TC Document

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Regional Green Bonds Program for Latin America and the Caribbean
▪ TC Number:	RG-T3368
▪ Team Leader/Members:	Maria Netto (IFD/CMF), Team Leader; Maria Tapia (CSD/CCS), co-Team Leader; Enrique Nieto, Omar Villacorta, Isabelle Braly-Cartillier, Alexander Vasa, Joaquin Dominguez, Johan Arroyo, Francisco Demichelis and Cecilia Bernedo (IFD/CMF), Gianleo Frisari, Jaime Fernandez-Baca, Jennifer Doherty Bigara, Margarita Cabrera, Daisy Streatfeild, Gmelina Ramirez, Raul Delgado, Carlos Guiza (CSD/CCS), Avelina Ruiz, Diego Arcia, Ophelie Chevalier (CSD/HUD), Pilar Jimenez de Arechaga (LEG/SGO).
▪ Taxonomy:	Client Support (CS)
▪ Date of TC Abstract authorization:	February 11, 2019
▪ Beneficiary:	Upon demand, National Development Banks (NDBs), Governments and Sub-National Governments and Public Agencies from IDB borrowing member countries.
▪ Executing Agency:	Inter-American Development Bank (IDB)
▪ Donors providing funding:	NDC Pipeline Accelerator Multi-Donor Trust Fund (ACL) - US$1,100,000 OC Strategic Development Program for Sustainability (SUS) - US$300,000 Sustainable Energy and Climate Change Initiative Multi-Donor Fund (MSC) - US$500,000
▪ Total Funding Requested:	US$1,900,000
▪ Local counterpart funding:	US$150,000
▪ Disbursement period:	60 months (Execution period: 56 months)
▪ Required start date:	April 15, 2019
▪ Types of consultants:	Individual consultants or firms
▪ Prepared by Unit:	Connectivity, Markets and Finance Division (IFD/CMF)
▪ Unit of Disbursement Responsibility:	Institutions for Development (IFD/IFD)
▪ TC Included in Country Strategy:	N/A
▪ TC included in CPD:	N/A
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	(i) social inclusion and equality; (ii) productivity and innovation; (iii) climate change and environmental sustainability; and (iv) institutional capacity and rule of law.

II. Objectives and Justification of the TC

2.1 Green Bonds were created to raise funds for new and existing green projects with environmentally sustainable benefits aiming to address key areas of concern such as climate change, natural resources depletion, loss of biodiversity and/or pollution control. Sustainable Bonds are newer but similar to green bonds: they can be defined as any type of bond instrument where the proceeds will be exclusively applied to projects with either an environmental positive impact or a social positive impact. Green and sustainable bonds are a powerful way to mobilize private capital for climate and sustainability friendly projects and activities. The global market has been soaring in the last five years with annual issuances going from US$13 billion in 2013 to more than US$150 billion last year. The financial sector and subnational governments (provinces, municipalities, etc.) are by far the largest pool of issuers globally.[1]

2.2 In this global context, Latin America and the Caribbean (LAC) issuers have yet to participate at their full potential. The region represented less than 5% of issuances in 2017, with issuances mainly from Financial Institutions and concentrated in Renewable Energy (RE), and highly concentrated in a handful of countries –Mexico and Brazil, mostly. National Development Banks provide for an important opportunity to leverage and promote the green bond markets, accounting already for about 60% of the region issuances. Other potential governmental entities and players are gradually taking up an important role in the green bond market and could substantially further leverage green investments through bonds, including provinces, municipalities, sovereign or sub-sovereign entities.

2.3 The Inter-American Development Bank Group (IDBG) has been supporting the development of green and sustainability bond markets in LAC, via different initiatives: technical assistance programs to support the issuance of green and sustainability bonds in the region (in execution); and an IDB Invest "Regional Green Bond Facility" (RG-X1250) to address demand-side energy efficiency in the region through green bonds. The technical assistance programs, launched in 2017 by the IDB through the Connectivity, Markets and Finance Division (IFD/CMF),[2] have led to promising first results: the issuance of the first green and social bonds by Bancóldex, a Colombian National Development Bank, in August 2017 and May 2018 respectively; the development of a methodology for agricultural green bonds in Mexico in June 2018, and on-going discussions and projects with eight additional National Development Banks (NDB) for issuances in 2018 or 2019.[3] This work led to early discussion with other international multilateral and bilateral banks (European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau – (KFW)) to combine IDB technical support with potential investment anchoring, and thereby further mobilizing resources (see http://www.greenfinancelac.org/our-initiatives/gb/).

