

# Support knowledge exchange and development for climate finance by national development banks and other financial market players

## TC Abstract

### I. Basic project data

- Country/Region: Regional Project
- TC Name: "Support knowledge exchange and development for climate finance by national development banks and other financial market players "
- TC Number: RG-T2159
- Team Leader/Members: Co-team leaders: Maria Netto (IFD/CMF); Jose Juan Gomes (IFD/CMF); Members: Juan Ketterer (IFD/CMF); Carlos Ludeña (INE/CCS); Erin Compton (IFD/CMF); Lorena Rodrigues Bu (KNL).
- Indicate if: Knowledge development
- If Operational Support, TC give number and name of Operation Supported by the TC: N.A.
- Reference to Request<sup>1</sup>: ([carta ALIDE](#))
- Date of TC Abstract: 02/15/2012
- Beneficiary (countries or entities which are the recipient of the technical assistance): Finance Ministries and other market regulators, stock markets, national development banks, and regional associations of the aforementioned institutions in Latin America and the Caribbean
- Executing Agency and contact name: IDB – IFD/CMF
- IDB Funding Requested: USD 500,000 from the Sustainable Energy and Climate Change Initiative Multi-donor Trust Fund
- Local counterpart funding, if any: n.a.
- Disbursement period (which includes execution period): 3 years
- Required start date: 04/01/2012
- Types of consultants (firm or individual consultants): firm and individuals
- Prepared by Unit: IFD/CMF
- Unit of Disbursement Responsibility : IFD/CMF
- Included in Country Strategy (y/n); TC included in CPD (y/n): y, y
- GCI-9 Sector Priority: The proposed TC is closely related to two institutional priorities of the IDB under the GCI-9. They are: i) institutions for growth / social welfare; and ii) Protecting the Environment and Responding to Climate Change.

### II. Objective and Justification

The main objective of this technical cooperation is to generate knowledge and facilitate exchanges of experiences to support key players in capital markets and local public financial institutions to better take opportunity of climate finance and develop innovative financial incentives, including carbon finance, for promoting climate change mitigation and adaptation programs. This technical cooperation proposes in particular to promote the exchange of experiences and innovations regarding:

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<sup>1</sup> A copy of the Letter of Request, Programming/Portfolio Review Mission Aide Memoire or Report requesting the TC should be submitted with the Abstract.

- ✓ The role of treasuries, public development banks and other key players in capital markets (such as stock exchanges) in:
  - Coordinating and leveraging international climate finance and its blending with national, public and private funding and provide inputs in the international finance design;
  - Developing necessary financial instruments and incentives to promote carbon price and / or integrate climate change costs in investments.
  - Promoting and using market mechanisms, including carbon finance, drawing recommendations to improve their effectiveness.
- ✓ Opportunities and challenges for implementing climate change programs from the perspective of national development banks and local financial institutions.

Government capacities to efficiently plan, develop needed financial incentives and access, as well as absorb and coordinate international climate finance have been identified as key element for enhancing countries' effectiveness in responding to climate change. With their capacity to promote necessary financial incentives, manage national funds, leverage international funding and increase its impact and effectiveness through their field knowledge and expertise as well as develop innovative financing schemes, financial intermediates, national development banks, stock exchanges and other key players in domestic capital markets could play a critical role in climate finance and the promotion of environmental and social benefits.

While there are some successful experiences and activities in financial and capital markets underway in the Latin America and Caribbean region<sup>2</sup>, most of those experiences are still scattered and stakeholders still lack capacity and information to effectively play a stronger role in promoting financial and investment incentives to address climate change. Within this context, improving knowledge sharing and building capacity of local financial institutions and finance ministries has become an important precondition to ensure that climate finance is used efficiently to catalyze public and private investments needed to address climate change challenges and promote environmentally friendly economies.

This technical cooperation aims also to build on and enhance current efforts by the IDB to support regional players such as ALIDE (the Association of National Development Banks of Latin America) in promoting information exchange on environmental related issues (project RG-T1866) and various programs regarding the integration of stock exchanges. In addition, this TC will make use of existing knowledge platforms from the IDB, such as the IDB finanzascarbono.org and the Communities of Practice it has deployed and/or under design within that Platform, and ALIDE's network.

The proposed TC addresses two different institutional priorities of the IDB under the GCI-9. First, it backs the priority associated with Institutions for Growth and Social Welfare to the extent that it strengthens credit institutions, capital market players and finance ministries so that they, in turn, are able to

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<sup>2</sup> Such as the experiences in: i) channeling international climate finance by some national development banks (e.g. Bancoldex, Nafin, Finrural); ii) developing dedicated climate funds by some of these (e.g. BNDES); iii) designing and implementing climate change stock market indexes (as the experience of the Sao Paulo Stock Exchange); and iv) planning for the development of national carbon markets (as in the cases of Brazil, Costa Rica and Chile; among others).

promote sustainable private sector growth and development in their respective local financial markets. Secondly, it supports the priority of Protecting the Environment and Responding to Climate Change to the extent that national development banks and stock exchanges promote climate change and environmental considerations within their client base or relevant actors, respectively.

