

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Regional Triangular collaboration assessment with China on Green Finance for Latin America and the Caribbean
▪ TC Number:	RG-T3400
▪ Team Leader/Members:	Netto De A. C. Schneider, Maria E. (IFD/CMF) Team Leader; Nieto Ituarte, Enrique (IFD/CMF) Alternate Team Leader; Arauz Herrera, Alison (IFD/CMF); Arroyo, Johan Floyd (IFD/CMF); Bernedo, Cecilia (IFD/CMF); Braly-Cartillier, Isabelle Frederique Fra (IFD/CMF); Frisari, Giovanni Leo (CSD/CCS); Jimenez De Arechaga, Maria Del Pilar (LEG/SGO); Valencia Marin, Veronica (IFD/CMF); Vasa, Alexander (IFD/CMF)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	26 Jul 2019.
▪ Beneficiary:	Upon demand. National Development Banks (NDBs) or Financial and Capital Markets Regulators and Supervisors from IDB Borrower Members ¹
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Institutional Capacity Strengthening Thematic Fund(ICS)
▪ IDB Funding Requested:	US\$200,000.00
▪ Local counterpart funding, if any:	US\$40,000.00 (In-Kind)
▪ Disbursement period (which includes Execution period):	24 months (Execution period: 20 months)
▪ Required start date:	Oct 1, 2019
▪ Types of consultants:	Individuals; Firms
▪ 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:	Institutional capacity and rule of law; Environmental sustainability

II. Objectives and Justification of the TC

¹ The demand for this continued support has been identified as part of the Green Finance Knowledge Collaboration week by the IDB during 26-30 November 2018 in Beijing and Shanghai, China. See links: lists of participants ([Green Finance Collaboration](#), [Green Panda Bonds](#)), and the [mission report](#). The selection of NDBs, regulators and supervisors to benefit from institutional capacity will be based upon demand and the following selection criteria: (i) existing IDB operations with (ii) and institutional capacity of public banking institutions to prepare and structure green projects and strategies, as well as the size and sophistication of capital and financial markets. Beyond these criteria, decisions will be made on a first come first served basis. Initial demand for being beneficiaries of pilots was voiced by networks such as Latin American Association of Development Financing Institutions (ALIDE), the Brazilian Association of Development (ABDE), Ecuadoran National Financial Corporation (CFN) and the Development Bank of Jamaica (DBJ) in Jamaica.

- 2.1 Several sources estimate total expected global capital requirement to achieve a low-carbon transition to beyond US\$250 billion per year.² Many countries in Latin America and the Caribbean (LAC) are increasingly promoting low-carbon development strategies and mitigation plans through their Nationally Determined Contributions (NDCs). Achieving the NDCs in LAC requires at least US\$27 billion annually until 2030.³
- 2.2 However, many countries in LAC currently lack the in-depth knowledge of designing and implementing green finance strategies as well as utilizing capital market regulatory frameworks to implement green finance at scale. The lack of long-term credit in financial markets as well as high perceived risks by financial institutions continue to limit the scaling-up of green finance investments.
- 2.3 This Technical Cooperation's (TC) main objective is to support the institutional capacity of National Development Banks (NDBs) in Latin America and the Caribbean (LAC) to: (i) issue green bonds⁴ generally and Green Panda Bonds specifically; and (ii) to evaluate potential collaboration with Chinese Development Finance Institutions (DFIs) on green finance⁵ projects in LAC. Panda Bonds are debt instruments issued by non-Chinese issuers in the Chinese market. IDB developed and published the Green Panda Bond Handbook under the TC "Building Green Financial Instruments and Systems in LAC from the Experience of China" ([ATN/FI-16358-RG](#)), to provide technical guidance on how to issue Green Panda Bonds in a Chinese regulatory environment. Building on the insights gained from the handbook elaboration, subsequent launch and NDB participation in the framework of [ATN/FI-16358-RG](#), this TC complements [ATN/FI-16358-RG](#) by aiming to identify NDBs that are interested in issuing Green Panda Bonds in the Chinese market and support the issuance process.⁶ Furthermore, [ATN/FI-16358-RG](#) supported the initial assessment of the state of green finance in LAC for NDBs and potential benefits of triangular cooperation between LAC institutions, IDB and Chinese DFIs. This TC will support LAC institutions to consider, assess and potentially pilot concrete opportunities for collaborations between Chinese

² Estache, Antonio, Tomas Serebrisky, and Liam Wren-Lewis. 2015. "Financing Infrastructure in Developing Countries." *Oxford Review of Economic Policy* 31 (3–4): 279–304.