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1 Green, social and sustainable (defined as a combination of social and green) bonds were created to fund projects that have positive environmental and/or social benefits. The majority of those bonds are green, social or sustainable "use of proceeds" or asset-linked bonds. Proceeds from these bonds are earmarked for green, social or sustainable projects but are backed by the issuer's entire balance sheet (source Climate Bond Initiative). Social, Green and Sustainable bonds are usually verified and/or certified using recognized international standards applied to different types of sectors/themes, such as the International Capital Markets Association (ICMA) Green Bond Principles, the ICMA Social Bond Principles or the Climate Bond Initiative (CBI) standards. The certification is normally undertaken by an independent 'second party reviewer'. To a traditional bond issuer, issuing green bonds allows diversification of their investor base, especially when considering issuing international bonds in hard currency (EUR, US$), but also in local markets. Dedicated green and ESG investors (Responsible investors, green funds) account typically for 25-50% of these bonds' allocations (Environmental Finance, 2018), proving a strong interest for these securities that would be additional to the current investors base of such prospective issuers. Most green and sustainable bond issuances in LAC were oversubscribed 2 to 5 times. Green bond issuance also allows public sector institutions to leverage capital markets and mobilize private sector investments towards low carbon and climate resilient investments, bridging a significant investment gap - estimated at US$3 tr/yr globally and US$150-180 bl/yr in LAC (IDB, 2015; IDB and Mercer, 2016).

2 "Integration of Environmental and Social Concerns into Capital Markets: Supporting National Development Banks' Capacities to Issue Green Bonds (RG-T2720), and part of "LAC Green Finance Program to Mobilize Private Investment in Mitigation Actions and Low-Carbon and Sustainable Business Models through National Development Banks" (RG-X1244). See here for more detail about the scope of those TC programs.

3 Such as with NDBs in Brazil (Banco do Brasil, BRDE and BDMG) with support from RG-X1244, and in Colombia (Findeter) and in Peru (Cofide) with support from RG-T2720.

2.4 Thanks to the lessons learned through those first pilot initiatives, the objective of the proposed program is to scale-up and replicate the IDBG support for green bonds, while as well expand the experience to new issuers (governments and municipalities) and to new instruments (sustainable bonds), by:

a. Providing the necessary technical assistance to governments and NDB clients relating to issuances on more challenging sectors beyond RE, including sustainable agriculture, multi-sector portfolios, Sustainable Development Goals (SDG) thematic projects by –among others– developing methodological, knowledge and technical frameworks.

b. Providing the necessary technical assistance to identify national and subnational budget expenditures that could be eligible for green and sustainability bonds, promoting inter-ministerial dialogues to prioritize assets, allocate proceeds, ensure bonds alignment with countries' commitments under their National Determined Contribution (NDC) and SDG.

c. Providing technical support to governments and additional NDB clients regarding financial structuring aspects of the bond issuance and aggregation of portfolios, as well as regarding the use of credit enhancement features and identifying opportunities for the IDB or IDB Invest to offer financial instruments (guarantees, private placement, anchor investments and blended finance solutions for the mobilization of resources through other multilateral partners, such as EIB and KFW);

d. Assessing international appetite for investments in LAC sustainable and green bonds issuances (including the conditions in terms of costs and framework, and potential for Green Panda Bonds issuances in China, the potential of SGD bonds and the impact of credit enhancement).

2.5 Countries' ministries of finance, several municipalities and most financial institutions in our region have expressed interest in the issuance of green or SDG bonds. The first issuances –supported by the IDB with previous TCs– indicate that without technical assistance, issuers in LAC face significant barriers to their first green and sustainable bond issuance especially in terms of: identification of eligible assets to be financed, preparation of the dedicated documentation and outreach to the specialized investors' community subscribing this type of bonds. Without any technical support from the IDB and financial support by key donors, those beneficiaries would not have been able to structure their issuances. The issuances can lead to new product lines, dedicated to the financing of SDG-aligned projects as it was the case in Colombia. The program is therefore expected to be additional and enabling a wider range of actors to benefit from the experience gained.

