzed at the national level. As it is common in other markets, it was concluded that, in Chile, there was significant lack of information and application of EE strategies and technologies. There is no adequate baseline for calculating the EE potential and there is a significant lack of technical capacity. From a financial point of view, there are economic barriers, which are directly related to the limited willingness to finance investments in EE from the financial institutions and the almost inexistence of an ESCO's market.

As a first step to internalize the role of the State in overcoming the barriers described above, in November 2006 an instrument to foster EE was created, the "Preinvestment in Energy Efficiency (PIEE)", which was a direct subsidy to finance energy efficiency consulting services including diagnostics to quantify the potential energy savings and establish a plan for improvement. This program was developed by both PPEE and the Productive Development Agency of Chile (CORFO, acronym in Spanish). This financial mechanism allows enterprises with annual net sales up to US\$ 33,000,000 to hire EE consulting services to quantify the energy savings potential and establish a plan for improvements. CORFO covers up to 70% of the total cost of the consultancy, with a maximum of US\$ 10,000. Since this Program was launched and until January 2009, 192 energy audits were started, of which 62 have been completed.

Subsequently, in July 2008 CORFO launched the EE credit line to finance investments of up to US\$ 1 million for optimizing the energy use in enterprises. This credit line allows companies to finance investment in projects for optimizing energy use. Companies, productive cooperatives and associations with annual sales of US\$ 33 million, excluding VAT, can apply to this credit line. This financial instrument is available to different sectors such as industry, agriculture, mining, fisheries, tourism and health. Finally, to complete the set of financial instruments oriented to fund end-users investments in EE, during 2009 a partial guarantee fund aimed to EE investments will be structured and implemented. The latter is not yet in operation.

These initiatives are important first steps for removing the barriers for investments in EE projects and the adoption of EE management measures. However, a specific financial mechanism oriented to EF and ESCOs has not yet been developed.

These companies play an important role in promoting the implementation of EE projects and creating and consolidating an EE market, overcoming the reluctance of end users to invest in projects which are not related to their main business area.

The ESCOs face a range of limitations on their development, including the following: (i) lack of access to bank financing; (ii) client skepticism about actual energy savings, which can be achieved through EE projects to be implemented; (iii) end user mistrust of Measurement and Verification plans to be used to objectively calculate those savings; (iv) the difficulty clients have in understanding the ESCO business model, overcoming their natural resistance to signing performance contracts.

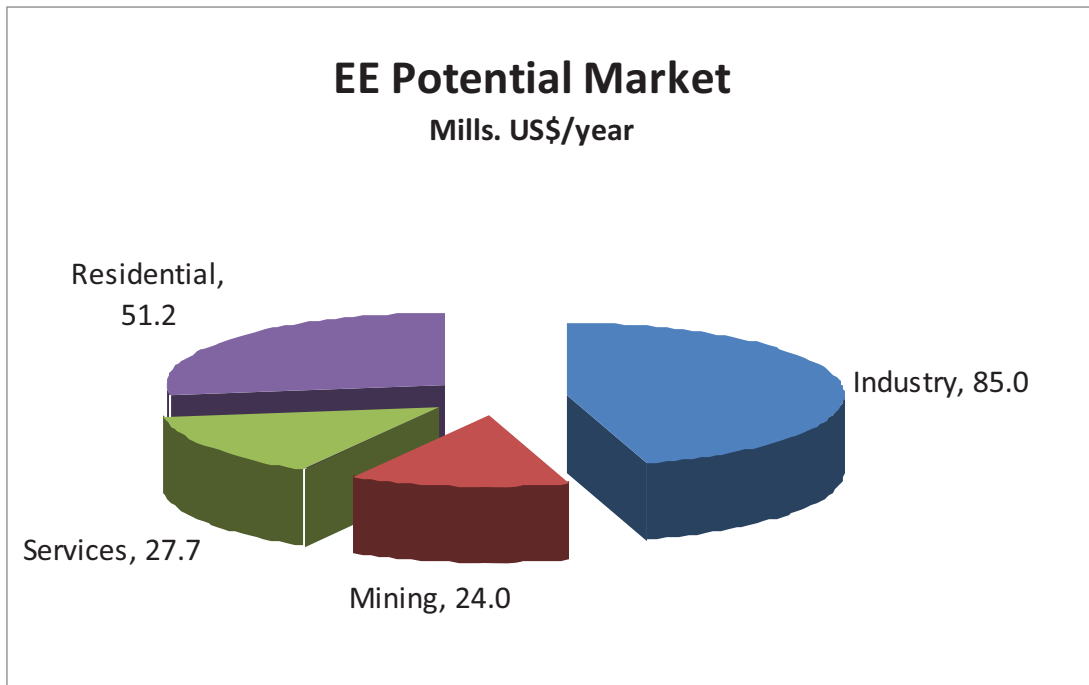
The ESCOs poor access to bank credit is primarily due to the fact that in doing a risk analysis, banks do not differentiate between EE projects promoted by ESCOs and other types of projects seeking financing. This implies that for EE projects in which an ESCO participates, the ESCO's level of credit solvency and the real guarantees it can provide as collateral for the financing will determine whether the bank in question decides to grant the bank loan. The fact that ESCOs generally have very limited capital to be able to offer tangible securities making it very difficult for EE projects to obtain financing through the ESCO participation scheme.

