

## TC Document

### I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ 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; Bernedo, Cecilia (IFD/CMF); Braly-Cartillier, Isabelle Frederique (IFD/CMF); Demichelis, Jose Francisco (IFD/CMF); Deregibus, Bernardo (ORP/REM); Dominguez, Joaquin J. (IFD/CMF); Frisari, Giovanni Leo (CSD/CCS); Lozano Miranda, Ana Lucia (IFD/CMF); Marquez, Claudia M (IFD/CMF); Negret Garrido, Cesar Andres (LEG/SGO); Nieto Ituarte, Enrique (IFD/CMF); Porras Herrera, Fanny Eliana (IFD/CMF); Schweizer, Luciano (IFD/CMF); Secundino, Eva (IFD/CMF); Sierra Gonzalez, Eduardo (IFD/CMF); Silva Zuniga, Mariana Carolina (CSD/CCS); Vasa, Alexander (IFD/CMF); Villacorta Alvarez, Omar (IFD/CMF) ; Schweizer, Luciano (IFD/CMF)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	13 Sep 2019.
▪ Beneficiary:	Upon demand, National and Sub-National Governments, Public Banks including National Development Banks (NDBs), Public Agencies and Public Companies including Utilities from IDB borrowing-member countries.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$200,000.00
▪ Local counterpart funding, if any:	US\$40,000.00 (In-Kind)
▪ Disbursement period (which includes Execution period):	23 months (Execution period: 20 months)
▪ Required start date:	October 1, 2019
▪ Types of consultants:	Individual consultants or firms and non-consulting services
▪ 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):	N/A
▪ TC included in CPD (y/n):	N/A
▪ 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. Objectives and Justification of the TC

- II.1 As recognized in the 2019 Global Sustainable Development Report of the United Nations (UN), economic growth has been historically an important tool for increased national incomes, albeit unevenly, across countries. While contributing to advances in human, social and economic well-being, the effects of a strictly growth-oriented agenda in societies and the environment are currently unsustainable. In this context, the UN called governments, international organizations and the private sector to work

towards encouraging investments that are more strongly aligned to longer-term sustainability pathways.<sup>1</sup>

- II.2 With greater awareness of these challenges, Socially Responsible Investors (SRI) around the world are increasingly embracing their responsibility towards a sustainable economy by incorporating environmental, social, and governance (ESG) elements into their investment decision-making.<sup>2</sup>
- II.3 Many SRI have begun to actively screen out socially and environmentally harmful investments and analyze ESG practices in their investments.<sup>3</sup> This shift started to show that ESG factors are key to long-term financial performance.<sup>4</sup>
- II.4 Building on this practice, a growing number of SRI are integrating in their operation the central purpose of generating positive impact for people and the planet alongside financial returns - practice known as impact investing.<sup>5</sup> With a market now worth almost US\$23 trillion, assets under management are increasing around 18% annually<sup>6</sup>. According to the Global Impact Investing Network (GIIN), the growth of impact investing has at least three causes: First, SRI want to hold businesses accountable for broader impacts on their various stakeholders and the environments in which they operate. Second, SRI display growing understanding that considering social and environmental impact is simply good business, providing greater license to operate and improving profitability, especially in the long run. And finally, SRI manifest a desire to align with major global frameworks, specifically the Paris Agreement on Climate Change and the United Nation's Sustainable Development Goals (SDGs), which have explicitly called for private capital to finance solutions to social and environmental challenges.<sup>7</sup>
- II.5 Therefore, this trend represents a unique opportunity for National and Sub-National Governments, Public Banks including National Development Banks (NDBs), Public Agencies and Public Companies including Utilities from IDB borrowing-member countries to leverage their social and environmental financing programs to mobilize private capital for investments. Thematic bonds have evolved as a tool to secure market funding, while increasing the thematic bond issuer's accountability towards social and environmental goals.<sup>8</sup>
- II.6 Thematic bonds are a relatively new financial solution that remains underutilized in Latin America and the Caribbean (LAC). They allow investors to finance a large range of specific investment themes such as climate change, health, food, education, access to financial services, new entrepreneurial companies and social housing.

