

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Institutional Support to National Development Banks for Green Recovery Investments and Actions
▪ TC Number:	RG-T3885
▪ Team Leader/Members:	Netto De A. C. Schneider, Maria E. (IFD/CMF) Team Leader; Frisari, Giovanni Leo (CSD/CCS) Alternate Team Leader; Alatorre Frenk, Claudio (CSD/CCS); Amaro Andrade, Flor Evelyn (IFD/CMF); Bernedo, Cecilia (IFD/CMF); Braly-Cartillier, Isabelle Frederique (IFD/CMF); Brusa, Federico (CSD/CCS); Buttazzoni, Marco (CSD/CCS); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Lefevre, Benoit Jean Marie (CSD/CCS); Messere, Vanina Soledad (IFD/CMF); Padilla De Landaverde, Ana Maria (IFD/CMF); Samayoa, Jorge Omar (CSD/CCS); Schneider Talavera, Christian (IFD/CMF) Brusa, Federico (CSD/CCS); Buttazzoni, Marco (CSD/CCS); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Lefevre, Benoit Jean Marie (CSD/CCS); Messere, Vanina Soledad (IFD/CMF); Padilla De Landaverde, Ana Maria (IFD/CMF); Samayoa, Jorge Omar (CSD/CCS); Schneider Talavera, Christian (IFD/CMF) Montana, Luis Rodrigo (IFD/CMF); Garcia Recinos, Lynda Melissa (IFD/CMF); Gonzalez Murillo, Lidice Alexa (IFD/CMF); Lefevre, Benoit Jean Marie (CSD/CCS); Samayoa, Jorge Omar (CSD/CCS); Schneider Talavera, Christian (IFD/CMF).
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	20 Apr 2021.
▪ Beneficiary:	Belize, Dominican Republic, El Salvador and Uruguay through their National Development Banks (NDBs) and public sector financial intermediaries. More IDB borrowing member countries will be added to the program on demand and depending on the availability of funds and the beneficiaries' commitments towards green finance ¹ .
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	NDC Pipeline Accelerator Multidonor Trust Fund(ACL); OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	NDC Pipeline Accelerator Multidonor Trust Fund (ACL): US\$332,500.00 OC Strategic Development Program for Institutions (INS): US\$367,500.00 Total: US\$700,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	60 months (Execution period: 56 months)
▪ Required start date:	October, 2021
▪ Types of consultants:	Firms and/or individual consultants
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	IFD/CMF-Connectivity Markets and Finance Division
▪ TC included in Country Strategy (y/n):	No

¹ The total expected beneficiaries to attend with this TC is up to six based on demand. In the case of Dominican Republic, Uruguay and additional countries that express interest in the technical assistance, the activities financed with these resources will begin once the request letters from the respective liaison authorities are received by IDB.

▪ 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; Productivity and innovation

