

## Document for Non Reimbursable Technical Cooperation

### I. Basic Information for TC

▪ Country/Region:	ARGENTINA
▪ TC Name:	Innovative Financial instruments for Biodiversity Conservation and Climate Action
▪ TC Number:	AR-T1268
▪ Team Leader/Members:	Fernandini Puga, Manuel Pablo (IFD/CMF) Team Leader; Sanchez, Gabriel Alejandro (CSC/CAR) Alternate Team Leader; Almeida, Juliana Salles (CSD/CCS); Castello, Romina Alejandra (IFD/CMF); Celeste Marzo, Cristina (LEG/SGO); Flaiban, Diego (INO/FLI); Fonseca, Daniel Fernando (IFD/CMF); Frisari, Giovanni Leo (CSD/CCS); Marquez, Claudia (IFD/CMF); Martinez Lopez, Cynthia Guadalupe (IFD/CMF); Messere, Vanina Soledad (IFD/CMF); Prats Cabrera, Joan Oriol (IFD/CMF); Watson, Gregory (CSD/CCS)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	November 12 <sup>th</sup> , 2021
▪ Beneficiary:	Argentine Republic
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Countries(CTY)
▪ IDB Funding Requested:	US\$330,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	12 months
▪ Required start date:	January 15 <sup>th</sup> , 2022
▪ Types of consultants:	Firms and individual consultants
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	CSC/CAR-Country Office Argentina
▪ TC included in Country Strategy (y/n):	n
▪ TC included in CPD (y/n):	n
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Gender equality; Productivity and innovation

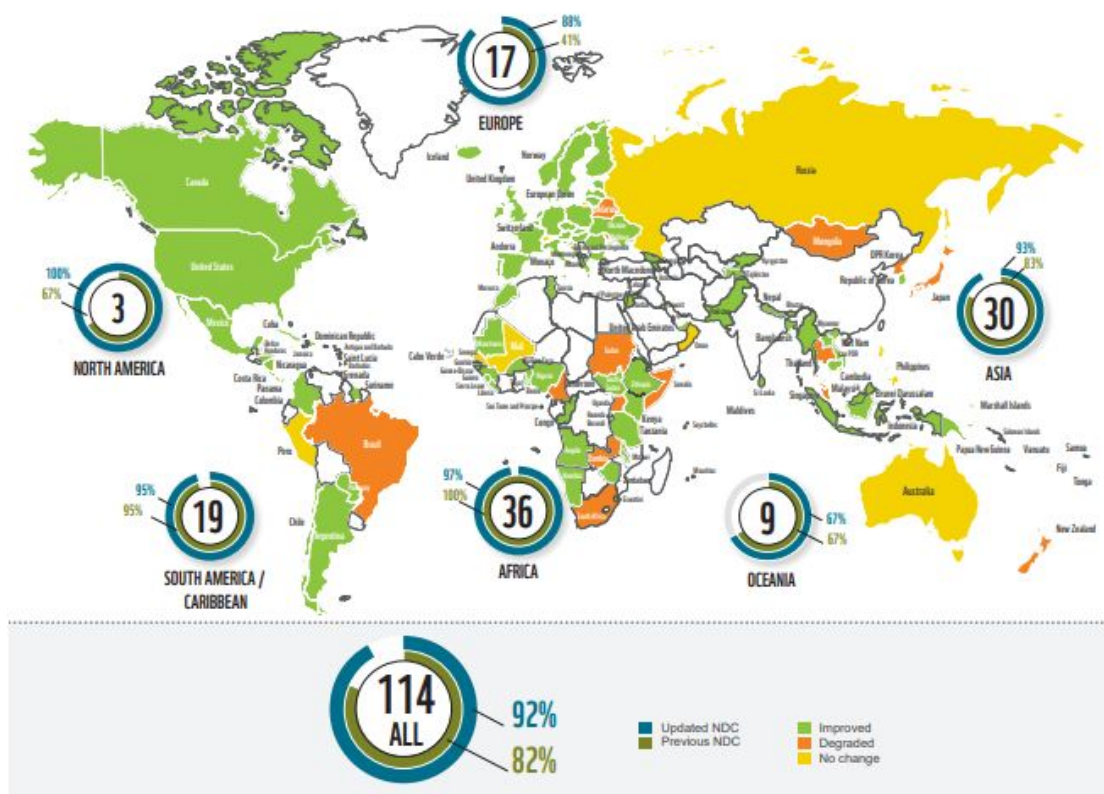
### II. Objectives and Justification of the TC