With the aim of overcoming the barriers mentioned, the ChG is analyzing the various financial instruments which could promote implementation of EE projects through ESCOs. The objective of this analysis is to identify and start up a financial mechanism to support ESCOs in order to strengthen and boost the EE market in Chile, making investment in energy savings and improvements in energy consumption projects attractive and competitive, by adequately managing risks and thus favoring the financing of EE projects.

As a preliminary conclusion from the analysis it may be said that there is sufficient liquidity in the local financial market to financially support the implementation of EE projects. The gap in access to financing is the result of the ESCOs being unable to provide the tangible securities required, which is in turn due to their lack of capital. Initial evidence suggests that a partial credit guarantee program (PGPC in Spanish) is needed, geared towards supporting EE projects set up by EF and ESCOs. As this is a new market, the design and structure of the financial instrument should be sufficiently flexible that it can adjust as the market evolves over time.

Given the size of the potential EE market and its low level of maturity, the financial instrument to be designed will support operations of the EF and ESCOs in those sectors of the economy which have traditionally been important as intermediaries and catalysts for implementing EE programs and projects, such as the public, commercial and industrial sectors. A first assessment of the size of the potential EE market in Chile may be found in the study "*Elaboración de propuestas de instrumentos y modelos sectoriales para energía limpia y eficiencia energética*" (Development of proposals and models for clean energy and energy

efficiency by sector), produced by Econoler International. The information in this report suggests that the potential annual EE market is worth US\$ 187.9 million (2005). This figure includes the following sectors: Industry, Mining, Commercial and Public Services, and Residential.



An accurate estimation of the market size will be available in February 2010, based on the results of a specific study being carried out by PPEE.

This project is designed to work in parallel and coordination with the GEF project “*Promoting and Strengthening an Energy Efficiency Market in the Industrial Sector in Chile*” - CH-X1002 - GEFSEC 3599. The latter project will focus on strengthening institutions, developing pilot projects and supporting the strengthening of existing financial instruments, all tackled on production companies. In contrast, this project will focus on the need to promote the development of EF and ESCOs as catalysts and key stakeholders in creating an EE market in Chile, aspects which thus far have not been addressed by public policy measures.

As mentioned above, the proposed project is concentrated on designing, structuring and implementing a financial instrument to support the creation of an energy services market, promoting the participation of EF and ESCOs in the development of energy efficiency projects in the industrial, public and commercial sectors.

The project has two components:

1. Design of a financial mechanism geared towards EF and Energy Service Companies (ESCOs)

This component will finance the development of the legal, financial and institutional design and structuring of the financial instrument, which is to be geared towards supporting the

participation of EF and ESCOs in promoting energy savings and energy efficiency projects. It will also support the development of an implementation plan for the instrument. The recent study on the “Energy Efficiency Pre-investment Program” (Programa de Preinversión en Eficiencia Energética, or PíEE), carried out by Econoler International and financed by IADB-PíEE, experienced serious difficulties because they did not have access to the program design study, nor was the size of the market sufficiently clear as to support the application of the instrument. In addition, there was no detailed implementation plan with milestones which could be assessed against performance. Thus, these elements are being included as an integral part of this project to ensure that the tools necessary to guarantee that the project is implemented correctly are provided through the second component, and also to enable the subsequent evaluation of the instrument's performance.