### III. Description of activities

The TC proposes to support knowledge sharing and development between key players of capital markets through 2 main components:

Component 1: Market assessment: This component would include an inventory and assessment of key learning and best practices generated by key players in the Region's capital markets to create financial incentives, instruments and strategies to promote climate change mitigation and adaptation, including:

- ✓ Financial instruments: A number of financial instruments are being proposed to provide for financial incentives / value of the climate change mitigation and adaptation, including: i) government supported "green bonds" for emissions reductions potential from projects; ii) guarantees provided by financial institutions or governments to mitigate the risks of carbon markets and risks relating to the delivery of projects in terms of emissions reductions; and iii) guarantees relating to pricing of carbon. Understanding these instruments will allow stakeholders to be better able to promote and participate in international climate finance mechanisms.
- ✓ Carbon finance: The IDB supports clients engaging in regulated and voluntary carbon offset schemes. With the rapid development of the carbon markets into new voluntary and in certain cases also national markets, and ongoing negotiations in the Climate Convention over new market mechanisms, there is a higher demand and need for advice and sharing experiences on national and/or sectoral policy development. An analysis of existing offset schemes in LAC will inform policy-making at the banks, corporate, sub-national and national levels. This will help to stimulate dialogue and information sharing (e.g. through the [finanzascarbono.org](http://finanzascarbono.org)) on critical issues such as transparency, choice of standards, linkages to national policies and commitments.
- ✓ National and international funds: Countries are increasingly recognizing the need to provide financial incentives in the form of grants, loans, subsidies and fiscal mechanisms for promoting climate change mitigation. A number of multilateral (e.g. the GEF, CIFs, GCF), bilateral, and national funds (e.g. Brazil's Fundo Clima) are being developed. Methodologies and conditionality applied by funds while assessing eligibility may differ greatly - in some instances, they could be a barrier for access by project developers. National capacity for "monitoring, reporting and verifying" (MRV) results is also an important factor for participating in these funds. A better understanding on how various criteria interlink and how a blending may be possible is crucial for an effective role of national development banks in leveraging climate finance resources.

On the basis of this assessment, a series of specific technical notes for policy makers / key stakeholders from capital markets (at least 9) would be developed and recommendations on the role IDB could play in supporting capital market clients would be made.

Component 2: Regional dialogue and dissemination and exchange of experiences: Under this component, in coordination with regional players such as ALIDE and/or with programs such as the

platform for integration of stock exchanges, the dissemination of key learnings and/or experiences in promoting climate finance in capital markets and by financial institutions generated as a result of the three assessments to be produced as part of Component 1 will be the base of several dialogues and knowledge and dissemination experiences included in this second component through:

- ✓ Web-based dedicated tools for learning and exchange: Building on the IDB's [finanzascarbono.org](http://finanzascarbono.org) platform and on knowledge platforms such as the one from ALIDE, knowledge products such as communities of practice, webinars, presentations, newsletters and guidelines showing specific experiences in structuring financial instruments and/or channeling climate finance resources would be developed and shared.
- ✓ Regional dialogue events and training: The TC would support the organization of:
  - Regional dialogues, in collaboration with ALIDE, among national development banks and training on specific mechanisms, opportunities and challenges to develop incentives for channeling climate finance. It is expected that at least 3 such events would be organized.
  - Building on the previous support experience, in close collaboration with UNEP, the World Bank, OLADE and IETA, continue and enhance the support to the organization of Carbon Forum Latin America and Caribbean, ensuring a broader participation of capital market and financial institutions players from the region in the forum and organization of targeted training.

#### IV. Budget

##### Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1 – Market assessment	Financial Instruments	50,000	n.a.	50,000
	Carbon Finance	50,000	n.a.	50,000
	National and international funds	50,000	n.a.	50,000
	Technical notes for decision makers	50,000	n.a.	50,000
Component 2 – Regional dialogue and dissemination and exchange experiences	Web-based tools	50,000	This work will benefit from the already existing <a href="http://Finanzascarbono.org">Finanzascarbono.org</a>	50,000
	Regional Dialogues	120,000	60,000*	180,000
	Carbon Forum	90,000	270,000**	360,000
	Training and technical advice	25,000	n.a.	25,000
Monitoring and evaluation		15,000	n.a.	15,000
<b>Total</b>		<b>500,000</b>	<b>330,000</b>	<b>830,000</b>

\* Support by ALIDE in kind over 3 years

\*\* Financing by other partners of the Carbon Forum LAC (World Bank, UNEP, OLADE, IETA) over 3 years

## **V. Executing agency and execution structure**

Given the diversity of actors that this TC aims at supporting and its regional scope, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their dissemination to all countries in the region.

## **VI. Project Risks and issues**

Given that the work proposed in this TC is highly technical, there is a risk of not obtaining good quality results if the work carried out by consultants is not properly monitored. This is the reason why the KCP proposes one peer reviewer per product developed as well as use of regional events for the organization of back to back validation workshops for the products developed.

For the proper use and promotion of the assessments, one of the most significant risks, the substantial participation from capital markets experts in the dissemination tools and events will be ensured. Indeed, the alliance with partners playing a key role in the region such as ALIDE, UNEP, the World Bank, OLADE and IETA should help to mitigate such risk. The fact that the activities will also build on other efforts and clients with whom the IDB is already actively working with should also ensure good dissemination and participation. Indeed, the Bank has been working very actively with the Association of Development Financing Institutions of the Region (ALIDE) and some stock exchanges that are seeking to integrate their operations (namely the stock exchanges of Lima, Santiago, Bogota y, possibly, Mexico).

An evaluation of the overall project would be executed considering the number of clients that may have benefited from the knowledge generation and support provided as well as the impact in identifying and designing innovative climate finance programs by capital and financial markets stakeholders. A budget of USD 15,000 has been put aside to develop a methodology for such evaluation and its execution.

## **VII. Environmental and Social Classification**

Given its nature, there are no significant environmental or social risks associated with this TC.