³ Abramskiehn, Dario, Karoline Hallmeyer, Chiara Trabacchi, Donovan Escalante, Maria Netto, Maria Margarita Cabrera, and Alexander Vasa, 2017. "Supporting National Development Banks to Drive Investment in the Nationally Determined Contributions of Brazil, Mexico, and Chile." *IDB Monograph - Institutions for Development. Connectivity, Markets, and Finance Division*; IFC, 2016. "Climate-Smart Investment Potential in Latin America: A Trillion Dollar Opportunity,"; Cabré, Miquel Muñoz, Kevin P. Gallagher, and Zhongshu Li, 2018. "Renewable Energy: The Trillion Dollar Opportunity for Chinese Overseas Investment." *China & World Economy* 26, no. 6.

⁴ Green bonds aggregate and structure debt financing in a way that enables investments to raise commercial funds from debt capital markets. Green bonds can provide dedicated funding to climate change mitigation, adaptation, and other environmentally friendly projects – across all sizes and scales – by increasing access to green financing at appropriate terms and conditions, including longer tenors that arise from the maturity of the underlying assets that back issuances.

⁵ Green Finance incorporates finance dedicated to mitigate and adapt to climate change impacts, as well as to finance projects with positive environmental outcomes. Both China and some LAC countries work through public banking structures to foster development and private sector investments. Additionally, regulatory guidance provides certainty for investors. The Chinese experience in structuring and deciding on regulation for green finance systems can support LAC regulators and supervisors to consider the benefits, costs, and challenges of this process.

⁶ The support will be based on the methodology developed in previous technical assistance projects, including the TC "Integration of Environmental and Social Concerns into Capital Markets: Supporting NDBs Capacities to Issue Green Bonds ([ATN/SU-15599-RG](#)) and [ATN/FI-16358-RG](#), and will be adapted to the Panda Bond Framework, as specified in the Green Panda Bond Handbook.

DFIs and NDBs from LAC to prepare green investment activities through technical assistance.

- 2.4 A second objective of this TC is to support financial and capital market regulators and supervisors in LAC to learn from the ever-evolving regulatory environments, with the ultimate objective of promoting green finance across the region.
- 2.5 In LAC, NDBs constitute an important financial instrument used by governments to support their public policy objectives. The LAC region has 72 active NDBs in 19 countries and a network of 78,850 branches.⁷ The total credit portfolio of NDBs in LAC is US\$964 Billion and skewed towards climate-relevant themes agricultural and fisheries financing, housing, industry, and energy. NDBs, as institutions, are therefore increasingly seen as important market players that can influence the development of a more enabling environment for low-carbon investments, provide funding at adequate terms and conditions for respective investments, and catalyze participation and financial resources from the national and international private sector and support the achievement of the Paris Agreement and NDCs.⁸
- 2.6 According to the Green Bond Market review, performed by the Skandinaviska Enskilda Banken AB (SEB Bank), global green bond issuance came in at US\$183 billion in 2018, with an increase of 6% compared to 2017. Currently, however, NDBs in LAC lack understanding of the requirements, taxonomies, methodologies, and credit enhancing instrument to participate in this market and require specialized technical assistance to achieve the internal capacity to attract investors, improve creditworthiness, offset incremental costs of issuance, particularly for first-time issuers, and increase transparency on the alignment of underlying projects with investor's goals.
- 2.7 IDB, through its Connectivity, Markets and Finance Division (IFD/CMF) has increasingly been working with financial market regulators and National Development Banks (NDBs) to address these barriers, and to integrate climate change and environmental concerns into their business models through the development of financial strategies geared to promote green finance in the LAC region.⁹ The

⁷ [Alide, 2018. Past, Present and Future. Latin American Association of Development Financing Institutions \[Original in Spanish\].](#)

