

## PROJECT ABTRACT

<b>Country:</b>	Regional
<b>Sector:</b>	Financial Markets
<b>Project Name:</b>	<b>REGIONAL GREEN BOND FACILITY</b>
<b>Project Number:</b>	RG-X1250
<b>Borrower:</b>	Special Purpose Vehicles (SPVs)
<b>Sponsors:</b>	Energy Service Companies (ESCOs)
<b>IDB Loan and Guarantee:</b>	US\$ 400 million
<b>China Fund Co-Loan GCF Loan and Guarantee</b>	US\$ 50 million
<b>GCF Grant</b>	US\$ 195 million
	US\$ 2 million

### PROJECT OVERVIEW

The purpose of the Facility is to provide an alternative financing mechanism for energy efficiency (EE) projects through the issuance of green asset-backed securities (ABS). A second objective of the Facility is to contribute to the development of LAC capital markets, by introducing green ABS under the highest standards by following the Green Bond Principles, and fostering social and environmental responsible investments among local institutional investors.

The IDB is creating innovative climate finance mechanisms that are especially designed to mobilize private sector institutional investors. With the Regional Green Bond Facility, the IDB becomes a partner of reference to develop this new asset class, setting an important precedent for structuring green finance solutions through capital markets. The regional Green Bond Facility is the first of its kind worldwide and the financing structure has already been taken as reference to be replicated in India, de facto enabling South-South knowledge collaboration.

Initial capital markets under consideration for utilizations of this Facility include Mexico, Dominican Republic, Jamaica, Chile and Colombia. Other capital markets could participate based on availability of EE projects seeking adequate financing, adequate legal and regulatory environments, capital market readiness for the issuance of green ABS, and institutional capacity of local institutional investors to invest in ABS.

### PROJECT DESCRIPTION

The total financing Facility is for up to US\$400 million. The amount allocated in Loans and PCGs will be defined at the time of the approval of each utilization. The Facility is expected to

mobilized up to US\$195 million in reimbursable co-financing (both in the form of co-Loans and co-PCGs), and a grant of US\$2 million from the Green Climate Fund (GCF). The China Co-Financing Fund for Latin America and the Caribbean (China Fund) committed up to US\$50 million to support the first utilization under the Facility. Other co-financiers such as CIFs may support utilizations under the Facility on a case by case basis. Finally institutional investors are expected to bring-in at least US\$750 million or its equivalent in local currency by investing in the green ABS issued in the capital markets. The Facility will have a 10-year term with at least 4 utilizations. The financing mechanism under the Facility consists in two steps: (i) during the Accumulation Step, the IDB will provide warehousing loans to Special Purpose Vehicles (SPVs) for the purpose of finance, accumulate and standardize credit rights arising from EE projects; and (ii) during the Mobilization Step, the IDB will provide one or more Partial Credit Guarantees (PCGs) to support the securitization of credit rights in the local or international capital markets. The Mobilization Step is a refinancing of the warehousing loans through bond offerings in capital markets

### **DEVELOPMENT IMPACT**

IDB Green Bond Facilities is a financing solution that has been recognized by the G-20 Climate Finance Study Group in Turkey (September 2015) as best practice to unlock the EE market through capital markets securities. The IDB is also contributing to the development of LAC's debt capital markets, by introducing green asset-backed securities under the highest available standards (Green Bond Principles), and fostering social and environmental responsible investments among local institutional investors. Finally, the GHG emission reductions for the Project are expected to be at least 17,000 tCO<sub>2e</sub> per million of US\$ invested, which results in an aggregate expected GHG emissions reduction of 6.1 million tCO<sub>2e</sub> during the lifetime of the projects.

### **IDB'S ADDITIONALITY**

IDB's financial additionality will provide EE projects with adequate financing in terms of tenor, pricing and type of collateral required. The IDB has also been instrumental in the mobilization of additional financing from the China Fund, the GCF and potentially other co-financiers such as the CIFs and other Climate Finance funds. Furthermore, the IDB structuring capacity to replicate the transaction structure in several LAC markets will allow bringing a new asset class to LAC capital markets. The IDB participation is also key to provide comfort to local institutional investors to invest in green ABS. Lastly, the financing (both the Loans and PCGs) can be offered in local currency which helps mitigate foreign currency risk.

Non-financial additionality also consists in the creation of a new asset class to be issued in local capital markets under the highest available standards (the Green Bond Principles). The IDB is creating innovative climate finance mechanisms that are especially designed to mobilize private sector institutional investors. The Regional Green Bond Facility is the first of its kind worldwide and the financing structure has already been taken as reference to be replicated in India. Through the Facility, the IDB is setting an enabling ecosystem that combines capacity building for the ESCOs to generate EE projects, bringing reputable Master Servicers to provide transparency to the use of proceeds and environmental targets, and the best standards to issue Green Bonds.

## **PROJECT CONTRIBUTION TO IDB OBJECTIVES**

The Facility is consistent with the Bank's strategy set forth in the "Report on the Ninth General Increase in the Resources of the Inter-American Development Bank" (GCI-9) to protect the environment, respond to climate change, and promote RE (document AB-2764). The Facility is also in line with the strategy of the Structured and Corporate Financing Department (SCF), and with SCF's beyondBanking strategy and its planetBanking initiative, which seek to promote environmental sustainability through financial intermediaries in LAC. Lastly, by providing access to a new asset class, the Facility seeks to promote the development of green bond markets in the LAC region.