The elements in this component include, among others, a detailed description of the conditions and functioning of the financial instrument to be implemented; the definition of the institution(s) responsible for operating it; the training of the relevant stakeholders beneficiaries of the instrument; the development of performance contracts models adapted to the Chilean context; and the development of a media plan to publicize the instrument among potential clients.

2. Implementation of the financial mechanism to support the activity of the EF and ESCOs

This component relates to the implementation of the financial instrument in accordance with the design and implementation plan defined in Component 1. This mechanism will facilitate access to financing for EF and ESCOs and increase the level of investment in energy savings projects. As has been mentioned, an opportunity has been identified in Chile to boost the development of the energy services market through the operations of companies which specialize in implementing EE measures, thus enabling their clients to dedicate themselves to their key areas of business.

A number of activities are included within the framework of the project “*Promoting and Strengthening an Energy Efficiency Market in the Industry Sector in Chile*” - CH-X1002 - GEFSEC 3599, in particular the creation of a one-stop shop for EE projects; the development of a technical and financial evaluation platform facilitating the use of the current financial instruments; and the training of local stakeholders. These are fundamental to the success of the partial credit guarantee program (PCGP) or other financial instrument to be implemented through this component.

The stakeholders involved in implementing the PCGP will be involved in the following ways: i) financial institutions will act in this process as PíEE allies, providing the resources for investments to be financed, backed up by the guarantee program; ii) cooperation between the relevant public institutions and business associations from the economic sectors on which the ESCOs' activities are traditionally focused; iii) alliance with EF and ESCOs operating in the country.

In particular, we will develop a standardized platform for the evaluation of projects to be funded by the PCGP, in order to reduce the transactional costs associated to the assessment and evaluation of EE project in which ESCOs are involved and facilitate the

managing process of the financial institutions. Complementarily, It is going to be defined a process to analyze the technical feasibility of projects to be funded. Likewise, all the financial institutions beneficiaries of the PCGP should sign a mandate contract to formalize their participation in the Project.

The expected outcomes and outputs regarding to the GEF project will be expanded and reinforced during the project preparation process based on the results and conclusions of the different studies that are carrying out at the moment.

B. DESCRIBE THE CONSISTENCY OF THE PROJECT WITH NATIONAL PRIORITIES/PLANS:

Since the 1990s, the government has gradually been integrating EE into its areas of action and policies, following global trends in this area. Given the recommendation in a 2004 report published by the OECD which proposed integrating EE into national energy policies, the National Energy Efficiency Program (Programa País de Eficiencia Energética, or PPEE) was created in 2005 and work in this area began to be systemized and structured, promoting strategies and areas of action to boost proper energy usage in all sectors and segments of the country. At the same time and closely related to this, on February 2005, Chile ratified the Kyoto Protocol as part of the United Nations Convention on Climate Change, signaling the importance of EE as a tool for addressing the effects of climate change and meeting the milestones for this area which are included in the Protocol.

Therefore, because of the need to consolidate energy efficiency in Chile as a strategic objective of sustainable development, the National Energy Commission includes EE as a key element of its strategic areas.

As a result, what is needed is a consistent EE policy that fits with the overall national development policy, with a long-term vision but also the flexibility required to adjust as circumstances change. This policy must be explicit, clear, well-founded and widely accepted. This way, actions taken by communities and diverse stakeholders can be guided.

One sign of the importance which the government has given to EE is that since 2005 the PPEE budget has increased 29-fold. Given this, one of the key tasks and challenges for the period 2008 – 2009 is related to generating EE policies in order to develop an adequate regulatory framework so that EE is considered and addressed as a fundamental part of the Chilean energy matrix.

Preliminary evaluations have shown that EE investments are complex, as energy efficiency is a little-known field, once that is often seen as unrelated to a company's area of business. This being the case, international experience suggests the creation of a market in energy services, which would overcome the barriers of both the financial cost of the investment and the need to have (or develop) specific knowledge in the energy field. To do this, however, an initial stimulus from the government is needed to overcome the factors impeding these kinds of initiatives, which have to penetrate stakeholders' traditional operations with their embedded idiosyncrasies.

It is evident that the development of the energy services market through ESCOs has become an important part of the stimulus that the government needs to give to EE. However, it has not been possible to address it until now because of the need to prioritize public resources and the limited capacity of the public apparatus to develop a strategy on this matter.