- 2.1 **Background.** Climate change is one of the most important challenges facing Latin America and the Caribbean (LAC), a region that is highly vulnerable due to its productive profile and geographical characteristics (IDB, 2020). Argentina's profile to climate change is one of the opportunities as well as significant challenges. The country is endowed with extraordinary fertile lands, gas and lithium reserves, and has great potential for renewable energy. Conversely, Argentina is additionally vulnerable given its high degrees of agricultural activity and the sector's prominence for the country's economy and continued economic development.

- 2.2 The Argentine Republic submitted its second Nationally Determined Contribution (NDC) in December 2020 (then revised in October 2021)<sup>1</sup> with a significant increase of ambition in terms of emission reduction (Climate Action Tracker (CAT), 2021).<sup>2</sup> The second NDC sets the absolute, economy-wide, and unconditional goal of limiting net greenhouse gas emissions to 349 MtCO<sub>2</sub>e by 2030, indicating a new target that is 27.7% below Argentina's previous NDC target. This emission reduction goal will be reached by investments towards an energy transition aiming at increasing renewable energy generation, energy efficiency and distributed generation; investments in sustainable transport systems (Avoid-Shift-Improve) promoting energy efficiency and greater use of alternative fuels away from gasoline. Finally, in its second NDC, Argentina includes a strong focus on nature-based solutions. Among mitigation plans is the enhancement of policies to protect carbon-rich ecosystems such as forests, wetlands, and natural grasslands. Adaption priorities include community-based and ecosystem-based approaches in marine and terrestrial ecosystems.<sup>3</sup>

**Figure 1. References to NbS in NDCs as percentage of updated NDCs by Region.**

Figure 3 References to NbS in NDCs as a percentage of updated NDCs by region. Total Parties (114): Africa 36, Asia 30, Europe (16 country + EU27), LAC 19, NA 3 and Oceania 9



Source: World Wildlife Fund NDCs for Nature Report.

- 2.3 Argentina has a national Biodiversity Strategy and Action Plan (NBSAP) covering the period to 2020 that will be updated when the Convention on Biological Diversity (CBD)

<sup>1</sup> [Update of Argentina's net emissions goal to 2030, United Nations Framework Convention on Climate Change \(UNFCCC\), October 2021.](#)

<sup>2</sup> [Climate Target Update Tracker Argentina, Climate Action Tracker \(CAT\), December 2020.](#)

<sup>3</sup> [NDCs - A force for Nature? 4th Edition, Nature in Enhanced NDCs, November 2021.](#)

sets new Global Framework Targets in 2022. Argentina is one of the countries with the largest number of ecoregions in the world. It has 18:15 continental, 2 marine and 1 in Antarctica. It is also one of the most biodiverse countries in the region.<sup>4</sup> The conversion of natural ecosystems to agricultural land, deforestation and poor livestock management practices, the introduction of invasive alien species, illegal trafficking and change climate are the main causes of biodiversity loss in the country. As the G-20 country most dependent on natural capital for economic growth, recent analysis has shown that Argentina is one of the countries most exposed to sovereign risk to biodiversity loss.<sup>5</sup> The Gran Chaco- second forest in size and biodiversity to the neighboring Amazon rainforest- has lost more than 30% of its coverage to agriculture. At the same time, recent studies at the global level have shown that funding to sustainably manage, restore, or conserve natural capital is extremely short. A recent Paulson Institute report estimates that there is a global financing gap of approximately \$824BN/year for biodiversity finance, and public funds cannot fill this gap alone. Innovative financial mechanisms that attract private investment into this sector are vital.