---

<sup>1</sup> United Nations. Global Sustainable Development Report: The Future is Now, Science for Achieving Sustainable Development. 2019

<sup>2</sup> Global Impact Investing Network. Roadmap for the Future of Impact Investing: Reshaping Financial Markets. 2018.

<sup>3</sup> Idem.

<sup>4</sup> S&P Global. The ESG Advantage: Exploring Links to Corporate Financial Performance. 2019.

<sup>5</sup> J.P. Morgan. Sustainable Investing is Moving Mainstream. 2018.

<sup>6</sup> Global Impact Investing Network. Impact Investing Trends: Evidence of a Growing Industry. 2016.

<sup>7</sup> Global Impact Investing Network. Roadmap for the Future of Impact Investing: Reshaping Financial Markets. 2018.

<sup>8</sup> UN Principles for Responsible Investment. The Issuer Perspective on Thematic Bonds. 2019

**Table 1 – Thematic Bond Categories**

Category	Use of Proceeds
<b>Green Bonds</b> <sup>9</sup>	Finance projects that promote climate or other environmental sustainability purposes.
<b>Blue Bonds</b> <sup>10</sup>	Finance marine and ocean-based projects that have a positive environmental, economic and climate benefit.
<b>Social Bonds</b>	Finance projects that benefit under-served populations with limited access to essential services such as basic infrastructure or finance.
<b>Sustainability Bonds</b>	Finance a combination of green and social projects.
<b>SDG Bonds</b> <sup>11</sup>	Finance projects towards green, blue, social or climate objectives linked to the SDGs or, alternatively, provide general-purpose financing to issuers committed to improving ESG performance and/or mitigating general SDG impacts.

- II.7 By linking a financial instrument with the ability to target specific Sustainable Development Goals (SDGs), thematic bonds have proven in other developed countries to be fitting alternative to build on the momentum for impact investment.<sup>12</sup> For example, the consistent growth of the new thematic bond market can be illustrated by the fact that the aggregate amount of thematic bonds issued by mid-2019 reached approximately US\$700 billion, US\$619 billion for green bonds<sup>13</sup> which are the most common type within the category of “thematic” fixed income instruments, next to “Social Bonds”, “Blue Bonds” and “Sustainability Bonds”, which amount roughly to US\$65 billion.<sup>14</sup> With LAC representing approximately 10% of green bond issuances between 2012-2018 in emerging markets<sup>15</sup>, highly concentrated in a handful of countries such as Mexico and Brazil, and with an even smaller participation in the blue, social and sustainability bond market<sup>16</sup>, the potential of other thematic bonds for answering impact investment growing demand is significant.
- II.8 The relative slower growth of the thematic bond markets in LAC seems to be largely due to less developed capital markets, but it is also affected by the lack of market awareness and, specifically, knowledge of the thematic bond structuring and issuance processes.<sup>17</sup> A survey with responses from 22 emerging markets, some in LAC, reveal that actions taken by governments or local financial institutions are the top two drivers for local market development. In countries with no issuances, the lack of guidance was identified as the most pressing matter to address. In nascent and emerging markets, training and capacity for regulators, issuers, investors and verifiers seem to be the greatest challenge.<sup>18</sup>
- II.9 In this context, this technical cooperation (TC) main objective is to support the institutional capacity of National and Sub-National Governments, Public Banks

<sup>9</sup> Sustainalytics. Green, Social and Sustainability Bonds Explained. 2019

<sup>10</sup> World Bank. Sovereign Blue Bond Issuance. 2018

<sup>11</sup> UN Global Compact. SDG Bonds & Corporate Finance: A Roadmap to Mainstream Investments. 2018

<sup>12</sup> Mainstreet Partners. Understanding the Growing Thematic Bond Market. 2018.