2.6 The proposed program is open to public National Development Banks (NDBs), Governments and Sub-National Governments and Public Agencies from IDB borrowing member countries (see paragraphs 4.5 and 4.5) and will ensure that it will be aligned with the NDC needs of the respective country of beneficiaries. The proposed program is an enabling tool for issuing green and sustainable bonds and diversify the supply of funding resources required for the NDC implementation.

2.7 This TC is aligned with the development challenge of productivity and innovation, the cross-cutting issues of institutional capacity and rule of law, as well as climate change and environmental sustainability outlined in the Updated IDB Institutional Strategy 2010-2020 (AB-3008) because it aims to enhance the capacity of National

Development Banks (NDBs), Governments and Sub-National Governments and Public Agencies from IDB borrowing member countries to participate in Green Markets and structure and issue green bonds. Further the TC fulfills the following criteria of the ALC Fund: alignment with the country's NDC or other national climate change plan/priorities, potential of scale-up and mobilize capital, innovation and transformational change; and criteria the MSC Fund: alignment with offer of the appropriate instruments to finance policy and project related actions to support greater investment in sustainable energy in the region and development of methodologies in priority areas that can provide replication throughout the LAC region.

III. Description of activities/components and budget

3.1 This operation will finance the following activities:

3.2 **Activity 1.** Support for up to seven NDBs in the issuing of pilot green and/or sustainable bond programs, including with new and more challenging thematic scopes (SDG thematic, sustainable agriculture, conduit for municipalities or other sub-sovereign green and sustainable funding etc.). The support will be based on the methodology developed in previous technical assistance covering the whole issuance process –portfolio identification, preparation of the framework, support to financial structuring (including assessment of credit enhancement, co-finance/anchor investment and guarantee opportunities), second party review and certification, promotion and roadshow (see http://www.greenfinancelac.org/our-initiatives/gb/). In addition, the technical cooperation will support the NDBs in financial structuring aspects of the bond issuance and aggregation of portfolios.

3.3 **Activity 2.** Support up to five government entities at national and subnational level (such as Ministry of Finance, Province, Municipality or a State-owned entity) for identifying opportunity and developing a framework (alongside program in Activity 1) for the issuance of sovereign and sub-sovereign bonds. Additionally, the design and structuring of a financial solution to support sovereign and subnational entities to access markets and attract institutional investors where market conditions prove challenging due to size of issuance and risk appetite.

3.4 **Activity 3.** Development and dissemination (through events and other tools such as the Greenfinancelac.org) of knowledge products such as: a methodology and framework for SDG-aligned bonds, a methodology for specific sectors such as sustainable infrastructure (aligning the IDB Sustainable Infrastructure framework[4] to capital markets instruments), sustainable agriculture and land use, and regulatory good practices to develop local markets in collaboration with local capital market regulators and stock markets.

3.5 **Activity 4.** Realization of a survey to assess the international appetite for investing in LAC green sustainable bonds issuances and potential leverage of credit enhancement instruments (such as guarantees) and anchor investments solutions. In addition, through a parallel effort with the Chinese Government,[5] this TC will receive inputs and lessons learned from a roadmap for LAC NDBs and other government issuers that would like to issue green in international markets –such as issuing panda bonds in China.

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[4] Technical note N IDB-TN-1388: What is Sustainable Infrastructure? A Framework to guide sustainability across the project cycle.

[5] As part of the activities from the TC "Building Green Financial Instruments and Systems in LAC from the Experience of China" (RG-T3045).

3.6 The proposal focuses on mitigation, as most of the methodologies and frameworks currently available to green and sustainable bonds have been related to indicators referring to the reduction of Greenhouse Gases (particularly, the methodologies currently available through the Climate Bond Initiative). The program, however, seeks to contribute with an assessment of the implementation of different methodologies currently evolving including adaptation issues, and land use.[6]

3.7 The total cost of this TC will be US$1,900,000 (see Indicative Budget in Table 1). The project team expects that consultancy services will provide the support envisioned by the proposed technical assistance for all beneficiaries. Beneficiaries will provide in kind counterpart resources, including staff time, facilities for events, and office space for consultants for an equivalent of 15% of the services received. Also, the Technical Cooperations (ATN/OC-13979-RG, ATN/FI-16358-RG and ATN/CF-15571-RG) are supporting the same beneficiaries and complementing the work performed by the IDB in Green and Sustainable Bonds.

