

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Strengthening Environmental, Social and Governance (ESG) capacity and ratings of Governments, Public Sector Financial Institutions (PSFIs) and State Owned Enterprises (SOEs) in Latin America and the Caribbean
▪ TC Number:	RG-T2718
▪ Team Leader/Members:	Braly-Cartillier, Isabelle Frederique Fra (IFD/CMF) Team Leader; Netto De A. C. Schneider, Maria E. (IFD/CMF) Alternate Team Leader; Fonseca, Daniel Fernando (IFD/CMF); Gavilanez Munoz, Giovanni Javier (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Jimenez De Arechaga, Maria Del Pilar (LEG/SGO); Marquez, Claudia M (IFD/CMF); Mckee, Colin (RSM/SEG); Nieto Ituarte, Enrique (IFD/CMF); Pereira Porto, Rodrigo (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Rivera, Mildred (KIC/DCC), Isabelle Frederique Fra (IFD/CMF) Team Leader; Netto De A. C. Schneider, Maria E. (IFD/CMF) Alternate Team Leader; Fonseca, Daniel Fernando (IFD/CMF); Gavilanez Munoz, Giovanni Javier (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Jimenez De Arechaga, Maria Del Pilar (LEG/SGO); Marquez, Claudia M (IFD/CMF); Mckee, Colin (RSM/SEG); Nieto Ituarte, Enrique (IFD/CMF); Pereira Porto, Rodrigo (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Rivera, Mildred (KIC/DCC)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	02 Apr 2020.
▪ Beneficiary:	Regional (Latin American and Caribbean)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$350,000.00
▪ Local counterpart funding:	US\$50,000.00 (In-Kind)
▪ Disbursement period:	40 months
▪ Required start date:	October 1 st , 2020
▪ Types of consultants:	Firms; Individuals
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Institutional capacity and rule of law

II. Description of the Associated Loan/Guarantee

This TC is not associated with any program.

III. Objectives and Justification of the TC

- 3.1. As stated in a recent publication from the Bank: 'Investors increasingly seek investments that couple good financial returns with the promise of a better future. The

desire to consider societal benefits in investment strategies has driven a huge increase in the demand for investments that consider companies' performance in terms of environmental, social, and governance (ESG) factors in addition to financial performance¹. What is true for investors is also true for lenders, and many international organizations require compliance with certain ESG standards from their beneficiaries. A good ESG profile therefore can participate into the access to better funding conditions.

- 3.2. The proposed technical cooperation (TC) aims at supporting public agencies, state-owned enterprises (SOEs) and Public Sector Financial Institutions (PSFIs) in the region to strengthen their institutional capacity in order to be able to engage and accompany the change towards environmentally sustainable financial markets in their respective countries. More specifically, it will support those identified beneficiaries in (i) understanding the many aspects in the development of an ESG strategy and the many different methodologies available in order to decide on a tailor-made roadmap, and/or (ii) the design and the implementation of their own Environmental and Social risks Management Systems (ESMS) and/or (iii) the obtention of an ESG rating or the improvement of the ratings they may already have obtained.
- 3.3. The IDB is and has been playing an important role in supporting the transition towards sustainable financial markets. The project builds on lessons learned from four previous TCs in both the support to sustainable bond markets (RG-T2720) and the support to the development of ESMS for PSFIs (RG-T2166, CO-T1264, ME-T1199). It also builds on IFD/CMF's collaborative efforts to promote the sharing of knowledge on the subject between PSFIs, efforts articulated with partners such as the Association of Latin American Development Financial Institutions (ALIDE), the Brazilian Association of Development Financial Institutions (ABDE), and the Financial Institutions Initiative of the United Nations Environmental Program (UNEP FI). It is also important to note that this TC will be executed in close synergy with the RG-T3368 Regional Green Bonds Program for Latin America and the Caribbean and RG-X1244 LAC Green Finance Program to Mobilize Private Investment in Mitigation Actions and Low-Carbon and Sustainable Business Models through National Development Banks.
- 3.4. **Strategic Alignment** In this context, the TC is aligned with the cross-cutting topics of climate change and environmental sustainability and institutional capacity and rule of law of the second update to the IDB Group Institutional Strategy approved by the Governors in July 2019 (AB-3190-2) as it aims at supporting governments, State Owned Enterprises and Public Financial Institutions in Latin America and the Caribbean in reaching international best practices and standards in the management of environmental and social risks in order to access the growing markets of impact and ESG investments. The TC is also aligned with the objective of contributing to public policies and institutions that are more effective, efficient, open and citizen-centered of the Ordinary Capital Strategic Development Program for Institutions (OC-SDP for Institutions) (GN-2819-1). Last, the TC is aligned with the Bank's Sector Strategy: Institutions for Growth and Social Welfare (GN-2587-2) in its component of 'Improving the provision and utilization of resources for growth and social welfare'.