<sup>13</sup> Climate Bonds Initiative. Climate Bonds Market Insights. 2019

<sup>14</sup> See [Sustainable and SDG bonds markets analysis](#) for details.

<sup>15</sup> International Finance Corporation. Emerging Market Green Bonds Report. 2018.

<sup>16</sup> See [Sustainable and SDG bonds markets analysis](#) for details.

<sup>17</sup> International Finance Corporation, Climate Bonds Initiative and Sustainable Banking Network. Creating Green Bond Markets – Insights, Innovations and Tools From Emerging Markets. 2018

<sup>18</sup> International Finance Corporation, Climate Bonds Initiative and Sustainable Banking Network. Creating Green Bond Markets – Insights, Innovations and Tools From Emerging Markets. 2018

including NDBs, Public Agencies and Public Companies including Utilities from IDB borrowing-member countries by: (i) assisting on the legal and financial structuring of thematic bond issuances in LAC, focusing primarily on Sustainability and SDG Bonds; and (ii) developing a new SDG-linked financial instrument for NDBs, exploring credit enhancement instruments such as guarantees and covered bonds structures. In particular, this TC will support LAC institutions to pilot the design and implementation of up to four innovative pilot issuances to generate a demonstration effect, develop and test replicable risk mitigation tools, and share lessons learned widely.

- II.10 The Inter-American Development Bank Group (IDBG) has been supporting the development of new financial instruments, in particular thematic bonds in LAC via different initiatives: technical assistance programs to support the issuance of green and sustainable bonds in the region ([RG-T2720](#), [RG-X1244](#) and [RG-T3368](#) in execution); and an IDB Invest “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 framework methodology. This methodology is to be applied to eligible projects, in order to identify and rank the ones that would potentially contribute the most to reduce local SDG gaps and that would benefit from funding raised through an SDG or sustainable bond.
- II.11 IDBG support for thematic bonds, particularly green bonds, so far was mainly focused on expanding the experience to new issuers (governments and municipalities) and to new instruments, by identifying national and subnational budget expenditures that could be eligible for green and sustainable bonds, ensuring bonds alignment with countries’ commitments under their National Determined Contribution (NDC) and SDGs and developing reporting mechanisms to assist compliance with issuers commitments. The IDBG has also been working for years in developing a sustainable infrastructure framework<sup>19</sup> that governments, municipalities and public financial institutions can use in ensuring their investment process result in sustainable investments.
- II.12 The Connectivity, Markets and Finance Division (IFD/CMF) experience is that providing that kind of support is often perceived as helpful by clients, but it is not sufficient in convincing investors to use new financial instruments. 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, 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 (guarantees and covered bond structures). By providing concrete guidance on legal and financial matters to specific cases, with emphasis on the SDGs, this TC will be able to tackle some of those most pressing matters identified as deterrents to the development of the thematic bond market, building institutional capacity and generating demonstration effect. Therefore, this TC will broaden the IDB support for sustainable and SDG bonds and will focus on the development of innovative financial structures to support the

---

<sup>19</sup> Inter-American Development Bank. What is Sustainable infrastructure? A Framework to Guide Sustainability Across the Project Cycle. 2018.

feasibility and scalability of bond issuances, as such it will complement and will be executed in coordination with [RG-T2720](#), [RG-T3368](#) and [RG-X1250](#).<sup>20</sup>

