

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Analytical support for the Paris Alignment of operations
▪ TC Number:	RG-T4231
▪ Team Leader/Members:	Viguri, Sofia (CSD/CCS) Team Leader; Alejandra Paris (CSD/CCS); Catalina Aguiar Parera (CSD/CCS); Gomez, Juan Carlos (CSD/CCS); Hurwitz, Zachary Daniel (VPS/ESG); Juan Francisco Martinez (CSD/CCS); Leal Rosillo, Roberto (VPS/ESG); Mendoza Benavente, Horacio (LEG/SGO); Patricia Gutierrez Mesones (CSD/CCS); Sara Carias (CSD/CCS) Alfred Grunwaldt (CSD/CCS) Alternate Team Leader; Alejandra Guraieb (CSD/CCS); Catalina Aguiar Parera (CSD/CCS); Gomez, Juan Carlos (CSD/CCS); Hurwitz, Zachary Daniel (VPS/ESG); Juan Francisco Martinez (CSD/CCS); Leal Rosillo, Roberto (VPS/ESG); Mendoza Benavente, Horacio (LEG/SGO); Sara Carias (CSD/CCS); Patricia Gutierrez Mesones (CSD/CCS); Wilhelm Dalaison (INE/INE); Christian Gischler (INE/ENE); José Luis Irigoyen (INE/ENE); Irati Jimenez (INE/ENE); Ernesto Monter (INE/TSP); Raúl Muñoz (INE/WSA); Ana Ríos Galvez (CSD/RND); Giovanni Leo Frisari (IFD/CMF); Luis Felipe Vera (CSD/HUD); Sofia del Castillo (CSD/HUD); Raimon Porta (VPS/ESG); Livia Minoja (SCL/SCL); Soledad Bos (SCL/EDU); Mariana Alfonso, (CSD/CCS).
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	---
▪ Date of TC Abstract authorization:	N/A
▪ Beneficiary:	Bank borrowing member countries of LAC
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Sustainability(W2A)
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	May 2023
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	CSD/CCS-Climate Change
▪ Unit of Disbursement Responsibility:	CSD/CCS-Climate Change
▪ TC included in Country Strategy:	No
▪ TC included in CPD:	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation; regional economic integration, Institutional capacity and rule of law, climate change and environmental sustainability

II. Objectives and Justification of the TC

- 2.1. The populations and economies of Latin America and the Caribbean (LAC) are subject to increasingly severe and frequent shocks and stressors from natural disasters, climate change impacts and degradation or disruption of ecosystem services. To support member countries with these challenges, the IDB Group has committed to assessing the alignment of operations with the Paris Agreement (PA) as part of a wider effort to increase climate and green finance ambition (CA-619). Aligning IDB Group financing to the Paris Agreement (PA) is one of the actions contemplated in the IDB Group Climate Change Action Plan 2021-2025 (GN-2848-9, Section III.A.2).
- 2.2. In this context, the IDB Group has developed and adopted the *Paris Alignment Implementation Approach: Principles, Methodology and Technical Guidance* (PAIA, [GN-3142-1](#), [GN-3142-2](#)) which is the bespoke application of the MDB Technical Framework for PA alignment¹ to operations at IDB, IDB Invest and IDB Lab, according to their unique policies and mandates. The PAIA is being applied to new IDB operations² that reach their eligibility stage on or after January 1st, 2023.
- 2.3. According to the PAIA, alignment with the mitigation goal of the PA implies that operations do not undermine the transition to net long-term carbon neutrality economies, in that country and globally. In instances where operations relate to subsectors considered intensive in greenhouse gas (GHGs) emissions per the PAIA sectorial technical guidance, the process involves the application of specific criteria to ensure operations: (i) do not contradict country-owned NDCs, Long Term Strategies (LTSs), or global sector-specific pathways towards decarbonization, considering the specific context and the principle of common but differentiated responsibilities³; (ii) do not “lock-in”⁴ GHG emissions levels and/or loss of carbon sinks in ways that are inconsistent with long-term carbon neutrality, by ensuring all technically and financially feasible lower-GHG solutions are assessed considering a long-term view of how they will continue to operate; and (iii) when applicable, include strategies to manage transition risks that may jeopardize the economic viability of the investment and/or result in stranded assets for the country or client given the evolving policy and market landscape around climate. These criteria are to be analyzed given the best available information considering the national context and differentiated capacities of clients and

¹ See: MDB Group. (2021, November). [Joint MDB Assessment Framework for Paris Alignment for Direct Investment Operations](#). BB1 and BB2 Technical Note. Retrieved from <https://www.eib.org/attachments/documents/cop26-mdb-paris-alignment-note-en.pdf>

² The scope of the PAIA's application covers all investment loans, policy-based lending, guarantees, equity, investment grants with an approved amount greater than US\$3 million, and long-term corporate finance. Consistent with practice at other MDBs, the PAIA does not cover technical assistance or short-term financial instruments and does not apply to credit facilities for natural disasters and public health emergencies, nor to special development loans. Fee-based advisory and knowledge services are also not covered by the PAIA.