- 2.4 Land-use and land-use change are one of the most important targets for emission reductions in the fight against climate change (IPCC, 2108). Given rapid devastation of various ecosystems, it is clear that the public sector will need to mobilize resources from the private sector and financial market to protect them and support a transformational change in the agriculture sector. Vivid Economics (2017) found that making agricultural supply chains 'deforestation-free' in tropical regions would take annual investments of US\$200 billion. Nonetheless, public money has a crucial role to play in catalyzing this private investment in sustainable land use when deployed strategically. However, there are two major challenges for attracting large scale private investment in ecosystem protection and sustainable land use: (i) Capital markets are underdeveloped in many LAC countries, compared to those found in economies such as the EU, US and parts of Asia; and (ii) sustainable land use investments are perceived as high risk and low return and there is limited experience with financial instruments for ecosystem conservation.
- 2.5 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\$700 billion in 2020, with cumulative issuance now at more than US\$1.7 trillion. 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 supporting a varied set of issuers (from sovereigns to private companies) in understanding issuance options, identifying pipeline of suitable projects and expenditures, in preparing issuance frameworks reviewed and certified by 3<sup>rd</sup> party institutions, and finally supporting issuance with risk mitigation instruments such as guarantees.
- 2.6 There is a growing discussion of innovative financial mechanisms in conservation circles, such as debt swaps for nature, payment for environmental service, and nature as an asset (tradable in the stock exchange). The IDB has piloted these models in

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<sup>4</sup> [National Biodiversity Strategy, Action Plan of Argentina 2016-2020, Convention on Biological Diversity \(CBD\).](#)

<sup>5</sup> [Argentina and Brazil have 'most sovereign credit risk from natural capital'.](#)

several countries and recently supported Costa Rica in preparing a memorandum of understanding to offer its natural capital on the New York Stock Exchange.<sup>6</sup> It is also in the process of designing a debt/nature instrument in a Caribbean Country for 2022. Still, this is a nascent area and there is limited knowledge and experience on what are the most suitable instruments in different country contexts, and under different legal regimes. This TC aims to bridge this gap, contributing to Argentina's sustainable growth by helping ecosystem conservation while supporting government and financial institutions to understand the financial and legal framework needed to develop these innovative instruments, and the most suitable ones given the particular needs and risks of a given Latin American country. The TC will support the identification and development of innovative financial instruments for nature conservation in Argentina, as a pilot.

- 2.7 **Justification.** According to ECLAC (2014), the costs of the expected impacts of climate change in Argentina could reach 6% of GDP in 2030. In addition, exposure to risks from extreme climates, such as droughts and floods, desertification, water scarcity, forest fires and retreat of glaciers make climate change a priority issue on the long-term public agenda, with impacts on productivity and the competitiveness of the private sector. In December 2020, in its National Determined Contribution (NDC), Argentina committed not to exceed the net emission of 359 million tons of carbon dioxide equivalent (MTCOe2) in the year 2030. In addition, the country has incorporated an adaptation goal to reduce territorial, socioeconomic and environmental vulnerabilities and strengthen the resilience of the different sectors by 2030. Argentina is also one of the most biodiverse countries in the world, where significant economic activity depends on the use of natural resources. The Gran Chaco is the region that faces the second largest rate of deforestation in LAC, after the Amazon. In 2021, the Argentine President emphasized the link between biodiversity, growth and human rights. The conservation and sustainable use of biodiversity are very important objectives, not only for the protection of nature, but also for social inclusion, the revitalization of economies and the generation of employment. In line with these goals, recently the Ministry of Economy, together with the Central Bank of the Argentine Republic, the National Securities Commission, and the Superintendency of Insurance of the Nation, signed a joint declaration that aims to promote the development of sustainable finance in Argentina. Its objective is to create the conditions so that the financial sector can attract public and private investments that contribute to achieving economic, environmental, and social objectives, within the framework of the Sustainable Development Goals (SDG) and, at the same time, respond to change climate through the financing of long-term mitigation and adaptation strategies.
- 2.8 Without adequate resources to fund the change to sustainable methods of production and price signaling to permanently change incentives, at best, all our efforts are simply slowing down the rate of ecosystem decline. In this sense, it is key to develop financial mechanisms that can mobilize substantive resources from the financial market and private sector, to, alongside public capital, protect the ecosystems from their destruction. These instruments have the great potential to leverage funds from domestic and international capital markets towards climate-aligned investments that