- II.13 The issuance of thematic bonds in LAC can lead to a reduction in the issuer's cost of capital and, as a result of that, the provision of additional and better services to the general public. Hence, this TC supports the strengthening of the potential issuer's capacity to develop new financial products that could lead to improvements in service delivery and policy implementation at a regional level. It could also reduce constraints for business growth and productivity.
- II.14 The proposed program is open to National and Sub-National Governments, Public Banks including National Development Banks (NDBs), Public Agencies and Public Companies including Utilities from IDB borrowing-member countries.<sup>21</sup>
- II.15 This TC is aligned with the development challenge of social inclusion and equality as well as productivity and innovation, and 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 at enhancing the capacity of potential beneficiaries to understand the financial and legal structuring requirements of thematic bonds, making further use of this financial instrument. Therefore, it will build institutional capacity in LAC. By design, thematic bonds aim at generating a positive impact in social inclusion and/or environmental sustainability. Since thematic bonds also finance projects in renewable energy, energy efficiency, urban settings and even productive sectors, they can be understood as an instrument for productivity and sustainable growth.
- II.16 The proposed operation is also in line with the objectives of the Ordinary Capital Strategic Development Program for Institutions, as laid out in document *Ordinary Capital Strategic Development Program* (GN-2819-1), particularly improving service delivery and reducing barriers for business growth and productivity. It does so by strengthening the beneficiary's capacity to understand legal and financial structuring elements associated with the use of thematic bonds, a relatively new financial instrument in LAC. Therefore, the activities to be financed will include institutional strengthening efforts, support for the implementation of pilot issuances and knowledge dissemination.

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

- III.1 This operation will finance the following activities:
- III.2 **Component 1. Thematic Bonds Pilots.** The objective of the first component is to provide legal and financial structuring support for up to four<sup>22</sup> issuances of thematic bonds. The TC will support issuers in developing the financial and legal structure of

---

<sup>20</sup> In some circumstances, resources from these operations could be used in connection with efforts related to the legal and financial structuring of thematic bonds financed by [RG-T3554](#).

<sup>21</sup> The promotion efforts of the TC will leverage existing networks that the IDB has developed with NDBs (ALIDE - Regional and ABDE - Brazil). See <http://www.alide.org.pe/> and <https://abde.org.br/>

<sup>22</sup> Likely two pilot issuances; or up to four if co-financed with other sources of funding. If resources from [RG-T3554](#) are used exclusively to finance the legal and financial structuring of thematic bonds, with no need to commit resources to related uses such as framework development, second-party opinion and so on, the number of pilot issuances to be supported will likely be greater than the two initially anticipated.

thematic bond issuances, including the assessment of credit enhancement options. If needed, the TC could also support the development of frameworks that reflect comprehensive sustainability strategies as well as second-party opinions, certifications and, even, roadshows. This component is open to all IDB borrowing member countries. Expected outputs are at least two thematic bond proposals developed and the expected outcome is at least one completed issuance by the end of 2021.<sup>23</sup> In this context, IDB support will benefit at least two National and Sub-National Governments, Public Banks including NDBs, Public Agencies and Public Companies including Utilities from IDB borrowing-member countries by strengthening their institutional capacity to improve public service delivery via a new form of financing. The completed issuance would produce a demonstration effect regarding the viability and potential benefits of new financial instruments, eventually contributing to the depth and diversification of local capital markets or enhancing the participation of LAC issuers in international capital markets.

- III.3 **Component 2. Development of new financial instruments and risk mitigation tools.** The objective of the second component is to create a new SDG-linked financial instrument for NDBs. This component will very likely be developed in Brazil, where the IDB has already received demands for support.<sup>24</sup> Following a long process of dialogue with NDBs and regional development agencies in Brazil through the *Associação Brasileira de Desenvolvimento – ABDE*<sup>25</sup> (the Brazilian Development Association) ([BR-T1292](#) and [BR-T1311](#)), the IDB is well positioned to support their efforts to improve the sources of finance for their associated institutions, aimed at boosting SDG-linked investments in the country. Currently, the *Banco de Desenvolvimento de Minas Gerais* (the Development Bank of the State of Minas Gerais) and *Desenvolve SP* (the Development Agency of the State of São Paulo) already expressed interest in developing one such instrument. The TC will, therefore, support the development of a proposal for a covered bond that NDBs and regional development agencies will be able to offer in the local capital market in order to leverage their SDG-linked loan portfolios and obtain financing with improved financial terms and conditions. The new financial instrument (provisionally named “*Letra de Desenvolvimento Sustentável*”) will also enable Multilateral Development Agencies to support these efforts, at least on a pilot basis, with guarantees. Developing this component in Brazil would likely maximize the IDB development impact with this TC, as ABDE involvement in the development of a new financial instrument could ultimately benefit all NDBs and development agencies in the country. ABDE involvement would also support the implementation of the initiative relative to the Brazilian Securities Commission - CVM and the Brazilian Central Bank - BACEN. Expected outputs are at least one financial instrument developed and the expected outcome is at least one completed issuance of such instrument by the end of 2021. The IDB support is expected to benefit all NDBs and development agencies in the country, potentially even the private sector, by supporting the diversification of the sources of funding for development financing and building institutional capacity to understand and issue a new financial instrument.