Table 1. Indicative Budget

Activity/Component	IDB/Fund Funding			Total	Lead division sub-account
	ACL	MSC	SUS		
1. Support for up to seven NDBs in the issuing of pilot green and/or sustainable bond programs	500,000	250,000	0	750,000	CMF
2. Support to up to five sovereign entities for the issuance of green or SDG-aligned bonds.	500,000	250,000	300,000	1,050,000	CCS
3. Development of knowledge products on credit enhancement	50,000	0	0	50,000	CMF
4. Realization of an International Investors survey	50,000	0	0	50,000	CMF
TOTAL	**1,100,000**	**500,000**	**300,000**	**1,900,000**	

IV. Executing agency and execution structure

4.1 The execution of this TC will be done by IDB. Given the demonstration objective of the TC, the need to generate economies of scale, and the regional scope of the intervention, it is more appropriate for the IDB to directly executes this TC. The project will be executed by the Connectivity, Markets and Finance Division (IFD/CMF) (Activities 1,3, and 4) and the Climate Change Division (CSD/CCS) (Activity 2). The program will benefit from the Housing and Urban Development Division (CSD/HUD) technical support and collaboration for the subnational bond issuance program. IFD/CMF will be ultimately responsible for the overall TC supervision and reporting.

4.2 The lessons learned from previous TCs also show that a strong involvement from the IDB is crucial to: (i) accompany the senior management of the beneficiary entities throughout the process; and (ii) ensure the maximum benefits of the dissemination of knowledge from one project to the other. The administrative and technical supervision of the proposed TC will be under the joint responsibility of IFD/CMF and CSD/CCS, according to activities specified in ¶4.1.

[6] Adaptation-linked bonds are still a small share of the green bonds market, despite the risks LAC countries face. The proposed program could provide support to evaluate sustainable options, assess impact measurement methodologies and key affected sectors to increase the generation of these bonds. See Vergara et al., 2013. The Climate and Development Challenge for Latin America and the Caribbean Options for climate-resilient, low-carbon development.

4.3 IDB execution would be carried out in accordance with the Operational Guidelines for Technical Cooperation Products (GN-2629-1) and its Appendix 10 as a Client Support TC. All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV) and will be contracted in accordance with Bank policies as follows: (i) AM-650 for Individual consultants; (ii) GN-2765-1 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (iii) GN-2303-20 for logistics and other related services. Bank staff travel costs will not be covered with these funds.

4.4 The Bank, as executing agency, will be responsible for approving the products of the different consultancies of the operation. In this regard, if the Bank requests beneficiaries' technical validation for the approval of a product of this TC, it may do so without prejudice of the Bank´s final decision on any matter related to any such product.

4.5 The TC beneficiaries will be selected based on client demand and on a first-come, first serve basis, and would submit the corresponding request letter, as the ones already received from Peru, Ecuador and Mexico (see Annex I). The eligibility criteria for Activities 1 and 2 include: (i) demand from beneficiary entities' senior management; (ii) experience with international or multilateral finance organizations; (iii) a technical focal point; and (iv) a strong institutional interest to issue green bonds. Activities 3 and 4 will benefit all potential beneficiaries in the region. The knowledge sharing events organized as part of Activity 3 will be organized –when relevant– jointly with the Latin American Association for Development Financing Institutions (Alide). The TC will allow a geographical balance within the LAC region in line with the eligibility criteria throughout all TC activities.[7]

4.6 Prior to the financing of any activity in any beneficiary country, a non-objection letter from the liaison entity in such country will be requested.[8]

4.7 The disbursement period requested for this TC is of 60 months (56 months of execution) which is longer than most TCs. The reason is that we want to develop a regional program that maximizes synergies between issuers in different countries. In some countries such as Brazil, Colombia, Chile, Mexico, there is already interest and we could have operations in 12 to 24 months; but for the others, demand will probably only emerge once we have a few examples to show. This is especially true for Sovereign issuances as it will be a first in the region. Hence, the TC would allow support to demand that will only come in 24 months, considering the need for another 24 months to serve those.

V. Major issues

5.1 The main risk associated with this TC is the loss of ownership from beneficiary entities over the course of their respective project which could occur because of a reversal of market conditions, or because of institutional reasons. This is particularly true given

[7] The project team will make an effort, in collaboration with IDB Representations, to share information through regional networks (such as the NDB LAC Network – ALIDE), to promote widely the Technical Cooperation services.