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<sup>6</sup> [NYSE and Intrinsic Exchange Group announce a new asset class to power a sustainable future, IDB, September 2021.](#)

can create jobs and sustainable economic growth – IDB and ILO (2020)<sup>7</sup> estimate that Zero emission economy will lead to 15 million new jobs by 2030 in LAC.

- 2.9 **Objective.** The objective of the TC is to develop a strategy for Argentina based on debt management instruments for climate action and nature conservation. The program will be focus on Argentina as a pilot country and could be later adapted to other countries in LAC.
- 2.10 **IDB Strategic Alignment.** This TC is consistent with the Bank's Second Update to the Institutional Strategy 2020-2030 (AB-3190-2) and is expected to contribute to the Corporate Results Framework (IDB Group Corporate Results Framework, 2020-2023) (GN-2727-12) by strategically aligning with the development challenges of: (i) Productivity and Innovation, as it aims to support the development of new instruments for climate finance. This Technical Cooperation (TC) is also in line with the priority area for increased resource mobilization, as it will identify policies needed to mobilize resources for climate and biodiversity action. Likewise, the TC also is aligned with the transversal topics of: (i) Gender Equality and Diversity: it will strengthen the capacities for the issuance of sustainable bonds, including the focus on gender and will explore other financial instruments that favor the fulfillment of the objectives and international commitments in terms of sustainability; (ii) Climate Change and Environmental Sustainability: map existing actions and policies; strengthen capacities for sustainable bond issuance; explore the feasibility of an exchange of "Debt for nature" and other financial instruments that favor the fulfillment of international climate objectives and commitments. It is also consistent with the IDB's approach to biodiversity and natural capital, as outlined in the IDB-led MDB Joint Statement on Nature, Planet and People<sup>8</sup> and the forthcoming IDB Natural Capital and Biodiversity Mainstreaming Action Plan. This TC is also consistent with the Ordinary Capital Strategic Development Program for Countries (GN-2819-1), as it aims to strengthen the technical and managerial capacity of the national government, improving country's specific knowledge for debt management. Finally, the TC is aligned with the Sectoral Framework on Climate Change, in terms of supporting countries to achieve institutions and markets that are committed to climate-resilient and low-carbon development.
- 2.11 Additionally, the objective of this TC is aligned with the Bank's Strategy with Argentina (2021-2023) (GN-3051) in its priority areas: (i) economic recovery and productive development and (ii) macroeconomic stability and effectiveness of public policies. In Argentina, there is a deficit in access to financing for productive development; the results of this TC will strengthen the financial system's supply for the development of a low-carbon economy. In particular, the results of this TC will contribute to the fulfillment of the following strategic objectives: (i) progress towards environmental sustainability; (ii) expand coverage and access to financing for the sustainable productive sector; (iii) improve the regulatory framework; and (iv) advance in greater macroeconomic stability. Finally, the TC is consistent with indicators 2.21 and 3.5 of the IDB's Corporate Results Framework for 2020-2023 (Habitat sustainable managed and Climate Finance in IDBG Operations), and to the IDB Vision 2025 which outlines climate change as a strategic topic to be addressed.