⁸ [Abramskiew et al, 2017](#); Smallridge, Diana, Barbara Buchner, Chiara Trabacchi, Maria Netto, José Juan Gomes Lorenzo, and Lucila Serra, 2012. "[The Role of National Development Banks in Intermediating International Climate Finance to Scale Up Private Sector Investments.](#)" Inter-American Development Bank; Carlino, Hernán, María Netto, Esteban Suarez, and Alexander Vasa, 2017. "[La Contribución de La Banca Pública de Desarrollo a Los Objetivos de Desarrollo Sostenible En Los Países de América Latina y El Caribe.](#)" Inter-American Development Bank.

⁹ Between 2011 and 2018, the IDB has worked successfully with 40 NDBs in 65 operations to develop and implement green finance and green bond strategies, where previously no such strategy existed ([IDB, 2019 Green Finance Project Map with NDBs - GreenFinanceLac](#)). These operations involve the blending of IDB with externally funded instruments such as loans, guarantees, hybrid, and technical assistance for a total of USD 2.2 billion. The IDB started the green bond program to support NDBs issue their green credit portfolio and gain access to capital, and the IDB has thus become the frontrunner in supporting green bond markets in LAC, with an exceptional track record, access to key partners, creating knowledge and capacity and contributing to match market demand with the supply of bond issuances. The IDB has supported NDBs in the development of green and sustainable bond issuances in Argentina, Colombia, Mexico for a total of US\$192 million ([IDB, 2019. Green and Sustainable Bonds - GreenFinanceLac](#)). In 2018, BICE, an Argentinean National Development Bank, issued the first SDG-aligned bond in LAC with support of the IDB. In addition, the IDB helped, in cooperation with the Climate Bonds Initiative, to develop and pilot a new methodology for protected agriculture for a NDB in Mexico ([IDB, 2019. Why was 2018 the year of the](#)

overarching objective, with support from international climate finance, is to eventually catalyze private sector investments towards low-carbon climate-aligned projects.

- 2.8 Financial market regulators and NDBs in LAC are in a unique position to engage Local Financial Institutions (LFIs) and private investors, align development financing with national priority mitigation actions, and mobilize international climate funding to promote investments in green projects at scale. The TC will thus further support the assessment of regulatory frameworks and development of financial products conducive to green finance.
- 2.9 This TC is aligned with the development challenge of productivity and innovation, 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 to enhance the capacity of regulators and NDBs to promote green finance across the LAC region. Further the TC fulfills the following criteria of the Institutional Capacity Strengthening Fund: promotion of high impact institutional development, including instruments for dialogue, and knowledge exchange between China and LAC stakeholders.

III. Description of activities/components and budget

- 3.1 **Component 1: Support assessment and issuance of Green Panda Bonds.** The main aim of the first component is to support up to two NDBs in the assessment and issuance of Green Panda Bonds, and to apply the lessons learnt from the Green Panda Bond Handbook and Green Bond Methodology. Specifically, the support will focus on the following:
 - Portfolio identification
 - Framework preparation
 - Financial structuring, including an assessment of credit enhancement
 - Co-finance/anchor investment and guarantee opportunities
 - Second party review
 - Certification, promotion and roadshow.
- 3.2 Additionally, the technical cooperation will support NDBs in developing the financial structure of the bond issuance and aggregating their portfolios. Expected outputs are two portfolio assessments and up to one completed issuance in the Panda Bond Market, including a marketing event for the issuance. The support benefits up to two government agencies by strengthening technological and managerial tools to improve public service delivery via a new financing. The completed issuance would constitute the development of a new financial instrument.
- 3.3 **Component 2: Support assessment of potential for collaboration with Chinese development funds and development finance institutions.** The main aim of the second component is to support up to two NDBs to assess the potential technical and financial triangular collaboration, including blending, co-financing, and parallel financing, with Chinese development funds, Chinese DFIs and the IDB. Ultimately, such collaborations could help finance future project pipelines across LAC through NDBs backed by sovereign guarantees. The main potential partners of such triangular

[sustainable bonds?](#)) as well as a handbook for Green Panda Bonds issuance in the Chinese market ([IDB, 2019. How to issue a Green Panda Bond](#)).

