

## Technical Cooperation Document

### I. Basic Information of the TC

▪ Country/Region :	Regional
▪ TC Name:	Climate Risk: Identification, Management and Opportunities.
▪ TC Number:	RG-T2728
▪ Team Leader/Members:	Amal-Lee Amin team leader, Ana Rios co-team leader; Alfred Grunwaldt, Maricarmen Esquivel, Gerard Alleng, Juan C. Gomez (CSD/CCS); Tomas Serebrisky (INE/INE), Monica Lugo (LEG/SGO), Hilary Hoagland-Grey (ESG/ESG), Juan J. Durante (IFD/CMF), Edgardo Demaestri (IFD/CMF), Steven Wilson (MIF/MIF), Carlos Sanchez (MIF/MIF), Natacha Marzolf (INE/ENE), David Wilk (INE/WSA), Bridget Hoffmann (RES/RES), Maria Tapia (FNP/CME), Hilen Meirovich (IIC), and Maria T. Soto-Aguilar (VPC/FMP)
▪ Taxonomy:	Research and Dissemination
▪ Date of TC Abstract:	February 12, 2016
▪ Beneficiary:	Latin-American and Caribbean countries
▪ Executing Agency:	Inter-American Development Bank, through its Climate Change Division (CSD/CCS)
▪ Donor:	Sustainable Energy and Climate Change Multi-Donor Fund (MSC) <sup>1</sup>
▪ IDB Funding Requested:	US\$1,500,000
▪ Local counterpart funding:	US\$375,000
▪ Disbursement period:	36 months (execution period: 33 months)
▪ Required start date:	July 2016
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	CSD/CCS
▪ Unit of Disbursement Responsibility:	CSD
▪ TC Included in Country Strategy:	No
▪ TC Included in CPD:	No
▪ GCI-9 Sector Priority:	Protect the environment, respond to climate change and promote renewable energy and food security.

### II. Objective and Justification of the TC

- 2.1 The objective of this Technical Cooperation (TC) is to assist decision makers in managing the challenges and seizing the opportunities associated with climate change.
- 2.2 Climate change poses potentially significant risks to the economy, the financial systems and livelihoods in Latin America and the Caribbean (LAC). These risks are mainly related to: (i) climate impacts resulting in damages to infrastructure, natural

<sup>1</sup> The focus of this technical cooperation is aligned with the MSC as one of its purposes is to finance activities aimed at mainstreaming adaptation to climate change into policies and programs across the Latin-American and Caribbean region (see GN-2435-6).

resources and productivity losses; (ii) commitments, policies and regulatory changes required to reduce greenhouse gas emissions, and measures to foster climate change adaptation which might affect the value, use and lifecycle of assets; and (iii) to a lesser extent, reputational risks for investing in companies or products that are not aligned with climate goals under the new international agreement signed during the Conference of the Parties (COP 21) in Paris.<sup>2</sup> These factors could lead to significant losses, as well as to stranded assets –assets with unanticipated or premature write-downs, devaluations, or liabilities– which have recently prompted the reaction from a wide range of key global stakeholders that have emphasized the urgent need to better understand climate change risks and to identify measures to minimize their impact. Furthermore, as the current knowledge and data available on such complex impacts is still very incipient, achieving a broad understanding to secure an orderly transition into climate-sustainable economies that integrate the planned management of climate risks becomes a priority.