³ Common but Differentiated Responsibilities and Respective Capabilities is a principle within the United Nations Framework Convention on Climate Change (UNFCCC) that acknowledges the different capabilities and differing responsibilities of individual countries in addressing climate change.

⁴ This refers to the avoidance of “carbon lock-in”, which in practice entails analyzing any GHG-intensive asset financed by the IDB Group considering its emissions levels, expected lifetime of operation, and technically and economically feasible alternatives and/or arrangements that may replace it or reduce its emissions to net zero by mid-century. This also includes considering ways to avoid reinforcing market dynamics that set barriers for the transition, e.g., deter the entry of market players that offer lower GHG alternatives for this type of investment.

partners. Upstream work (before a specific operation enters the pipeline, e.g. in Country Strategies and Country Programming Documents) will reinforce alignment with the mitigation goal of the PA by promoting low-GHG development alternatives on least-cost transition curves and contribute to competitive, healthy, and clean economies in LAC.

- 2.4. For alignment with the adaptation goal of the PA, the PAIA establishes that IDB operations will rely on the application of the Environmental and Social Policy Framework (ESPF) to ensure all material physical climate risks are identified and addressed. IDB Climate change teams will furthermore ensure these measures are compatible with national climate adaptation planning and priorities, as established in countries' NDCs and National Adaptation Plans. Upstream work (before a specific operation enters the pipeline, e.g. in Country Strategies and Country Programming Documents) will reinforce alignment with the adaptation goal of the PA by reinforcing the prioritization of projects that minimize the risks of maladaptation and maximize long-term climate resilience.
- 2.5. A baseline assessment of approvals for the period 2019-2022 indicates that between 10% and 20% of IDB operations need additional preparatory work to reinforce and provide clarity on their alignment to the goals of the PA, with both accuracy and transparency. These may relate to technical solutions that: a) depend on fossil fuels (e.g. feasibility studies for Liquified Natural Gas –LNG – introduction, back-up diesel generators, gas distribution lines for urban upgrading, petrol-based transportation systems, carbon-based pumping systems for diverse applications), b) operations with risks of medium to long-term impacts on GHG emissions and carbon stocks given the local context (e.g. finance for enabling infrastructure and equipment for activities that may be considered GHG-intensive or with propensity to alter primary and secondary forests, sometimes related to weak land governance), and c) projects that without appropriate resilience planning, could lead to maladaptation (e.g. tourism and urban upgrading in climatically vulnerable contexts).
- 2.6. **Objective:** In this context, the main objective of this technical cooperation (TC) is to fund the analysis and project preparation activities necessary to assess and inform new IDB operations and their alignment to the PA. It will do so by i) fine-tuning analytical tools currently used in project preparatory studies, so they include climate variables and national targets in their methods when necessary; ii) fund the application of these updated tools in projects that require a specific assessment (as established in the Climate Change and Sustainability Filter) to reinforce/clarify their alignment to the PA; iii) in cases where the specific assessment identifies “transition gaps” (see glossary of the IDB Group PAIA GN-3142-1) fund complementary support for the climate transition, using a scope that is similar to other technical assistance provided by the IDB to promote the adequate execution of projects; and iv) build capacity in the use of climate-related analytical frameworks and tools across project teams as part of the process of aligning operations to the PA.) to reinforce/clarify their alignment to the PA; iii) in cases where the specific assessment identifies “transition gaps” (see glossary of the IDB Group PAIA GN-3142-1) fund complementary support for the climate transition, using a scope that is similar to other technical assistance provided by the IDB to promote the adequate execution of projects; and iv) build capacity in the use of climate-related analytical frameworks and tools across project teams as part of the process of aligning operations to the PA.