C. DESCRIBE THE CONSISTENCY OF THE PROJECT WITH GEF STRATEGIES AND STRATEGIC PROGRAMS:

The Project is expected to contribute to the GEF Climate Change focal area strategy and more specifically to the Strategic Program 2 (CC-SP2) "Promoting Energy Efficiency in the industrial sector".

The proposed project aims at promoting an EE market in Chile through financial support for active participation by EF and ESCOs as intermediaries and catalysts of energy efficiency projects and programs. Public, commercial and industrial sectors will be targeted by these intermediaries as the international experience suggests. In the Chilean context, these sectors have high growth rates, substantial energy inefficiencies and good potential for replication. The proposed project will generate energy savings through the adoption of practices and investments in EE that will be promoted through competitive business models for EF and ESCO-type enterprises. As a result of the project, an energy efficiency services market will be developed and investments in this field will expand.

D. OUTLINE THE COORDINATION WITH OTHER RELATED INITIATIVES:

A number of ongoing initiatives, supported by local entities, bilateral and multilateral institutions, in which the IADB, German Development Cooperation Agency (GTZ, acronym in German) and German Development Bank (KfW, acronym in German) are the major funding sponsors.

IADB supports the development of Chile's energy sector through a number of initiatives focused on (i) strengthening the institutional framework, (ii) providing access to electricity, (iii) promoting the use of renewable energy, (iv) supporting the increase of energy efficiency and (v) helping to overcome the technological, informational and/or economic barriers to the development of clean energy and the introduction of EE. Currently, there are two IADB funded ongoing initiatives: "Support for National Energy Efficiency Program (PPEE)" (ATN/OC-10652-CH), a grant designed to support the establishment of PPEE's strategic implementation framework, and the "Promotion of Clean Energy Market Opportunities" (ATN/ME-9862-CH). The latter is a program designed to support the development and capacity building of ESCOs particularly oriented to SMEs. That program has provided the foundation and much of the know-how required to prepare this project. Moreover, through its Sustainable Energy and Climate Change Initiative (SECCI), the IADB supported the PPEE in the development of a carbon finance component for the National Light Bulb Replacement Program (PNRA in Spanish) that is soon to be launched and also in identifying, quantifying and treating, in the carbon markets, of the emission reductions associated to EE Programs promoted by PPEE (ATN/MC-11234-RG).

Likewise, PPEE, through the IADB as executing agency, is promoting the GEF project "Promoting and Strengthening an Energy Efficiency market in the industry sector in Chile" -

CH-X1002 - GEFSEC 3599. Both this GEF project and the one proposed in this document are closely related to the Chilean government's strategy to promote EE in Chile and in particular to develop an EE market. The projects' components have been designed to work in a coordinated way with the different initiatives that the CG has been carrying out in EE since 2006. The consolidation of this effort is the inclusion of EE as a key area in the bill that creates the Energy Ministry and the creation of the Chilean Energy Efficiency Agency.

GTZ has a cooperation agreement with Chile's National Energy Commission which seeks to improve the technical and institutional capacities of public and private stakeholders for implementing EE measures, in industry as well as in housing and construction. The German cooperation includes resources worth 1,800,000 Euros. Likewise, KfW has provided an 80 million Euro credit line to CORFO to promote renewable energies and EE.

All of the above initiatives are not only considered as essential activities to this program, because of the lessons learned, but also they considered part of the co-financing of this project. Therefore, due to the continuous coordination with the entities named before, the redundancy or duplication of activities will be avoided.

E. DISCUSS THE VALUE-ADDED OF GEF INVOLVEMENT IN THE PROJECT DEMONSTRATED THROUGH INCREMENTAL REASONING:

Thanks to the ChG's prudent actions in energy conservation and the creation of the PPEE program, EE is an established activity, although incipient, nevertheless with a great potential. However, the existing EE mechanisms and incentives are not covering all the stakeholders, in particular the EF and ESCOs. In a "do nothing" scenario, ESCOs in Chile would remain without access to a source of financing – because they are not granted access to CORFO's financial instruments – and thus, these would have a limited impact on the EE market, as qualified intermediaries, which is one of the main identified barriers. Thus, Energy Efficiency strategy would be ineffective to jump-start Chile's energy services market because would not providing knowledge and tailored made financial instruments to promote EE projects with the ESCOs' involvement.