- 2.3 Climate change risk, henceforth called “climate risk”, already threatens to halt and potentially reverse progress made in recent decades towards poverty reduction, human development and growth. At the same time, maintaining the course in an intense carbon path towards development will increase these threats. The 2014 New Climate Economy Report “Better growth, Better Climate” highlights the urgency for sustained policy and institutional reforms to revitalize growth and poverty reduction, strengthen resilience, avert [high carbon] lock-in and begin to slow and ultimately reverse the accumulation of climate risk. As economic decision-makers in LAC seek to address the current economic slowdown, it will be important to understand the implications of climate risk, how these can be addressed and opportunities for increasing resilience of their growth strategies.
- 2.4 Moreover, the success of the COP 21 has increased country level commitments and responses to climate change. In 2016 it is necessary to continue to build and maintain the momentum around the implementation of these measures. Most countries in the LAC region have submitted their intended Nationally Determined Contributions (NDCs) to the UNFCCC, which highlight key actions to be taken on mitigation and adaptation towards 2025 or 2030. These will be considered in light of the Article 2 objectives of the Paris Agreement for limiting average global temperature rise below 2°C by 2100, to increase the adaptive capacity of all and for aligning financial flows towards low carbon and climate resilient development pathways. The emphasis on strengthening adaptive capacity, for building climate resilience and for minimizing potential loss and damage, places the need to understand and manage climate risk central to this new international climate change legal framework.
- 2.5 The operation is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008), as it seeks to generate useful information and knowledge to allow public and private decision makers to develop policy innovations that will enhance the effectiveness of governments, the productivity at the sectoral level and ensure resilience towards sustainable development pathways. The operation is also aligned with the cross-cutting theme of climate change and environmental sustainability, as the resulting knowledge is intended to educate leaders so they can create strategies that will guide economic growth in clean, resilient and efficient ways. Additionally, the program will contribute to the Corporate Results Framework

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<sup>2</sup> Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

2016-2019 (CRF) (GN-2727-6) by the generation of new capacities in public institutions directly related with the development agendas of participating countries (ministries of finance/economy, agriculture, natural resources or environment, central banks, national planning agencies, etc.), as their officials –as a result of the operation, will have a broader understanding of the challenges and opportunities that arise from climate change associated risks.<sup>3</sup> Moreover, it is also aligned with the goal of the Climate Change Sector Framework Document (GN-2835-3) given the focus on promoting sustainable development by mainstreaming climate change adaptation.

### III. Description of Activities/Components and Budget

- 3.1 The activities to be financed with the present operation aim at: (i) increasing the awareness, knowledge and understanding of climate risk; (ii) developing effective ways for managing these risks; and (iii) strengthening the resilience of development plans and growth strategies in the LAC region. To achieve these goals, the components involve collaboration and coordination among different sectors and divisions within the Bank, as well as with clients in the public and private sector. Activities involve analyses, evaluations, strengthening of capacities, dialogues among key stakeholders, peer-to-peer learning, as well as a broad outreach and dissemination process of lessons learned. All these actions will incorporate country-specific circumstances and will foster the participation of the Bank's country offices in order to ensure the active interaction of the Bank's clients in each participating country<sup>4</sup>. The technical cooperation (TC) entails the following components:
- 3.2 **Component 1. Identify and assess the implications of climate risk and opportunities for resilience: (US\$500,000).** This component will finance consulting services to consider regional climate risk implications of the following nature: (i) physical –as related to climate impacts; (ii) transitional –as it relates to the implementation of countries climate commitments and the Paris Agreement, and potential stranded assets; and (iii) liabilities –as they relate to claims by parties seeking compensation from loss and damage due to climate change impacts. The objective of these activities is to generate knowledge in four areas: (i) economic growth and measures for integrating resilience through fiscal, structural and investment strategies and policy; (ii) financial stability given the systemic nature of climate risk, and assessments and recommendations on emerging industry practices, tools and initiatives for understanding and managing climate risks and measures to increase resilience in the financial sector, including disclosure of climate risk, deployment of financial instruments and measures to finance low carbon investments (IMF, 2016); (iii) the effects of climate risks on sovereign assets and liabilities and its impact on sovereign credit ratings; and (iv) how climate risk and resilience can be addressed within public and private partnerships and other financing approaches for scaling up investments in sustainable infrastructure. The methodology to be used for each analysis will be selected based on its appropriateness in assessing the implication for a particular topic.

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<sup>3</sup> Country Development Results Indicators of the CRF 2016-2019: Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery.

<sup>4</sup> The selection of countries for the different studies will be based on IDB Country Strategies and the interest expressed by them to participate. The final selection will be made before launching procurement processes to select the firms that will carry out the studies. At least four countries are expected to participate in this TC.