- 2.7. The frameworks, tools and activities funded through this TC will serve the purpose of clarifying and/or maximizing the congruence of IDB operations with the low emissions and climate resilient development trajectories necessary to meet the goals of the PA, as indicated in: i) global literature sector decarbonization pathways (e.g. milestones set by the International Energy Agency in its [Net Zero by 2050 Report](#), maladaptation risks identified in the 2021 [Sixth Assessment Report of the Intergovernmental Panel on Climate Change](#)) and ii) priority actions and sector targets in national [Long-Term Strategies](#) (LTSS) and [Nationally Determined Contributions](#) (NDCs) registered under the United Nations Framework Convention on Climate Change (UNFCCC).
- 2.8. Operations that require additional climate considerations in their preparatory studies or additional studies altogether to adequately apply the PA alignment methodology, are expected to be concentrated in the following sectors: i) energy; ii) transportation; iii) water and sanitation; iv) agri-food systems; v) energy-intensive buildings; vi) energy-intensive information and communication technologies; viii) energy-intensive manufacturing; and ix) urban and housing interventions in vulnerable and/or informal settlements and x) operations with Financial Institutions with particular concentration on any of the previous sectors. This TC will support the design and/or execution of any loans and guarantees in these sectors that require additional funding to validate their alignment to the goals of the PA.
- 2.9. This TC is aligned to the Second Update to the Institutional Strategy of the IDB Group. The strategy ratifies the three strategic priorities of the group's work: (i) social inclusion and equality; (ii) productivity and innovation and (iii) regional economic integration and establishes three strategic cross-cutting issues in the group's projects: (i) Gender equality, inclusion and diversity; (ii) climate change and environmental sustainability; and (iii) institutional capacity and the rule of law. This TC is key in advancing the group's efforts two of the three priorities, as it promotes knowledge and technology transfer conducive to a more productive and innovative LAC region (productivity and innovation), helping countries adapt to technological changes global markets (regional economic integration) as a product of the low-carbon transition and the push for more climate-resilient economies. This TC is aligned to all three cross-cutting issues and also, to the IDB Group Climate Change Action Plan (CCAP), which establishes as an action the integration of PA Alignment into IDB operations procedures (p.15). Additionally, it is aligned to the corporate priority of improving the value proposition of the IDB Group and the operational priorities of strengthening cross-cutting issues such as climate change and increasing resource mobilization, as Paris Alignment becomes an access criterion to third party sources.

III. Description of activities/components and budget

- 3.1. The TC will be accessed by operational teams under the supervision of sector specialists responsible for the consistent application of the PAIA [GN-3142-1](#) at the IDB.
- 3.2. **Component 1. Support the incorporation of climate-relevant variables in project preparation (250,000).** This component will support the updating of terms of reference for project preparation studies such as: complementary environmental and social impact studies; technical and economic analysis; cost-benefit analysis; market demand analysis; financial analysis. These updates will aim to incorporate relevant climate variables and methods to identify: i) the risks of carbon lock-in, stranded assets, and/or maladaptation; ii) opportunities to strengthen project design to manage these risks and harness opportunities of the climate transition proactively.

It is expected that the product of such studies clarifies project characteristics and requirements to be considered aligned to the PA. The component will fund the application of these updated preparatory studies for operations, and any other preliminary analysis of PA Alignment required to robustly respond to the PA Alignment specific assessment (as established in IDB Group's PAIA). All outputs will consider and be congruent with the Gender and Diversity Sector Framework document (GN-2800-13), as the gender diagnostic activity will provide relevant information on how to improve gender mainstreaming in operations that require additional Paris Alignment assessments.

- 3.3. **Component 2. Complementary support for the climate transition (200,000).** This component will cover complementary studies and/or activities required to support the implementation of solutions recommended by a Paris Alignment specific assessment (component 1). This may include but is not limited to: i) feasibility studies to deploy solutions and/or practices with lower embedded GHG emissions and/or resilience-building elements; ii) sustainable design requirements and/or nature-based solutions' recommendations; iii) monitoring and training activities to strengthen environmental governance, project supervision and reporting for project implementation; iv) climate transition plans for Executing Agencies; v) capacity-building activities for the implementation of low-carbon and climate-resilient solutions; vi) action plans to incentivize climate transitions; among others.
- 3.4. **Component 3. Communication and dissemination (50,000).** This component will finance editorial activities (e.g. proofreading, translation, publication design), as well as expenses related to communication and knowledge products that will have as their objective to disseminate and promote the adoption of analytical frameworks and tools developed by this TC, to support the PA alignment of operations at IDB.
- 3.5. The total cost of this TC is US\$500,000 financed by W2A funds. This TC is expected to directly benefit Bank borrowing member countries of LAC, based on the demand for Paris Alignment specific assessments as determined by the nature of activities to be financed in the IDB pipeline of operations. This determination is given through the application of the Climate and Sustainability Filter before ERM.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Incorporation of climate-relevant variables in project preparation studies	Proposal to update TORs for additional studies to support PA alignment of operations. Application of updated environmental, economic, technical studies in new operations that need a specific assessment.	250,000	0	250,000
Complementary support for the climate transition	In-depth feasibility studies and proactive plans to support the climate transition as part of operations.	200,000	0	200,000
Communication and dissemination.	Translations, publications, venues,	50,000		50,000