are the China Development Bank and the Export-Import Bank of China, as well as NDBs from LAC. The output of this activity is an assessment report about collaboration opportunities, and a project-specific engagement strategy for a prospective green finance collaboration, including financial and non-financial conditions of collaboration, as well as recommendations for NDB clients to develop a concrete IDB project proposal. The TC will engage NDBs, Chinese DFIs and Chinese development funds as follows:

- Based on demand by NDB, identification of concrete green finance project and its financial and non-financial barriers which impede the project to forward without support;
- Identification of technical and financial conditions required for green finance project, as well as of institutional capacity required from implementing NDB and its prospective partners;
- Identification and engagement of potential international collaboration partners with a focus of including Chinese partners;
- Facilitation of collaboration discussions, by the IDB, with all collaboration partners with a view to prepare or complement a sovereign guaranteed operation;
- Preparation of concrete IDB project strategies and two proposals with triangular collaborative elements in line with all IDB policies.

3.4 **Component 3: Cost-benefit assessment of green finance guidelines.** This component will support two or three financial supervisors and/or regulators in LAC to assess the implementation of Green Finance guidelines. The long-term goal is to create capacity and knowledge for financial supervisors and regulators to evaluate and identify potential areas of replication of the experiences of Chinese regulators under the Green Credit Policy and the Green Bond Catalogue. This third component has three expected outputs:

- i. Gap analysis of knowledge and capacity of regulators vs the practices their local markets already present and the existing best practices (regionally or internationally) towards the implementation of green finance guidelines.
- ii. Knowledge exchange with relevant counterparts within LAC and with China.

3.5 **Component 4: Knowledge sharing, capacity building events, and publications.** This component will enable knowledge sharing activities, to disseminate the results and publications of the TC in events and virtual webinars. The knowledge sharing events will be organized jointly with the Latin American Association for Development Financing Institutions (Alide) will be open to all NDBs, regulators, and supervisors. All key outputs and outcomes will be shared with the ICSF technical secretariat, and the support of the Fund will be acknowledged. The TC team will further enhance the existing website module on GreenFinanceLAC¹⁰ to facilitate wide dissemination of its outputs to LAC and international audiences.

3.6 **Institutional capacity requirements of the NDBs and financial regulators.** The TC focuses on green finance for mitigation, environmental protection, adaptation and land use. The selection of NDBs and regulators to benefit from institutional capacity will be based upon demand and based on existing IDB operations, as well as the institutional

¹⁰ <https://www.greenfinancelac.org/glc/>.

capacity of public banking institutions to prepare and structure green strategies and projects.

- 3.7 Beneficiaries of this TC will be based on client demand and a first-come, first-serve basis. The eligibility criteria will be differentiated by component, and include, but not necessarily be limited to, the following: (i) explicit demand from the beneficiaries' senior management (Components I–III); (ii) experience in issuing bonds generally and green or other theme bonds specifically (Component I); experience with international or multilateral finance organizations (Components I–III); (iii) a dedicated technical focal point and availability or institutional interest to implement a social and environmental safeguards and risk management system (Component II); and (iv) a developed capital market or financial market (component III). Importantly, the TC will allow for a geographical balance within the LAC region, in line with the eligibility criteria throughout all four components. Beneficiaries must not necessarily be the same across the components, and all NDBs in LAC are in principle eligible to apply.
- 3.8 The total amount of this TC is US\$240,000. The amount of US\$200,000 will be provided by the Institutional Capacity Strengthening Fund (INS). Beneficiaries will provide an in-kind counterpart contribution for a total of US\$40,000.¹¹
- 3.9 For the execution of Components I–III, IDB will establish letters of agreement with each of the beneficiaries to disburse resources.

**Table 1: Indicative Budget
(in US\$)**

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding*	Total Funding
Component 1	Support for up to 2 NDBs in the assessment and issuing of Green Panda Bonds	100,000	20,000	120,000
Component 2	Support of up to 2 NDBs in the assessment of collaborations with Chinese DFIs	35,000	7,000	42,000
Component 3	Cost-Benefit assessment of Green Finance Guidelines	45,000	9,000	54,000
Component 4	Knowledge Sharing, Capacity Building Events and Publications	20,000	4,000	24,000
TOTAL		200,000	40,000	240,000

* In kind resources from beneficiaries: will consist on staff time, facilities for the development of planned promotional workshops and events, and office space for consultants supporting the design of the different products envisioned under this TC.