¹ ['The business case for ESG investing for pension and sovereign wealth funds'](#) Bridget Hoffmann, Tristany Armangue i Jubert, Eric Parrado

IV. Description of activities/components and budget

4.1. Component I: Component 1. Design and implementation of ESMSs – 3 PSFIs.

The execution of those three individual projects will follow the methodology designed and successfully applied in other TCs and include the following activities:

Activity 1: diagnostic. The activity aims at understanding the risk profile of the beneficiary's portfolio, its existing E&S policies and processes and identifying the gap between those and international standards.

Activity 2: roadmap. Based on the diagnostic, a roadmap is developed for the beneficiary to close the gaps identified. The roadmap is presented to the beneficiary's management and must be approved to move to the next activity.

Activity 3: design and implementation. This activity consists in the implementation of the roadmap. The ESMS manual, E&S policy, all necessary tools, and processes are designed and implemented through a pilot phase. This activity includes capacity building and training of the beneficiary staff.

Activity 4: monitoring and evaluation. Six to twelve months after the end of the pilot phase, an evaluation of the ESMS is performed by an external consultant to identify any weaknesses in the processes.

It is expected that one of the projects be involving the development of an ESMS applicable to innovative financing instruments such as guarantee funds, infrastructure funds or funds of funds, for which a specific study to identify, assess and mitigate E&S risks may be required. Support will be provided on a first-come first-served basis.

4.2. Component II: Component 2. Knowledge product. Prepare a publication to provide a roadmap for LAC issuers to get or improve an ESG rating. The ESG rating universe is recent and still very confusing. It is important to provide our potential beneficiaries with a pragmatic roadmap tailored-made to our region specificities. The publication will include testimonies from LAC issuers.

4.3. Component III: Component 3. Support to 2 bond issuers for their ESG rating. Applying the roadmap developed in Component II, the execution of those two individual projects will help the issuer to either improve an ESG rating they already have or get a new ESG rating. It will support them in all necessary activities from the choice of the methodology provider, to the interaction with such provider until the obtention of the rating. Beneficiaries will be selected on a first come- first serve basis, and the support will not be linked to the obtention or not by the beneficiary of support from Component I.

Activity 1: capacity building. Based on the knowledge product developed in Component 2, the beneficiary's team will be capacitated to be able, with the support from the IDB, to work on the obtention of an ESG rating.

Activity 2: selection of a methodology and provider. With external support, the beneficiary will decide on an ESG rating provider. This will be based on the application of the roadmap develop in Component II to the specificities of the beneficiary.

Activity 3: request and obtention of a solicited ESG rating. The beneficiary will be supported in its relationship with the rating provider.

4.4. Component IV: Component 4. Dissemination of knowledge. This component, to be executed in close collaboration with KIC, will:

Activity 1: support the dissemination of the publication (Component II) by way of (i) its presentation in two or three regional events and (ii) the organization of a webinar

Activity 2: support the collection and dissemination of the lessons learned and best practices accumulated by the TC beneficiaries (Component I and III) to be disseminated by way of filmed interviews

All knowledge dissemination activities will be done ensuring proper visibility and acknowledgement of the Fund.

The total budget for the TC distributed as per following table, will be US\$350,000.00, counterpart funding will be US\$ 50,000.00 and provided by each beneficiary in the form of in-kind contribution (such as the assignment of staff dedicated to the project)

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding ¹	Total Funding
Component 1	Design and implementation of ESMSs – 3 PSFIs	US\$150,000.00	US\$20,000.00	US\$170,000.00
Component 2	Knowledge product	US\$50,000.00	US\$0.00	US\$50,000.00
Component 3	Support to 2 bond issuers for their ESG rating	US\$120,000.00	US\$20,000.00	US\$140,000.00
Component 4	Dissemination of knowledge.	US\$30,000.00	US\$10,000.00	US\$40,000.00
Total		US\$350,000.00	US\$50,000.00	US\$400,000.00

1 provided by each beneficiary in the form of in-kind contribution (such as the assignment of staff dedicated to the project)

V. Expected Results.

5.1. Consequently, the project will provide technical assistance to:

- 5.1.1 Increase the capacity of PSFIs in the region for the management of environmental and social risks and impacts in their credit activities and,
- 5.1.2 Increase the awareness and capacity of PSFIs, SOEs or and public agencies in the building of their ESG profile.