[8] Expressions of interest were already identified in: **Argentina:** Exchanges Regulator (CNV) Argentina, Bank of Investment and Foreign Trade (BICE); Bank of the Province of Buenos Aires (*Banco Provincia*); Province of Buenos Aires; **Brazil:** Bank of the *Nordeste*; **Chile:** Ministry of Finance, Bank of the State of Chile (Banco Estado); **Colombia:** Ministry of Finance, Colombian Financial Institution for Development (Findeter), City of Barranquilla; **Mexico:** Ministry of Finance and Public Credit**,** State of Yucatan; **Ecuador:** Development Bank of Ecuador (BDE), **El Salvador:** National Development Bank of El Salvador (Bandesal); **Peru:** Ministry of Finance; Ministry of Environment; **Uruguay:** Bank of the Oriental Republic of Uruguay (BROU).

the duration of the TC which increases the risk of having changes in governments and, therefore, in strategy towards green bonds. To mitigate that risk, each project will be divided into phases, ensuring that each phase only kicks-off once the full support of the beneficiary institution's Board of Directors or Finance Vice-presidency has been formalized.

VI. Exceptions to Bank policy

6.1 None.

VII. Environmental and Social Strategy

7.1 Based on the Environmental and Social Safeguard Compliance Policy (OP-703), this TC has been classified as Category C. No potential negative environmental and/or social impacts were identified and therefore no mitigation strategy is required to address any impact. Moreover, the portfolios that would back any green or SDG-aligned bond issue will be reviewed by a second party to assess the environmental and social safeguard system under which it was generated and is being managed (see: Safeguard Policy Filter Report (SPF) and Safeguard Screening Form (SSF)).

Required Annexes:

- Annex I - Request Letters from the Clients
- Annex II - Results Matrix
- Annex III - Terms of Reference
- Annex IV - Procurement Plan

Inter-American Development Bank

MEMORANDUM

File Classification: EZSHARE-98902581-12
IFD/CMF-11/2019
Date: 12 de abril de 2019

To: Luis Alberto Moreno
President

From: Ana Maria Rodriguez-Ortiz
Vice President for Sectors and Knowledge

Subject: **REGIONAL. Regional Green Bonds Program for Latin America and the Caribbean (RG-T3368).** Nonreimbursable financing up to the amount of US$1,900,000. NDC Pipeline Accelerator Multi-Donor Trust Fund (ACL); OC Strategic Development Program for Sustainability (SUS); and Sustainable Energy and Climate Change Initiative Multi-Donor Fund (MSC). Approval.

We are attaching for your consideration and approval, the document describing Technical Cooperation "Regional Green Bonds Program for Latin America and the Caribbean". This document has been prepared by the Project Team pursuant to the guidelines and procedures established for the preparation and processing of nonreimbursable technical cooperation operations.

Pursuant to Resolutions DE-44/08 and DE-103/14, the President has the authority to approve nonreimbursable technical cooperation operations and nonreimbursable investment operations for up to an amount of US$3,000,000.

Therefore, taking into consideration that the amount of this operation does not exceed the amount of US$3,000,000, it is hereby recommended that the above-referenced operation be approved.

Mrs. Maria Netto (mnetto@iadb.org), ext. 2009, Project Team Leader, will be available to answer any questions.

Approved: ______________________
Luis Alberto Moreno, President

Date: 04/23/2019

Regional Green Bonds Program for Latin America and the Caribbean

RG-T3368

ACL	**1,100,000**
SUS	**300,000**
MSC	**500,000**
TOTAL	**1,900,000**

Certification

I hereby certify that this operation was approved for financing under the **NDC Pipeline Accelerator Multidonor Trust Fund (ACL);** the **Ordinary Capital Strategic Development Program for Sustainability (SUS)** and the **Sustainable Energy and Climate Change Multi-Donor Fund (MSC),** through a communication dated February 12, 2019 and signed by Felipe Caicedo (ORP/GCM). Also, I certify that resources from said funds are available for up to **US$1,900,000** 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, representing a risk that will not be absorbed by the Fund.

Certified by: ______________________ 4/8/19
Date

Sonia M. Rivera FC
Chief
Grants and Co-Financing Management Unit
ORP/GCM