

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Increased investment mobilization for green and resilient recovery with Micro, Small and Medium Enterprises (MSMEs) through National Development Banks (NDBs) support
▪ TC Number:	RG-T3979
▪ Team Leader/Members:	Villacorta Alvarez, Omar (IFD/CMF) Team Leader; Frisari, Giovanni Leo (CSD/CCS) Alternate Team Leader; Alatorre Frenk, Claudio (CSD/CCS); Almeida Oleas, Natalia (LEG/SGO); Amaro Andrade, Flor Evelyn (IFD/CMF); Anganu, Jaiwattie (IFD/CMF); Bejar Granda, Diana Mirella (IFD/CMF); Bernedo, Cecilia (IFD/CMF); Garcia Recinos, Lynda Melissa (IFD/CMF); Messere, Vanina Soledad (IFD/CMF); Netto De A. C. Schneider, Maria E. (IFD/CMF); Sierra Gonzalez, Eduardo (IFD/CMF); Vasa, Alexander (IFD/CMF) Alatorre Frenk, Claudio (CSD/CCS); Almeida Oleas, Natalia (LEG/SGO); Amaro Andrade, Flor Evelyn (IFD/CMF); Anganu, Jaiwattie (IFD/CMF); Bejar Granda, Diana Mirella (IFD/CMF); Bernedo, Cecilia (IFD/CMF); Garcia Recinos, Lynda Melissa (IFD/CMF); Messere, Vanina Soledad (IFD/CMF); Netto De A. C. Schneider, Maria E. (IFD/CMF); Sierra Gonzalez, Eduardo (IFD/CMF); Vasa, Alexander (IFD/CMF)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	07 Sep 2021.
▪ Beneficiary:	Jamaica and Suriname through their National Development Banks and public sector financial intermediaries.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Strategic Climate Fund(SCX)
▪ IDB Funding Requested:	US\$400,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	November 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):	n
▪ TC included in CPD (y/n):	n
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Institutional capacity and rule of law; Productivity and innovation

II. Description Objectives and Justification of the TC

- 2.1 Background: 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 (NDBs) 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 scale-up 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, in order to produce disclosures that "could promote more informed investment, credit [or lending], and insurance underwriting decisions". In the same fashion, the Supranational regulatory institutions such as the International Organization of Securities Commissions and the Basel Committee are working towards the development of ESG disclosure standards and promoting the incorporation of climate risks into the financial stability analysis for central banks and financial supervisors.
- 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 (TC) 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 Interamerican Development Bank (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.

- 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 no 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 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. The objective of this proposal is the institutional and technical strengthening of NDBs and other public institutions for the provision of analytics and tools to identify green finance opportunities for MSMEs that can directly contribute to a climate-smart recovery in Jamaica and Suriname. This will allow them 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 with financial intermediaries dedicated to the productive sector and SMEs. 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 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 National Development Banks (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' Nationally Determined Contributions (NDCs). Additionally, this TC is also aligned with the cross-cutting topic of Gender and Diversity and with Jamaica and Suriname's country strategies.

- 2.9 This TC will also take advantage of synergies and complementarities to existing projects in the two program countries and for future operations, it will set the base to continue working on low carbon and climate resilient investments. Particularly in Jamaica there is a Credit Enhancement Program for MSMEs under implementation (JA-L1075) through the Development Bank of Jamaica (DBJ) for energy related businesses. In this sense, SCX resources will build on this measure and expand support to other green businesses in the country. Meanwhile, in Suriname CIF-TAF resources will be additional to an IDB technical cooperation (SU-T1134) to support Nationale Ontwikkelings Bank (NOB), the NDB, to improve the quality and reach of its services to the citizens of the country. Such effort will increase NOB's focus in development, explicitly expanding financing and the offer of products to MSMEs, emphasizing sustainability. The TC is also looking to improve risk management quality and organizational structure to better accommodate to the demands stemming from the Covid-19 pandemic.
- 2.10 Additionally, this TC meets the [donor's criteria](#)¹ and indeed it was approved by the donor on October 5th, 2021.
- 2.11 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. 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, ATN/OC-13944-RG and RG-T3885) 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 and the institution of round tables to work with other stakeholders and relevant national and regional partners.