---

<sup>23</sup> The goal is to complete at least one thematic bond issuance by the end of 2021. Even when demand is present, market conditions may change momentarily, delaying an eventual issuance. TC outcomes and outputs were set to factor this uncertainty.

<sup>24</sup> See Letters of Expression of Interest received (Brazil: [BDMG](#) and [Desenvolve](#)).

<sup>25</sup> See [www.bdmg.mg.gov.br/](http://www.bdmg.mg.gov.br/) and [www.desenvolvesp.com.br/en/](http://www.desenvolvesp.com.br/en/)

- III.4 **Component 3. Outreach and exchange of information.** The objective of the third and final component of the TC is to enable knowledge sharing conferences and web-based events to disseminate results as well as support the publication of lessons learned for the benefit of the broader public.<sup>26</sup> The knowledge sharing events will be open to regulators, public and private issuers, investors and verifiers. All key outputs and outcomes will be shared through reports and publications with the adequate visibility and acknowledgment of the support received from the OC Strategic Development Program for Institutions. The intellectual property rights of all reports and publications, with the purpose of knowledge dissemination, prepared by consultants financed by this TC will be the property of the Bank. Legal and financial documentation related to a specific bond issuance, prepared by consultants financed by this TC, will be the property of the issuer.
- III.5 The total cost of this TC will be US\$200,000 (see Indicative Budget in Table 2). The project team expects that consultancy services will provide the support envisioned by the proposed technical assistance to all beneficiaries. Beneficiaries will provide in-kind counterpart resources, including staff time, facilities for meetings and events for an equivalent of 20% of the services received. Also, the TCs ([ATN/OC-13979-RG](#), [ATN/FI-16358-RG](#) and [ATN/CF-15571-RG](#)) are supporting similar beneficiaries and complementing the work performed by the IDBG with other issuances.

**Table 2. Indicative Budget**

Activity/Component	IDB/Fund Funding	Total
	INS	
Component 1. Thematic Bond Pilots	100,0000	100,0000
Component 2. Development of new financial instruments and risk mitigation tools	70,000	70,000
Component 3. Outreach and exchange of information	30,000	30,000
<b>TOTAL</b>	<b>200,0000</b>	<b>200,0000</b>

#### IV. Executing agency and execution structure

- IV.1 The execution of this TC will be done by the IDB. Given the demonstration objective of the TC, the need of developing very technical and specific information and generating economies of scale, and the regional scope of the intervention, it is more appropriate for the IDB to directly executes this TC.<sup>27</sup> The project will be executed by IFD/CMF.

<sup>26</sup> These would be reflected in a discussion paper to be published tentatively by the IDB on [www.iadb.org/en/research-and-data/publications](http://www.iadb.org/en/research-and-data/publications). Likewise, the results and advances of the CT will also be disseminated throughout the region through dedicated platforms such as that of ALIDE and a platform supported by the IDB for exchange between development banks on green and sustainable finance – [www.greenfinancelac.org](http://www.greenfinancelac.org).