On the other hand with the implementation of this GEF project it will be feasible the access to financing for EF and ESCOs, increasing the level of investment in energy savings projects and boosting the development of the energy services market through the operations of companies which specialize in implementing EE measures, allowing their clients to dedicate themselves to their core business.

F. INDICATE RISKS, INCLUDING CLIMATE CHANGE RISKS, THAT MIGHT PREVENT THE PROJECT OBJECTIVE(S) FROM BEING ACHIEVED, AND IF POSSIBLE INCLUDING RISK MEASURES THAT WILL BE TAKEN:

The Project is undertaken partly in response to an ongoing climate change effect, exemplified by the multiyear low level of rainfall. In this regard, aggravation of climate change, while being further damaging to the country, would not impact the project negatively.

One risk is low involvement from country authorities and stakeholders that may occur if a combination of factors materializes including a significant increase of rainfall and an increase of access to gas resources or a substantial decrease of oil prices. This would diminish private and public mobilization towards EE. This risk is low and is mitigated by the fact that the Project contributes to a long-term reduction in the impact of the fluctuation of these factors on Chile's economic development.

Another risk includes the design of the financing mechanisms, which may prove inadequate for such a new market and then limit the impact of funding involved. This risk is mitigated by the detailed analysis being carried out to determine the financial mechanism which would best adapt to the Chilean context, although, as has been indicated, in the first instance, the design and implementation of a partial credit guarantee program is seen as the most recommendable option.

G. DESCRIBE, IF POSSIBLE, THE EXPECTED COST-EFFECTIVENESS OF THE PROJECT:

This proposed project will directly and indirectly contribute to the achievement of local and global environment benefits, by reducing energy consumption which translates directly into carbon emission abatement as Chile's energy matrix is 60% thermoelectric based. It is expected that implementing the partial credit guarantee program will achieve a maximum financial leverage of around 1:10, starting at lower levels initially, which will evolve along with the performance of the Program.

The estimated potential energy savings for 2021 are 8,407 GWh at the Services Sector (Public and Commercial) and 36,472 at the Industrial. With the implementation of this GEF project it is expected to take advantage of these sector potentials.

H. JUSTIFY THE COMPARATIVE ADVANTAGE OF GEF AGENCY:

The goal of the proposed project is to provide technical assistance for designing a financial instrument which supports the creation of an energy services market, to promote the participation of EF and ESCOs and to implement this tool.

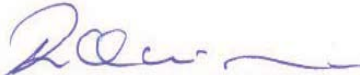
As has been indicated, the IADB is currently carrying out a number of TAs to support EE and Climate Change in Chile. Furthermore, the IADB is participating, as an implementing agency and co-financer, in the GEF project "*Market Transformation for Energy Efficiency in Brazil*" – BR—L1111 – GEFSEC 2942, through which it seeks to design and implement an Energy Efficiency Guarantee Mechanism to stimulate EE investment by building owners through ESCOs, and being the implementing agency of the GEF project "*Promoting and Strengthening an Energy Efficiency market in the industry sector in Chile*" - CH-X1002 - GEFSEC 3599 (this project has been designed to work in a coordinated way with the present). These activities combined with the expertise and knowledge of the IADB in financial structuring and funding let IADB to be, therefore, well positioned to provide maximum value in this field, as it is recognized in comparative advantages of the GEF agencies document, dated June 18, 2007.

PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)

A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S): (Please attach the country endorsement letter(s) or regional endorsement letter(s) with this template).

| | |
|--|--|
| <p><i>Ximena George-Nascimento</i> <i>GEF Operational Focal Point</i> <i>Comisión Nacional del Medio Ambiente (CONAMA) (National Environmental Commission)</i></p> | <p>Date: November 5, 2009</p> |
|--|--|

B. GEF AGENCY(IES) CERTIFICATION

| | |
|---|--|
| <p>This request has been prepared in accordance with GEF policies and procedures and meets the GEF criteria for project identification and preparation.</p> | |
| <p> Ricardo Quiroga, Senior Economist and Executive Coordinator IDB-GEF Environment, Rural Development and Disaster Risk Management Division IADB</p> | <p>Mr. Carlos Echevarría Project Contact Person Task manger Energy and Carbon Finance Specialist Energy Division</p> |
| <p>Date: 11/20/09</p> | <p>Tel. and Email: (202) 623 2648 – carlose@iadb.org</p> |