III. Description of activities/components and budget

- 3.1 The project will support NDBs and other public institutions of the beneficiaries' countries to identify low-carbon and climate resilient potential in MSME lending and mainstream green finance in their portfolio of core banking products and services. The technical assistance will support both lending and non-lending operations, depending on each country situation, with the objective of reducing related emissions (climate mitigation) and enhancing their capacities to adapt to climate change and become resilient to its shocks (climate adaptation). The initiative will focus on MSME's institutional and corporate profile, implementing risk management instruments to identify climate related risks and opportunities consistent (according to specific circumstances) with the TCFD framework, Paris Alignment methodology and the MDB joint methodology to mainstream climate change. This work would allow to increase

¹ SCX resources are implemented under the Climate Investment Fund (CIF)/Technical Assistance Facility (TAF).

the volume of green finance of each institution, to comply with regulatory aspects and participate in taxonomy discussions as well as the implementation of climate-related performance indicators. Specifically, the TC will finance consultancy services focused in the following two components:

- 3.2 **Component 1. Identification of green and resilient COVID-19 recovery opportunities for MSMEs.** This component will support NDBs and public finance institutions in the identification of green finance products and operations targeted for MSMEs. This component will support each NDB in the two identified countries to:
- (i) Develop methodologies and tools to review market tendencies and NDB existing financing portfolios to identify gaps in green and resilient investment for MSMEs in selected sectors, depending on each country's COVID-19 recovery priorities. This analysis will consider a gender perspective as part of its inputs to understand the gender barriers and needs for MSMEs.
 - (ii) Identify green and resilient technologies and their availability for MSMEs financing through the banking channels. This work will focus on concrete interventions such as green and climate-resilient investments with particular focus on the tourism, services and agricultural sector, including the use of renewable energy, sustainable water use, crop management and coastal protection.
 - (iii) Financial structuring of two pilots (one per each country) of NDBs financial products for MSMEs for increased investment mobilization for a green and climate-resilient recovery. This will have local and inclusive considerations through a proactive gender sensitive consultation process with key stakeholders, including NDBs, other local financial institutions, MSMEs organizations, and other relevant stakeholders in each country. To ensure the inclusion of gender considerations, the project will have focus groups to understand and address gender needs and barriers; in promoting some of these initiatives to MSMEs, and the project will implement good practices for gender sensitive communications.
- 3.3 **Component 2. Technical and institutional capacity building of NDBs.** This component aims at building technical and institutional capacities of NDBs and undertaking modelling work of their MSMEs client portfolio. These capacity building and knowledge sharing activities will provide equitable access for men and women. This includes:
- (i) Technical and institutional capacity building for NDBs including support and training in the use of analytical tools to review and identify investment opportunities for green and resilient in MSMEs, to assess their alignment with low carbon and climate resilient development pathways, and to properly manage climate related financial risks. The project will account for gender considerations using already approved gender sensitive training for public banks developed by the IDB Group.
 - (ii) Training on ESG risks: disclosure, identification, reporting and management so the risk management offices form the beneficiaries can adopt internationally accepted best practices. Additionally, the training curricula will include aspects of Climate Accounting and reporting on Climate Financing, among others.
 - (iii) Knowledge sharing and transfer, including country and regional-level exchanges to share lessons learnt from designing and/or implementing green and resilient

recovery initiatives with NDBs and MSMEs. This will include: (i) national events (virtual or in-presence); and (ii) regional virtual events².

Indicative Budget

The proposed technical assistance budget is US\$400,000, divided among the two components and the two countries (Jamaica and Suriname) as shown in Table 1.

Activity/Component	Description	IDB/Fund Funding (SCX)	Total Funding
1	Identification of MSMEs green and resilient COVID-19 recovery opportunities	290,000	290,000
2	Technical and institutional capacity building of NDBs	90,000	90,000
3	Contingency	20,000 ¹	20,000
	Total	400,000	400,000

⁽¹⁾ The contingency are minor expenses, below US\$5,000 such as editions, translations, etc.

IV. Executing agency and execution structure

- 4.1 As requested by the beneficiaries, the IDB will execute the technical assistance given its regional nature and multiple beneficiaries for this project, 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.
- 4.2 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.
- 4.3 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

² The virtual workshops and seminars will take place through IDB platform in coordination with Knowledge, Innovation and Communication Sector (KIC)

Consulting Firms for services of an intellectual nature; and (iii) GN-2303-28 for logistics and other related services. 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 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, under current policies and procedures for this type of operations.
- 4.5 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.

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 taking into account 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 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Banks Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client - RG-T3979ⁱ](#)

[Results Matrix - RG-T3979](#)

[Terms of Reference - RG-T3979](#)

[Procurement Plan - RG-T3979](#)

ⁱ This Annex includes deliberative information, and thus, confidential, according to the exception relative to "Deliberative Information" contemplated in paragraph 4.1 (g) of the Bank's "Access to Information Policy" (Document GN-1831-28)