<sup>27</sup> In line with Appendix 10 of the Operational Guidelines for Technical Cooperation Products (GN-2629-1), potential beneficiaries were identified, some already expressed interest in obtaining support of the Bank. The IDB will be hiring primarily consulting services. The Bank will have discretion to select, hire, evaluate and pay the consultants. Bank staff responsible for the supervision of the execution also possess substantial expertise in the area. Hence it follows that execution by the Bank is well justified on the basis of the highly specialized nature of the services, the lack of institutional capacity of the counterparts in this area, and the need for aggregation of services in relation to Component 2.



- IV.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, events and other related services. Single-source selection will be used in Component 2 to maintain continuity of Madrona Advogados, who is already providing related services to BDMG in a Bank-executed TC (RG-T3368), for an estimated amount of up to US\$70.000, in line with paragraph 4.1.3 (a) of the Policy (document GN-2765-1). Given the similarities in scope, TC support to Desenvolve SP would be aligned with those of BDMG.<sup>28</sup> Bank staff travel costs will not be covered with TC funds.
- IV.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.
- IV.4 The TC beneficiaries will be selected based on client demand and on a first-come, first-serve basis, and would need to submit the corresponding expression of interest letter. All IDB borrowing member countries are eligible. Other eligibility criteria will include the following: (i) the demand from beneficiary entities shall be submitted by a senior official; (ii) the beneficiary shall have experience with international or multilateral financing organizations; (iii) the beneficiary shall commit to appoint a technical focal point to engage with the IDB and Consultancy Firms; and (iv) the beneficiary shall demonstrate a strong institutional interest to issue thematic bonds. To the extent possible, the TC will allow for a geographical balance within the LAC region, particularly in relation to the activities financed by Component 1. In that respect, priority will be given to countries with little experience with thematic bonds. Beneficiaries must not necessarily be the same across the components.
- IV.5 Beyond the beneficiaries identified at this point, whose countries non-objection letters are either available in Annex 1 or being processed, prior to the financing of any activity in any beneficiary country identified hereafter, a non-objection letter from the liaison entity in such country will be requested and shall be obtained as a condition prior to disbursing TC resources.
- IV.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 to allow the development of a regional program that maximizes synergies between issuers in different countries.
- IV.7 Supervision will be undertaken by the Team Leader, who will liaise constantly with Team Members in the Country Offices with specific financing demands and will be based on the documentation generated in connection with each activity financed by the TC. No formal evaluation report is planned. Supervision costs are expected to be US\$5,500.00 approximately per year. An end-of project report will be prepared, which will use as an input the information provided by the counterparts that participated in

---

<sup>28</sup> Policy for the selection and contracting of consulting firms for Bank-Executed Operational Work (GN-2765-1) establishes on paragraph 4.1.3 (a): "*for tasks that represent a natural continuation of previous work carried out by the firm*".



the implementation of Components 1 and 2 in each country as well as lessons learned from knowledge sharing conferences and web-based events. This report will summarize the execution, the results obtained, as well as the lessons learned for future projects. Moreover, a results matrix to track the progress of against its expected outcomes and outputs is included as an annex.

## **V. Major issues**

- V.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 strong commitment from the potential issuer and the full support of the beneficiary institution's Board of Directors or equivalent. Every thematic bond issuance will be structured as a step-by-step process, where the IDB will have the opportunity to continuously assess the beneficiary's commitment to the project before allocating additional funds to finance subsequent activities.
- V.2 The success of execution of this TC, particularly Component 2, will also depend on ensuring that local authorities are engaged and participating in collaborative efforts to achieve the envisage outcomes. ABDE support to the initiative as well as IDB long-term relationship with CVM and BACEN in Brazil will mitigate such risk to the extent possible.

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

- VI.1 None.

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

- VII.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 thematic bond issuance 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 – Non-objection Letters
- Annex II - Results Matrix
- Annex III - Terms of Reference for activities/components to be procured
- Annex IV - Procurement Plan