IV. Executing agency and execution structure

- 4.1 Given the diversity of actors this TC and its regional scope, it is appropriate for the IDB, through the IFD/CMF Division, to directly execute the TC and thus to provide a

¹¹ The technical cooperation will actively pursue possibilities to leverage ICSF grant resources with additional resources, including the Chinese South-South Cooperation Fund and the South-South Cooperation Fund.

centralized coordination and ensure the independent and efficient execution in light of different beneficiary country systems. A Bank execution facilitates the different hiring processes allows for a smooth contracting and interaction with different beneficiary partners. The Bank execution will ensure that products and outputs of the TC will be disseminated widely and thus benefit a wider set of actors in LAC. The experience with [ATN/FI-16358-RG](#) has furthermore shown that the Bank is in an optimal position to coordinate independently between Chinese and LAC partners. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of IFD/CMF.¹²

- 4.2 The funding for this operation will be used to hire consultancy services for beneficiaries as well as to pay for travel costs and the organization of dissemination and training events. The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with the Bank's current procurement policies and procedures.¹³ Bank staff travel costs will not be covered with these funds. Contracting will be in line with IDB procurement policies for consulting firms for operational work executed by the Bank (GN-2765-1), complementary workforce (AM-650) and the policy for institutional procurement (GN-2303-20).

V. Major issues

- 5.1 Given that the work proposed in this TC is highly technical, there is a risk of not obtaining good quality results if the work carried out by consultants is not properly monitored. The TC will ensure that the materials developed are peer-reviewed. Ensuring close technical follow-up and quality control of the support provided is also one of the reasons why the TC is executed by IDB (IFD/CMF) with support from CCS/CSD. This TC requires also a strong ownership of the beneficiaries and continuous involvement of financial market regulators and NDBs senior management and technical staff to keep promoting green finance strategies. To that effect, the program will ensure continuous training of those officers. It is also expected that the beneficiary counterparts will dedicate the appropriate staff time and the necessary logistical resources for the implementation of the TC. The Bank will ensure that beneficiaries agree on these conditions, through jointly signed letters of agreement, as a pre-condition to receive support from this initiative.
- 5.2 The success of execution of the TC will also depend on ensuring that Chinese DFIs and stakeholders are engaged in participating in collaborative efforts and promoting knowledge exchange. This will be ensured by working closely with counterparts in China identified in the framework of [ATN/FI-16358-RG](#)¹⁴ and in coordination with the People's bank of China (PBOC).

VI. Exceptions to Bank policy

¹² While the TC is focused on Public Sector National Development Banks, financial and capital markets regulators, the team will seek actively the knowledge exchange and collaboration with other IDBG divisions working on capital and financial markets.

¹³ The following procedures shall apply: (i) Individual Consultants – Human Resources procedures (AM-650); (ii) Consulting Firms –the Policies for the Selection and Contracting of Consultants firms for Bank-Executed Operational Work (GN-2765-1); and (iii) Non-consulting Services –Corporate Procurement Policy and procedures (GN-2303-20).

¹⁴ [Mission report](#) of the China Green Finance Knowledge November 26-30, 2018.

6.1 No exceptions are expected.

VII. Environmental and Social Strategy

7.1 The TC is not expected to generate negative Environmental and Social (E&S) impacts. The following IDB policies have been triggered: OP-703- B.1, B.2 and B.3. OP-710, OP-765, OP-704, OP 761, OP-102 have not been triggered. Consequently, according the “*Environmental and Safeguards Compliance Guidelines*” (OP-703), this project is classified in category “C”, which means that environmental and social assessments are not necessary (see: [Safeguards Policy Filter](#) (SPF) y [Safeguards Classification Form](#) (SSF)).

Required Annexes:

[Request from the Client_11550.pdf](#)

[Results Matrix_36073.pdf](#)

[Terms of Reference_23375.pdf](#)

[Procurement Plan_39239.pdf](#)