	materials, and snacks for dissemination events.			
TOTAL		US \$500,000	0	US \$500,000

- 3.6 **Expected results.** This TC will: i) increase the robustness and value-add of PA Alignment specific assessments; ii) reinforce the use of climate variables (both mitigation and adaptation-related) in the country dialogue and preparatory stages of IDB operations; iii) support the Paris alignment of IDB operations.
- 3.7 **Monitoring and evaluation.** The IDB will execute the technical assistance. This will support a harmonized application of the Paris Agreement alignment MDB methodology and the IDB Group PAIA. There is a possibility to generate economies of scale by hiring the same firm to support studies that support PA alignment. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of Climate Change Division (CSD/CCS). The activities will be carried out in close coordination with sector teams of participating VPS divisions, who will have a key role in the dialogue with Executing Agencies.
- 3.8 To ensure a proper execution of the proposed program, the project team will organize launching, midterm and final review meetings/conferences with the beneficiaries and their consultants for each of the phases contemplated in the design and implementation of their respective studies and activities. The project team will also fulfill all the annual and periodical monitoring requirements established by the Bank under current policies and procedures for this type of operation.
- 3.9 The TC team has the necessary experience to ensure compliance with the relevant procurement policies and procedures.

IV. Executing agency and execution structure

- 4.1. This CT will be executed by the Climate Change Division (CSD/CCS) of the Interamerican Development Bank in close collaboration with sector specialists that lead operations benefitting from this TC, as well as those who serve as focal points of PA alignment in the following divisions: CSD/CCS, CSD/RND, CSD/HUD, INE/ENE, INE/TSP, INE/WSA, IFD/CMF, SCL/SPH, and SCL/EDU.
- 4.2. The main reason for assigning this TC's execution to the IDB is the availability of technical personnel specialized in the application of PA alignment frameworks, and their familiarity with existing preparatory studies for operations.
- 4.3. **Procurement and financial management.** The activities to be carried out under this operation have been included in the Procurement Plan (Annex IV) and will be executed following the Bank's established procurement methods, namely; (i) hiring individual consultants, as established in AM-650 standards; (ii) contracting of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operational guides (OP-1155-4); and (iii) contracting of logistics and other services other than consulting, in

accordance with policy GN-2303-28. This TC does not present fiduciary management risks as it will be executed by the IDB. For this reason, no financial audit is required.

V. Major issues

- 5.1 A lack of demand for this TC has been identified as a low risk. This risk is mitigated by the fact that an initial screening of the pipeline already shows several projects that may benefit from funds to carry out the activities proposed by this TC. For example, AR-L1335, AR-L1391, BO-L1222, BO-L1234, CO-L1287, CR-L1151, DR-L1161, ES-L1158, and GU-L1188.
- 5.2 **Sustainability.** Other sources of funding to support this initial application of Paris Alignment in IDB operations include RG-T4274, RG-T4072, and RG-T4260, among others in preparation.

VI. Exceptions to Bank policy

- 6.1 There are no exemptions to the Bank policies present in this TC.
- 6.2 All knowledge products derived from this TC will be the Bank's intellectual property.

VII. Environmental and Social Strategy

- 7.1 The Environmental and Social Impact Classification is "N/A," and the Environmental and Social Risk Classification is "Substantial." For TCs that finance prefeasibility or feasibility studies of specific investment projects including environmental and social studies, the Bank will assure that the terms of reference and outputs of these studies are consistent with the applicable ESPF requirements, as per paragraph 4.9 of the ESPF Policy Statement.

Required Annexes:

[Results Matrix - RG-T4231](#)

[Terms of Reference - RG-T4231](#)

[Procurement Plan - RG-T4231](#)