II. Objectives and Justification of the TC

- 2.1 **Background and justification.** As a result of the 2015 Paris Agreement, the international community has committed to limit the level of global warming at or below 2°C. That commitment will be implemented through country-led Greenhouse Gas (GHG) emission reduction commitments known as Nationally Determined Contributions (NDC). The effective implementation of NDCs require public and private investments. The net annual financial costs are estimated to reach US\$100 billion by 2050, which represents 2.2% of the Gross Domestic Product (GDP) of 2020 for Latin American and the Caribbean (LAC), including the spending on infrastructure expansion and renewal ([Vergara et al., 2013](#)). The market for low carbon investments in LAC are estimated to be US\$1 trillion by 2040, with US\$600 billion of this materializing by 2030, an equivalent of low-carbon investment of US\$40 billion annually between 2015 and 2040 ([IFC, 2016](#)). Despite great potential for low-carbon investments in LAC, demand and available supply of green finance has to-date remained marginal compared to the ambitious national climate and energy goals set out in the NDCs.
- 2.2 National Development Banks (NDB) are in a unique position to engage Local Financial Institutions (LFI) and private investors and align international climate funding and development financing with national priority mitigation actions to scaleup low-carbon technologies and other green investments. However, these emissions do not occur in a vacuum and are part of a broader economic and regulatory systems that create a complex web of incentives and disincentives for actors in the economy to reduce emissions. Financial institutions are a vital link in enabling the kind of system-wide change needed. By lending and investing, they have the power to redirect capital to sustainable technologies and solutions and to the companies (including Small and Medium Enterprises (SME)) doing the most to prepare for a net-zero emissions economy. Financial institutions can influence companies to reduce their GHG emissions, even without direct control over those reductions, and play a crucial role in accelerating the necessary transition to sustainable and low-carbon economies.
- 2.3 Regulators, supervisors, and investors are increasing the pressure on financial institutions, including NDBs, to strengthen lending practices and associated programs aligned to climate change. According to the World Resources Institute, around half of the world's 50 largest private sector banks have publicly announced a sustainable finance commitment, and 130 banks from 49 countries are signatories to the United Nations (UN) backed "Principles for Responsible Banking" accord. Sustainable finance offerings graded on Environmental, Social, and Governance (ESG) criteria have been widely adopted, while climate-related information (e.g., carbon disclosure) has been increasingly mainstreamed into corporate decision making. In 2015, the Financial Stability Board established the industry-led Task Force on Climate-related Financial Disclosures (TCFD) to develop processes to identify climate-related opportunities and manage climate-related risks, to produce disclosures that "could promote more informed investment, credit [or lending], and insurance underwriting decisions".
- 2.4 **Justification.** Multilateral institutions have a critical role to ensure that development finance is aligned with the objective of a low-carbon, climate-resilient future. In 2016, the [IDB Group](#) pledged of increasing the financing of climate-change related projects

in LAC to 30% of its combined approvals of loans, guarantees, investment grants, technical cooperation and equity operations by the end of 2020. This pledge has become a long-term commitment (not just annual) to mainstream climate change across the IDB Group operations, including lending operations with NDBs. This commitment is now part of the [IDB Corporate Results Framework](#) (indicator 3.5) for 2020-2023. To develop a definition for climate finance and a credible methodology for the accounting of climate finance, the IDB joined forces with other Multilateral Development Banks (MDB) and agreed a common framework for climate finance accounting that serves as basis for the identification of climate aligned activities for mitigation and adaptation in both direct and intermediated operations. Hence, the activities of this TC will be implemented in an approach consistent with the new methodology from the MDBs.

- 2.5 In that context, NDBs need technical capacity support to take strategic and proactive actions to account and address these changes in financial markets and investment. Thus, NDBs need to shift to an approach of value generation and potentially new business opportunities, rather than a matter of compliance (e.g., environmental safeguards). At the same time, the classification of NDB's operations and products into climate mitigation and adaptation related activities, poses various challenges. These challenges include classifying transactions accurately according to business activities, availability of reliable data to inform the classification system, especially from SMEs. SMEs are not in the position to disclose relevant data and lack the resources, expertise, regulatory pressure, and the incentives to produce the data necessary to inform a reporting system ([EBF, 2021](#)). The requirement to routinely collect data with precision and granularity is a step change for NDBs, as you may have cases where information, and possibly underlying data, do not exist, information is not readily available for NDBs, and information required is complex and difficult to use for Non-Subject matter experts.
- 2.6 In this framework, the COVID-19 pandemic has affected firms of all sizes, but SMEs were particularly vulnerable ([World Bank, 2020](#)). In LAC, SMEs are a primary source of employment and key supplier of goods and services to a large share of the population comprising approximately as much as 99.5% of all businesses in the region, 60% of the employed population, and 25% of GDP ([UNDP, 2021](#)). Hence, the role of NDBs to support the sustainable recovery of these companies is crucial and it will represent a way of providing instruments and capacity to adapt and be resilient in the face of crises such as COVID-19 or climate change.
- 2.7 **Objective.** Based on the proposed program, the objective of this operation is the institutional strengthening of six National Development Banks (NDBs) already identified² and to be identified according to demand to foster an enabling investment environment to support private sector investments and capital flows towards sustainable solutions and technologies. The TC will support NDBs, through the development of tools, that facilitate the proper identification of climate mitigation and adaptation investments in their portfolio of core banking products and services, against best practices such as the joint MDB's methodology for the accounting of climate finance. The TC will also assist NDBs in benchmarking their systems against best practices in the financial sector, fostering transparency and long-term sustainable strategies, and mainstreaming of sustainability in risk management. This will allow