- 3.3 **Component 2. Mainstreaming climate risk and resilience measures at the national level (US\$450,000).** This component aims to support ministries of finance, economy and/or planning, central banks and domestic credit rating agencies understand how climate risk may impact economic policy, as well as future development plans and growth strategies. Drawing from the case studies in Component 1, this will focus on engaging economic decision-makers on the design of strategies and specific recommendations for effective climate risk assessment and management, including: (i) regulation of the financial system; (ii) driving growth through strategies for sustainable infrastructure investment; (iii) enabling domestic green finance; and (iv) disclosure of climate related risks. It will also provide assistance to client requests for capacity building and/or development of specific analyses. In order to achieve this objective, the component will finance approximately six in-country events (including workshops<sup>5</sup> and trainings) to facilitate “south-south” collaboration and dissemination of lessons learned. Therefore, consulting services will be hired –individual consultants and/or consulting firms– to carry out country/region-tailored analyses and come up with recommendations to design effective climate risk management strategies and capacity building activities.
- 3.4 **Component 3. Climate risk management alternatives for mobilizing private sector investment in resiliency (US\$400,000).** The component entails the analysis and evaluation of risk management options to minimize climate risk, including potential losses and damages arising from climate impacts (i.e. micro-insurance and insurance), as well as the identification and design of appropriate instruments, partnerships and measures to increase private sector driven solutions that facilitate the management of climate risk and ensure resilience, particularly for sustainable infrastructure. This component considers client driven requests and activities<sup>6</sup> to facilitate the dialogue between the public and private sectors and the academia around relevant approaches to evaluate climate risk and increase private sector investments in resilience, as well as analyses to translate the results from Components 1 and 2 into an approach applicable to private financial institutions. Resources from this component will finance the contracting of consultant services to carry out these activities.
- 3.5 **Component 4. Outreach and dissemination (US\$140,000).** Internal and external activities with the public and/or private sector to: (i) create awareness; (ii) present and validate findings; and (iii) promote dialogue between public and private stakeholders. This component involves the financing of an estimated total of five events including workshops, conferences and brown bag lunches.<sup>7</sup>
- 3.6 **Monitoring and evaluation (US\$10,000).** Financing of consultancies for quality review of selected publications developed under Components 1 to 3.<sup>8</sup>

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<sup>5</sup> Countries to be determined during the execution of the program and on a case-by-case basis.

<sup>6</sup> These activities might involve collaboration with key stakeholders including regional organizations, private sector and academia.

<sup>7</sup> Outreach and dissemination activities could be led by the Bank alone or in partnership with relevant actors.

<sup>8</sup> A minimum of three publications will be reviewed. The selection of publications will be based on the topic and coverage of the analysis.

**Indicative Budget (US\$)**

Component	IDB Funding	Counterpart	Total
<b>Component 1.</b> Climate risk identification and assessment	500,000	0	500,000
<b>Component 2.</b> Mainstreaming climate risk and resilience measures at the national level	450,000	300,000	750,000
<b>Component 3.</b> Climate risk management alternatives for the private sector.	400,000	50,000	450,000
<b>Component 4.</b> Outreach and dissemination	140,000	25,000	165,000
Monitoring and evaluation	10,000	0	10,000
<b>Total</b>	<b>1,500,000</b>	<b>375,000</b>	<b>1,875,000</b>

3.7 The total cost of the TC is US\$1,875,000, of which US\$1,500,000 will be financed with resources from the Sustainable Energy and Climate Change Initiative Multi-donor Fund (MSC). The balance corresponds to the local in-kind counterpart provided by local institutions from the countries where the technical cooperation will take place. The in-kind local counterpart has been calculated based on the participation of at least four countries taking into account the sum of men-hours put in by participating professionals from different governmental teams and private sector for the supervision of consultancies and review of technical reports produced by this TC, as well as time spent planning capacity building exercises. Additionally, the local counterpart includes on-going relevant national studies that contribute towards the TC objectives such as NDCs Action Plans, adaptation sectorial strategies and/or sectorial methodologies for the assessment of climate related risks.