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<sup>7</sup> [Jobs in a Net-Zero Emissions Future in Latin America and the Caribbean, IDB, 2020.](#)

<sup>8</sup> [Joint Statement by the Multilateral Development Banks: NATURE, PEOPLE AND PLANET, IDB.](#)

- 2.12 This TC will be executed in coordination with the following operations, generating synergies among the development and appropriation of financial and non-financial instruments for green finance: (i) Support for Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments for SMEs in Argentina with BICE (AR-T1213); and (ii) Promoting Risk Mitigation Instruments and Finance for Renewable Energy and Energy Efficiency Investments (AR-L1280).

### **III. Description of activities/components and budget.**

- 3.1 **Component 1. Pipeline development and governance (US\$100,000).** This component includes the following activities:
- 3.2 **Activity 1.1. Development of a pipeline** of sustainable expenditures and projects that could be the backbone of a sustainable debt product to be issued by the government. Expected results: (i) Argentina's main climate and biodiversity policies, expenditure programs, and public investment potential in areas aligned with climate mitigation and adaptation, biodiversity conservation and sustainable use of natural resources mapped; (ii) mapping of the financial policies and gaps; and (iii) a pipeline differentiated in expenditures and projects identified.
- 3.3 **Activity 1.2. Recommendations for governance model, organizational structures, and monitoring and reporting requirements on transparency and impacts.** Expected results: (i) a study including recommendations for governance model and organizational structures and a system for monitoring and reporting implemented.
- 3.4 **Component 2. Feasibility studies (US\$200,000).** This component will be focus on financial and legal issues for innovative instruments, including the following activities:
- 3.5 **Activity 2.1. Pre-assessment for the financial and institutional feasibility** of debt for nature instruments. Expected results: (i) analysis of best practices regarding to financial structure of debt for nature instruments (types, actors, etc.); (ii) consideration of the main factors to analyze when undertaking instruments, such as a swap (pros and cons); (iii) analyze the role than MDBs can play in these transactions; (iv) evaluate the opportunity for the use of risk mitigation instruments (such as IDB Guarantees); (v) develop a debt management strategy including the possibility of issuing thematic bonds (vi) revision of existing trust funds for biodiversity in Argentina that could administer swap proceeds; and (vii) diagnosis of most appropriate trust fund for participation in a swap, and SWAT analysis of fund, or, if no adequate fund exists, feasibility analysis of creation of a suitable trust fund.
- 3.6 **Activity 2.2. Evaluation to issue Intrinsic Exchange offerings**, gathering the data needed to structure for offering on stock exchange. Expected results: (i) mapping of legal framework including: (a) government regulations and actions for conservation as well as legislative review for natural capital rights and local securities regulations, (b) corporate structure for a natural asset company; and (ii) identification of suitable projects that can transition to Natural asset companies whose natural capital stocks can be converted to financial capital.
- 3.7 **Component 3. Capacity building and Knowledge sharing (US\$30,000).** This component will include the following activity:
- 3.8 **Activity 3.1: Training on international best practices and standards**, including ICMA principles and taxonomies. Expected results: (i) learning materials developed; and (ii) 20 public sector employees trained.

- 3.9 **Activity 3.2: International event** for knowledge sharing and lessons learned. Expected results: (i) an event implemented with countries in the region that face similar challenges and opportunities, leveraging the greenfinancelac.com platform.
- 3.10 **Scaling up.** The TC will support the identification of innovative financial instruments for climate action and nature conservation in Argentina, as a pilot, with a view to later adapt this scheme to other countries in LAC, according to their particular needs, ecosystems conservation opportunities, financial market maturity and fiscal risks. This TC will also identify a “menu” of policies needed to build a stronger financial system to mobilize resources for climate and biodiversity action, which will be useful for all Latin countries that face similar challenges and opportunities.
- 3.11 **Budget.** The total cost of this TC will be US\$330,000 which will be financed by the OC Strategic Development Program for Countries - Economic Growth Priority (CTY-ECG). The Bank's contribution will finance the hiring of consulting services (individual and firms) for the development of the activities. Table 1 details this budget:

**Table 1. Indicative Budget in (US\$)**

Activity/Component	Description	IDB/CTY-ECG	Total Funding
<b>Component 1. Pipeline development and governance</b>	- Diagnostic on Argentina's main climate and biodiversity policies and development of pipeline	100,000	100,000
<b>Component 2. Feasibility studies</b>	- Assessment on the feasibility of implementing a debt swap for nature in Argentina - Evaluation to issue Intrinsic Exchange offerings	200,000	200,000
<b>Component 3. Capacity building and knowledge sharing</b>	- Training on international best practices and standards - International event for knowledge sharing and lessons learned	30,000	30,000
<b>Total</b>		<b>330,000</b>	<b>330,000</b>

- 3.12 The IDB will execute the technical assistance given its nature and multiple national beneficiaries for this project. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of Connectivity Markets and Finance Division (IFD/CMF) with support from Climate Change and Sustainability (CSD/CCS).

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

- 4.1 The IDB will be the Executing Agency for this TC, as requested in the Request letter from the Client (Annex I), through the Connectivity, Markets and Finance Division (IFD/CMF). IFD/CMF has ample experience and proving record of successfully



executing similar TCs. The Bank is considered to have the adequate systems to guarantee the proper execution of the operation and ensure the sustainability of the implementation of the project in line with the “Operational Guidelines for Technical Cooperation Products” (GN-2629-1) and Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4, Annex II, C 2.2). Likewise, the TC team has the necessary experience to ensure compliance with the relevant procurement policies and procedures.

- 4.2 The Bank will be responsible for the selection and hire of the consulting services. All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services. According to the Procurement Plan, two consulting firms will be hired under Single Source Selection method. The Consultancy 3: Evaluation to issue Intrinsic Exchange offerings, gathering the data needed to structure financial instruments for offering on stock exchange, will be developed by Intrinsic Exchange Group, owner of the methodology to create a Natural Asset Company. According to the Guidelines OP-1155-4, only this firm is qualified or has experience of exceptional worth for the assignment and it presents a clear advantage over competition. The consultancy 4 is a small assignment for knowledge sharing (the contract value is US\$20,000) and will be developed by HPL, a consulting firm specialized in advising sovereign issuers for thematic and sustainable bonds in the region. The disbursement period requested for this TC is 12 months, in order to achieve as soon as possible the development of innovative financial instruments to support the Argentine Government in economic recovery.

## **V. Major issues**

- 5.1 A potential risk was identified in the implementation of the TC in not achieving an appropriate involvement by relevant public and private actors in the dialogue of resource mobilization and that the original scope of the studies is not sufficient to generate the appropriate information to generate proposals. In the first case, the Bank will be the executor of the TC and maintain a constant and relevant dialogue with the different actors in potential transactions, and therefore the risk is considered to be less likely. In the second instance and in line with the success of this TC, it is anticipated that intermediate results can be established that will provide sufficient input to develop future additional TC to replicate results in other countries.

## **VI. Exceptions to Bank policy**

- 6.1 There are no exceptions to the Bank policies present in this TC.

## **VII. Environmental and Social Strategy**

- 7.1 This TC will not finance feasibility or pre-feasibility studies of investment projects nor associated environmental and social studies. Therefore, it does not have applicable requirements from the Bank's Environmental and Social Policy Framework (ESPF).

## **Required Annexes:**

[Request from the Client - AR-T1268](#)

[Results Matrix - AR-T1268](#)



[Terms of Reference - AR-T1268](#)

[Procurement Plan - AR-T1268](#)