² The two NDBs whose letter of request have been received for the moment are for these pilots: BANDESAL/EI Salvador and Development Finance Corporation/Belize.

NDBs to increase their abilities to identify, exploit and monitor the opportunities for climate finance with SMEs, and hence support the efforts of the IDB in increasing the level of climate finance in the operations (loans, guarantees, technical assistance) executed through financial intermediaries dedicated to the productive sector and SMEs in LAC. This project will also foster the abilities and capacities of the NDBs that will be participating to support better implementation of in preparation/in execution/future IDB Group operations.

- 2.8 **IDB strategic alignment.** This TC is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and is aligned with the development challenge of Productivity and Innovation, as it is aimed at supporting the adoption of sustainable accountability mechanisms and the alignment of green financial instruments. The TC is also aligned with the cross-cutting theme of: (i) Institutional Capacity and Rule of Law, as it regards enhanced transparency and aims to enhance the capacity of NDBs and public sector agencies; and (ii) Climate Change and Environmental Sustainability, as it supports the design of sustainable transparency instruments that facilitate investments in productive and environmentally sustainable activities, and the mobilization of capital to support effective public-private synergies that contribute to the achievement of countries' NDCs. Likewise, the TC is consistent with the Strategic Development Program for Institutions (GN-2819-1) and its following objectives: (i) contribute to public policies and institutions that are more effective, efficient, open, and citizen-centered; (ii) reduce constraints for business growth and productivity. Finally, the TC is consistent with the indicator 3.5 of the IDB Corporate Results Framework for 2020-2023: "Climate Finance in IDB Group operations." In addition, this TC is completely aligned with the objectives and criteria of eligibility activities of ACL funds according to GN-2890, point 2.9.
- 2.9 **Lessons learned.** This regional TC will draw from lessons from the development of the joint MDB methodology for climate project tagging and benchmarks from financial institutions to implement the three NDB pilots. Furthermore, this TC will draw lessons from other regional TCs ([ATN/CF-15571-RG](#), [ATN/FI-17637-RG](#), [ATN/FI-14376-RG](#), [ATN/FI-13401-RG](#) and [ATN/OC-13944-RG](#)) regarding capacity building support to NDBs. [ATN/CF-15571-RG](#), and [ATN/FI-17637-RG](#) have also provided technical assistance regarding knowledge sharing (<http://greenfinance.org>), which this regional TC will use to share the knowledge products and information developed. Other lessons that can be used are the creation of dedicated spaces for stakeholders to exchange experiences and identify ways to implement innovative sustainable instruments; regional workshops with relevant stakeholders to share knowledge; and the institution of round tables to work with other stakeholders and relevant national and regional partners with especial synergy and collaboration with IDB Invest team and its projects.

III. Description of activities/components and budget

- 3.1 **Component 1. Tailored support to NDBs for the development of climate aligned financing products.** This component will support NDBs mainstreaming of climate change in their operations and foster sustainable investments through the identification of green finance products and operations, supporting the reduction of related emissions (climate mitigation) and enhancing their capacities to adapt to climate change and become resilient to its shocks (climate adaptation). In particular, this component will: (i) review market tendencies on identifying and tagging of climate change mitigation and adaptation related activities, with a focus on SMEs; (ii) analyze climate mitigation and adaptation technologies and their availability for SMEs financing; (iii) develop and/or improve new and/or existing criteria for tagging

climate-related banking sector products and services using available information and taxonomies at national and regional level, including the development of key Performance Indicators (KPI); and (iv) implement three pilots of the tagging system with selected NDBs in LAC.