**Indicative Results Matrix**

Results Indicators Indicator/Unit	Unit	Base Line		Yr 1	Yr 2	Yr 3	End of Project
		Value	Year				
<b>Result</b>							
The project contributes to increasing the awareness, knowledge and understanding of climate risk and management options.							
<b>Products</b>							
Identify and assess the implications of climate risk and opportunities for resilience							
Published assessment of economic growth and measures to integrate resilience through fiscal, structural and investment strategies and policy.	Number of reports	0	2016		1		1
Published assessment of financial stability given the systemic nature of climate risk, and assessment and recommendations.	Number of reports	0	2016		1		1
Published assessment of climate risk on sovereign assets and liabilities.	Number of reports	0	2016		1		1
Published assessment of how climate risk and resilience can be addressed within public and private partnerships and other financing approaches.	Number of reports	0	2016		1		1
Mainstreaming climate risk and resilience measures at the national level							
Completed country/region-tailored analysis and recommendations for design of effective climate risk management strategies.	Number of reports	0	2016	1	2	3	6
Workshops delivered on the implementation of risk assessment methods.	Number	0	2016	1	1	1	3
Training completed on risk assessment methods	Number	0	2016	1	1	1	3
Climate risk management alternatives for mobilizing private sector investment in resiliency							
Completed assessments of risk management options to minimize losses and damages.	Number of reports	0	2016	1	2	2	5
Outreach and dissemination							
Outreach and dissemination activities delivered	Number of events	0	2016	1	2	2	5

#### **IV. Executing Agency and Execution Structure**

- 4.1 The operation will be executed by the IDB through the Climate Change and Sustainability Division (CSD/CCS) in coordination with the representatives of the various divisions participating in this technical assistance. CSD/CCS has ongoing work on climate risk and proven experience assisting ministries in institutional strengthening on climate change issues and mainstreaming climate considerations into national budgeting and planning.
- 4.2 The selection of the executing agency is based on the nature and coverage of the regional activities to be performed, which encompass synergies and complementarities with the Bank's operations and research –e.g. 2015 and 2016 Economic and Sectoral Work (ESW) on climate risk, the 2016 Regional Policy Dialogue, and operations such as “Financing Implementation of Intended Nationally Determined Contributions” (ATN/MC-15367-RG) and “Support to Climate Change Units within Ministries of Finance” (ATN/OC-13069-RG)– in addition to the ongoing dialogue with relevant ministries in the region. For instance, the work financed with the 2015 ESW gathered specialists to raise awareness on climate risk and identify key areas for further analysis. Then, the 2016 ESW has an ongoing research on climate risk management strategies, which include interviews with key stakeholders and the development of case studies.
- 4.3 CSD/CCS will coordinate with relevant external stakeholders (including public and private sectors) in order to create partnerships with academia and governments. Non-objection letters from each country will be requested prior to the start of the project's activities in the corresponding country. In addition, CSD/CCS will elaborate midterm and final reports to document the outputs and outcomes achieved during the implementation of the operation.
- 4.4 The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with current Bank procurement policies and procedures.

#### **V. Project Risks and Issues**

- 5.1 The main risks for the successful and timely execution of the project are the availability and quality of the information to be gathered and the qualified consultants required to perform the analyses and work proposed in the components of the operation. To address and minimize these risks, progress has been made in the identification of trustworthy information sources, as well as a pool of candidates with the skills and experience needed to perform the required tasks.

#### **VI. Environmental and Social Classification**

- 6.1 According to the Environment and Safeguards Compliance Policy of the IDB (OP-703), the operation has been received the “C” classification (see the corresponding [Safeguard Screening Form](#) and the [Safeguard Policy Filter](#)).

Required Annexes:

- Annex I: [Terms of Reference](#)
- Annex II: [Procurement Plan](#)

**CLIMATE RISK: IDENTIFICATION, MANAGEMENT AND OPPORTUNITIES**

**RG-T2728**

**CERTIFICATION**

I hereby certify that this operation was approved for financing under the Sustainable Energy and Climate Change Multi-Donor Fund (**MSC**) through a communication dated **March 25, 2016** and signed by Felipe Caicedo. Also, I certify that resources from said fund are available for up to **US\$1,500,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, i.e. represent a risk that will not be absorbed by the Fund.

Original Signed

7/19/2016

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Sonia M. Rivera  
Chief

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Date

Grants and Co-Financing Management Unit  
ORP/GCM