Both results will be achieved directly for the three beneficiaries of Component I and two beneficiaries of Component III and indirectly for potentially any PSFI, SOE and public agency in LAC through the knowledge and dissemination of knowledge activities of Component II and IV.

VI. Executing agency and execution structure

6.1. The executing agency will be the IDB through the Capital Markets and Financial Institutions Division IDB/IFD/CMF.

- 6.2. In line with the Operational Guidelines for Technical Cooperation Products (GN-2629-1) Annex 10 'Criteria under which the bank may assume the responsibility of selecting and hiring consulting services – firms and individual consultancies in Bank financed technical cooperation operations' and given (i) the regional scope of the intervention, (ii) the diversity of beneficiaries (second- and first-tier PSFIs, SOEs, public agencies, funds etc.), and (iii) the need to generate economies of scale, it seems justified for the IDB to directly execute this TC. The lessons learnt from previous TCs also show that a strong involvement from the IDB is crucial to (i) accompany the beneficiaries' senior management 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 TC will be under the responsibility of IFD/CMF.
- 6.3. The activities to be executed under this operation have been included in the Procurement Plan (Annex IV) and will be carried out in accordance with the Bank's established procurement policies, namely: (a) Hiring of individual consultants, as established in the regulation AM-650; (b) Hiring of consulting firms for services of an intellectual nature according to the Bank Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and its associated operational guideline (OP-1155-4) and (c) Hiring of logistics services and other services other than consulting, according to the policy GN-2303-28.
- 6.4. For execution purposes, once a formal request has been received by the Bank, including the non-objection from the official counterpart of the Bank in the beneficiary country, the project team in charge of the execution of this TC and its designated counterparts within the beneficiary will agree on a work plan.
- 6.5. The Bank has received already three requests for support that would be attended by this TC: From COFIDE in Peru, from NAFIN in Mexico, and FIRA [EZSHARE-1465945735-12](#). The TC will be executed in close coordination with the existing TCs which objective is to support PSFIs and public agencies to issue green bonds (RG-T3368 and RG-T1244). Beneficiaries from those TCs will be made aware of the knowledge products developed with this TC.

VII. Major issues

- 7.1. The risk associated with this project is the limited initial expertise beneficiaries staff have on ESG and E&S risks which could lengthen the project execution. To mitigate that risk and spearhead the process of institutional strengthening in this area, beneficiary institutions will be asked to designate dedicated staff to coordinate the project and, to speed up the induction of critical personnel, to enroll them in online courses organized by VPS/ESG or UNEP-FI and other relevant international institutions on ESG and E&S risk management. Such commitment proved very efficient to smooth the execution of this kind of project.
- 7.2. Another risk identified is the potential rejection of the new ESMS by some of the beneficiary institution's clients or operational staff based on perceived higher transaction costs or ignorance of its benefits. To mitigate this risk, this TC contemplates training and dissemination of information towards all stakeholders in each phase of the execution process, as well as a gradual implementation of the

systems/strategies allowing the incorporation of staff and clients' feedback into their deployment. The last risk identified is the potential loss of ownership by beneficiaries as they become aware of the discipline and costs that the adoption of an ESMS or an E&S management strategy would entail. To mitigate that risk, each project will be divided in phases (diagnostic, design, implementation, monitoring and evaluation), ensuring that each phase only kicks-off with the full approval and total support of the Institution's relevant decision-making units.

- 7.3. The sustainability will be ensured by making sure that (i) for components 1 and 3, the consulting firms support internal teams created within the beneficiary institution and that each individual project includes internal capacity building, and (ii) component 2 and 4 provides capacity building to other institutions that potentially would have interest in looking at those topics.

VIII. Exceptions to Bank policy

- 8.1. There are no exceptions to the policy of the Bank.

IX. Environmental and Social Strategy

- 9.1. Given that the current TC revolves around a study, there are no social or environmental risks associated with it. Based on the Environmental and Social Safeguard Compliance Policy (OP-703), this TC has been classified as a Category "C" according to the classification toolkit of the Bank (see: [Safeguard Policy Filter](#) and [Safeguard Screening Form](#)).

Required Annexes:

[Request from the Client - RG-T2718](#)

[Results Matrix - RG-T2718](#)

[Terms of Reference - RG-T2718](#)

[Procurement Plan - RG-T2718](#)