- 3.2 This component supports the engagement and inclusion of climate tagging in NDBs banking products and services using available information, certifications, and ratings at country and regional level operations. Specifically, the TC will finance consultancy services for: (i) development of an institutional strategy diagnosis and roadmap to align the NDBs to national or international green initiatives; (ii) development and operational management of the tagging system integrated into the banks' loans workflow; (iii) definition and implementation of consistent data templates to facilitate adequate transparent data monitoring and reporting, if applicable; (iv) provision of technical support and capacity building for all qualified users in the NDBs via virtual and in-person guidance; (v) creation of a dedicated operational execution team; (vi) analysis of portfolio climate risks and alignment with NDBs' risk management systems (if applicable); and (vii) establishment of market expert advisory working groups and participation in events and roundtables to ensure the provision of relevant data through the tagging system;
- 3.3 **Component 2. Knowledge sharing and development of lessons learned.** This component will support knowledge sharing of best practices developed under Component 1, supporting replication in the region with other NDBs committed with this topic to promote increased understanding and capture of climate related opportunities. In this sense, the TC will finance consultancies and training for the development of knowledge products necessary to implement both components. This component includes the following activities: (i) analysis and preparation of training material for the implementation of climate tagging of NDB's products and services; and (ii) promotion of best practices via regional knowledge exchange and sharing programs (seminars and workshops³).
- 3.4 **Outcome.** This TC will support the National Development Bank capacity to channel financial resources to support private sector investments and capital flows towards sustainable solutions and technologies in selected target countries in Latin America. This will allow NDBs to increase their abilities to identify, exploit and monitor the opportunities for climate finance with SMEs, report the impact, and hence support the efforts of the IDB in increasing the level of climate finance with financial intermediaries dedicated to the productive sector and SMEs in LAC, especially to assist the recovery post-pandemic due to COVID-19. The Technical Cooperation also will support the IDB in its commitment to increase climate finance as per the CRF 2020-2023 (indicator 3.5).
- 3.5 **Budget.** The total amount of this operation is US\$700,000, financed by the Bank, where US\$367,500, will be financed by the Strategic Development Program for Institutions, and US\$332,500 will be financed by the NDC Pipeline Accelerator Multidonor Trust Fund (ACL). The proposed TC budget is divided among the two components as shown in Table 1:

³ The workshops and seminars will be virtual and using IDB platform in coordination with Knowledge, Innovation and Communication Sector (KIC). The relevant information also will be shared through www.greenfinancelac.org, allowing to reach a wider network of counterparts and beneficiaries.

Table 1. Indicative Budget (in US\$)

Activity/ Component	Description	IDB/Fund Funding		Total Funding
		ACL	INS	
1	Tailored support to NDBs for the development of climate-aligned financing products	314,000	270,000	584,000
	Consultancy 1: Diagnostic on market tendencies on identifying and tagging of climate change mitigation and adaptation related activities, with a focus on SMEs - develop and/or improve new and/or existing criteria for tagging climate-related banking sector products and services	100,000	100,000	200,000
	Consultancy 2: Implementation of six pilots of the tagging system	214,000	170,000	384,000
2	Knowledge sharing and development of lessons learned	1,000	80,000	81,000
	Consultancy 3: Preparation of training materials for the implementation of climate tagging of NDB's products and services	1,000	59,000	60,000
	Consultancy 4: Participation of market expert advisory working groups in events and roundtables to ensure the provision of relevant data through the tagging system	0	21,000	21,000
Other	Contingency (*)	17,500	17,500	35,000
TOTAL		332,500	367,500	700,000
		700,00		

*The contingency are minor expenses, below US\$5,000 such as editions, translations, etc.

