

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Financial and Legal Structuring of New Thematic Financial Solutions in Latin America and the Caribbean
▪ TC Number:	RG-T3554
▪ Team Leader/Members:	CAVAZZONI LIMA, RAFAEL (IFD/CMF) Team Leader; NETTO DE A. C. SCHNEIDER, MARIA E. (IFD/CMF) Alternate Team Leader; SIERRA GONZALEZ, EDUARDO (IFD/CMF); NIETO ITUARTE, ENRIQUE (IFD/CMF); VILLACORTA ALVAREZ, OMAR (IFD/CMF); BRALY-CARTILLIER, ISABELLE FREDERIQUE (IFD/CMF); VASA, ALEXANDER (IFD/CMF); DOMINGUEZ, JOAQUIN J. (IFD/CMF); DEMICHELIS, JOSE FRANCISCO (IFD/CMF); MARQUEZ, CLAUDIA M (IFD/CMF); SECUNDINO, EVA (IFD/CMF); LOZANO MIRANDA, ANA LUCIA (IFD/CMF); PORRAS HERRERA, FANNY ELIANA (IFD/CMF); BERNEDO, CECILIA (IFD/CMF); FRISARI, GIOVANNI LEO (CSD/CCS); DEREGIBUS, BERNARDO (ORP/REM); SILVA ZUNIGA, MARIANA CAROLINA (CSD/CCS); NEGRET GARRIDO, CESAR ANDRES (LEG/SGO); LUTZ, LIZA M. (LEG/SGO)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	13 Sep 2019
▪ Beneficiary:	National Development Banks (NDBs), Governments and Public Agencies
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$200,000.00
▪ Local counterpart funding:	US\$40,000.00 (In Kind)
▪ Disbursement period:	23 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	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:	Social inclusion and equality ; Productivity and innovation ; Institutional capacity and rule of law; Environmental sustainability

### II. Objective and Justification

- 2.1 The main objective of this TC is to support the legal and financial structuring of thematic bonds, as well as the dissemination of best practices and information exchange in LAC
- 2.2 The severity of today's social and environmental challenges makes it evident that the responsibility to address them all do not lie exclusively with Governments. Socially Responsible Investors (SRI) around the world are increasingly embracing their responsibility as drivers of progress. Many SRI have begun to actively screen out harmful investments and analyze environmental, social, and governance (ESG) practices in their investment selections.

- 2.3 A growing number of SRI are integrating in their operation the central purpose of generating positive impact alongside financial returns -practice known as impact investing. With a market now worth almost \$23 trillion, assets under management are increasing around 18% annually. According to the GIIN this growth has at least three causes: First, SRI want to hold businesses accountable for broader impacts. Second, SRI display growing understanding that considering ESG impact is simply good business. Finally, SRI manifest a desire to align with major global frameworks, specifically the Paris Agreement on Climate Change and the United Nations' Sustainable Development Goals (SDGs).
- 2.4 The IDBG has been supporting the development of new financial instruments, in particular thematic bonds in LAC via different initiatives: TC programs to support green and sustainable bonds in the region (RG-T3368 in execution); and the Regional Green Bond Facility (RG-X1250) with promising results. Moreover, ORP/REM, IFD/CMF and CSD/CCS are working on the development of an SDG & Sustainable Infrastructure Bonds project and a sustainable infrastructure framework that governments and NDBs can use in ensuring their investment process result in sustainable investments.
- 2.5 IFD/CMF experience is that providing that kind of support is often perceived as helpful by clients, but it is not determinant. The green bond market can be a good example; the first issuances –supported by the IDBG with previous TCs– indicate that without technical assistance, issuers in LAC face significant barriers to their first thematic bond issuance and that financial and legal structuring costs are a major deterrent for a commitment towards the development of a new financial product. Therefore, some additional work needs to be done to further enhance the institutional capacity of national and subnational issuers regarding financial and legal structuring aspects of the thematic bond issuance, as well as regarding the use of risk mitigation and credit enhancement features.
- 2.6 This TC supports the strengthening of the potential issuer's capacity to develop new financial products that will lead to improvements in service delivery and policy implementation at a regional level. It also reduces constraints for business growth and productivity.

### III. Description of Activities and Outputs

- 3.1
- 3.2 **Component I: Component 1. Thematic Bonds Pilot.** Legal and financial structuring support for up to four issuances of thematic bonds.
- 3.3 **Component II: Component 2. Development of new financial instruments and risk mitigation tools.** Development of frameworks for thematic financing together with the beneficiaries and/or risk mitigation instruments to be used in a thematic bond issuance
- 3.4 **Component III: Component 3. Outreach and exchange of information.** The results and best practices developed in component 1 and 2 of this cooperation will be shared through specific seminars and the preparation of studies and other reports

### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1. Thematic Bonds Pilot	US\$100,000.00	US\$20,000.00	US\$120,000.00
Component 2. Development of new financial instruments and risk mitigation tools	US\$70,000.00	US\$10,000.00	US\$80,000.00

Component 3. Outreach and exchange of information	US\$30,000.00	US\$10,000.00	US\$40,000.00
<b>Total</b>	<b>US\$200,000.00</b>	<b>US\$40,000.00</b>	<b>US\$240,000.00</b>

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

- 5.1 The execution of this TC will be done by the IDB.
- 5.2 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 will be included in the Procurement Plan 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.
- 5.3 The IDB, as the 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.
- 5.4 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. The eligibility criteria include: (i) demand from beneficiary entities' senior management; (ii) experience with international or multilateral financing organizations; (iii) a technical focal point; and (iv) a strong institutional interest to issue thematic bonds and (iv) commitment to match TC resources in legal and financial consultancies in at least 20%.
- 5.5 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.
- 5.6 The disbursement period requested for this TC is of 23 months (20 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.
- 5.7 Given the demonstration objective of the TC, the need of developing very technical and specific information and 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 IFD/CMF.

## **VI. Project Risks and Issues**

- 6.1 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. To mitigate that risk, each project will require some financial commitment from the potential issuer and the full support of the beneficiary institution's Board of Directors or equivalent.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".