- 3.6 The IDB will execute the technical assistance given its regional nature and multiple beneficiaries for this project, the need to align the methodologies to be applied as well as the possibility to generate economies of scale by hiring the same consultant(s) or

firm to support them. 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). The activities will be carried out in close coordination with the selected NDBs and the focal points in the corresponding Bank's Country Offices (COF) who will have a key role in the national dialogue.

- 3.7 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 systems. The project team will also fulfill all the annual and periodical monitoring requirements established by the Bank, as well as by ACL and INS Funds, under current policies and procedures for this type of operations.
- 3.8 A reflexive impact evaluation of the program will be conducted by the project team before the end of the disbursement period to assess whether the impact indicator of the program was achieved.

IV. Executing agency and execution structure

- 4.1 Given its ample experience, the technical expertise in the identified field, and the regional nature of this TC, the IDB will be the Executing Agency, through the Connectivity, Markets and Finance Division (IFD/CMF). IFD/CMF has ample experience and proving record of successfully executing regional TCs to support NDBs. 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 proposed TC will support counterparts from two countries already identified (Belize and El Salvador) plus it will be open to four additional ones as interest is raised and demand for support is received, considering the commitments towards green finance of their national development banks. The purpose also is to align the activities to be implemented with resources of this TC with operations under preparation or in execution with the selected NDBs. Given the diversity of actors that this TC aims at supporting and its regional scope, it is appropriate for the IDB, through the IFD/CMF Division, to directly execute it to provide a centralized coordination of the various studies and ensure their proper dissemination in the countries and the region. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of IFD/CMF. The work proposed in this TC is highly technical and requires proper quality review and monitoring of expert consultant work. The TC will ensure that the materials developed by consultants are peer-reviewed by the IDB and where applicable by market experts. The team ensures close technical follow up and quality control and methodological support from CSD/CCS.
- 4.3 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 (see Annex II) and will be contracted in accordance with Bank policies as follows: (i) AM-650 for Individual consultants; (ii) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature;(iii) GN-2303-20 for logistics and other related services and (iv) Corporate Procurement Policy (GN-2303-28).The

funding for this operation will be used to hire consultancy services, as well as to pay for travel costs of consultants and the organization of dissemination and training events (non-consultancy services). All products from this TC will be the intellectual property of the Bank.

- 4.4 As this TC requires a strong ownership of the beneficiaries and continuous involvement of NDBs investment officers to keep promoting the good tracking practices, the program will ensure, continuous training of those officers. It is also expected that the counterparts will dedicate the appropriate staff time and the necessary logistical resources for the implementation of the TC. The Bank will obtain, where applicable, a letter of non-objection from the official liaison entity of the beneficiary countries, as a precondition to receive support direct client from this initiative.
- 4.5 The disbursement period requested for this TC is of 60 months (56 months of execution). The reason is that the process of greening the financial system, especially within National Development Banks is its early stage as is an innovative task for the region. Thus, the purpose is to implement 1-2 pilot during the first 12/18 months and replicate these cases in the other IDB member countries identified in the following 38 months.

V. Major issues

- 5.1 A possible implementation risk of this TC is the lack of appropriate engagement of NDBs, providing full access and participation of their personnel into the TC activities as well as of their commitment toward the sustainable recovery, especially considering COVID 19 priorities in each participating country. This will be mitigated by securing, prior to the TC begins implementation, of proper buy-in of activities at the management level, so there is a clear mandate within participating NDBs to conduct the proposed activities.

VI. Exceptions to Bank policy

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

VII. Environmental and Social Strategy

- 7.1 There are no environmental or social risks associated with the activities outlined in this TC. Per the Environment and Safeguards Compliance Policy of the IDB (OP-703), the operation has been classified as 'Category C' see [Safeguards Policy Filter \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).

Required Annexes:

[Request from the Client - RG-T3885](#)

[Results Matrix - RG-T3885](#)

[Terms of Reference - RG-T3885](#)

[Procurement Plan - RG-T3885](#)