

INTEGRATION OF ENVIRONMENTAL AND SOCIAL CONCERNS INTO CAPITAL MARKETS: SUPPORTING NATIONAL
DEVELOPMENT BANKS CAPACITIES TO ISSUE GREEN BONDS

RG-T2720

CERTIFICATION

I hereby certify that this operation was approved for financing under the Swiss Technical Cooperation Trust Fund for Consulting Services and Training Activities (STC) through a communication dated **March 31, 2016** and signed by kai Hertz. Also, I certify that resources from said fund are available for up to **US\$750,000** in order to finance the activities described and budgeted in this document. This certification reserves resource for the referenced project for a period of **four (4) calendar months** counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, i.e. represent a risk that will not be absorbed by the Fund.

<u>Original Signed</u>	<u>6/14/2016</u>
Sonia M. Rivera	Date
Chief	
Grants and Co-Financing Management Unit	
ORP/GCM	

Approved:	<u>Original Signed</u>	<u>6/15/2016</u>
	Juan Antonio Ketterer	Date
	Chief	
	Capital Markets and Financial Institutions Division	
	IFD/CMF	

Technical Cooperation Document

I. Basic Information

▪ Country/Region:	Regional
▪ TC Name:	Integration of Environmental and Social concerns into capital markets: Supporting National Development Banks' Capacities to Issue Green Bonds
▪ TC Number:	RG-T2720
▪ Team Leader/Members:	Gomes, Jose J - Team Leader; Netto, Maria - Alternate Team Leader; Lugo, Gloria; Braly, Isabelle; Haro, Isabel; Herrera, Diego; Alatorre, Claudio - Team Members; Arauz, Alison - Project Assistant; Henning, Betina - Attorney
▪ Taxonomy:	Client Support
▪ Date of TC Abstract :	15 Mar 2016
▪ Beneficiary:	Public Sector Financial Institutions in the Region
▪ Executing Agency:	IDB - Capital Markets and Financial Institutions Division IFD/CMF
▪ Donors providing funding:	Swiss Technical Cooperation Trust Fund for Consulting Services and Training Activities - State Secretariat for Economic Affairs (SECO) of Switzerland
▪ IDB Funding Requested:	US\$750,000.00
▪ Local counterpart funding, if any:	US\$90,000.00 (in kind)
▪ Disbursement period:	30 months (execution period: 30 months)
▪ Required start date:	01 May 2016
▪ Types of consultants:	Individuals consultants and firms
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ TC Included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ GCI-9 Sector Priority:	(i) Institutions for growth / social welfare; and (ii) Protecting the Environment and Responding to Climate Change

II. Objectives and Justification of the TC

- 2.1 Green bonds aggregate and structure debt financing in a way that enables investments to raise funding from debt capital markets. They can provide dedicated funding to climate change mitigation, adaptation, and other environmentally friendly projects—small and large scale—by increasing access to green financing on appropriate terms and conditions, including longer tenures given the maturity of the underlying assets that back the issue.
- 2.2 Annual issuance of labelled green bonds tripled from US\$11 billion in 2013 to US\$36.6 billion in 2014. Green bonds have been the subject of increasing government, investor and media interest and expectations, driven by the prospect of matching large low-carbon investment requirements with the trillions of dollars in global bond markets held by institutional investors. The mix of issuers has expanded from the multilateral development banks (MDBs) that pioneered the market to include local governments and agencies, utility companies, national development banks and other corporate issuers.
- 2.3 The growth in the market and the range of issuers has led to the need for more structure, more transparency and standardization, in order to ensure the credibility and potential for growth of the green bonds market. A set of Green Bonds Principles

(GBP)¹ has been developed by a consortium of issuers, investors and intermediaries in the green bond market to ensure quality and transparency. The voluntary guidelines cover four aspects including: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) monitoring and reporting, including on impacts. Assurance to investors and stakeholders about the issuer's adherence to these principles is provided by independent entities.²

- 2.4 Many countries in Latin America and the Caribbean (LAC) are increasingly promoting low-carbon development strategies and mitigation plans. Indeed, countries such as Mexico, Peru, Colombia, Brazil and Chile have already adopted specific plans geared towards promoting low-carbon development. Invariably, they have found as some of the most important challenges the lack of an environment that is conducive to investing on low-carbon development, high perceived risks by commercial banks on climate finance,³ and limited financial resources at adequate terms and conditions and sound financial strategies to effectively support the adoption of climate change mitigation measures. In a region such as LAC, where national development banks (NDBs) constitute an important financial instrument used by governments to support their public policy objectives, these institutions are increasingly seen as an important market player in order to influence the development of a more enabling environment for low-carbon investments, provide funding at adequate terms and conditions for those investments, and catalyze an increasing participation of national and international private sector sources of funding in their financing.
- 2.5 The absence of long-term bank financing for investment purposes in the region can be traced back to the recurring macroeconomic and financial crises that afflicted most countries over the last forty years. In the presence of slow-evolving financial legal and regulatory frameworks, crises have also impaired the development of local capital markets, the traditional main source of investment finance in more developed economies. In this context, most governments in Latin America have traditionally resorted to their NDBs as an important source of long-term finance for productive investments, and more recently for climate change mitigation and adaptation investments. Thanks to their capital endowments and their access to long-term funding from MDBs and bilateral financial institutions, these institutions have been able to fulfil their development finance mandate. However, to the extent that many of them are already quite active in terms of generating portfolios of climate-change-related investments, and that there is growing interest by national and international institutional and impact investors for acquiring green fixed-income securities, there is an opportunity for NDBs to diversify their traditional sources of long-term funding through the issuance of use-of-proceeds green bonds, backed by those portfolios. Moreover, as these institutions become acquainted and experienced on how to tap this new funding source, there could be an incentive for them to

¹ See link: [Green Bond Principles. International Capital Market Association.](#)

² Issuers may also wish to add an additional layer of assurance about the “greenness” of the investments financed through independent certifications following standards such as the “Climate Bonds Standards”.

³ Climate finance refers to financing channeled by national, regional and international entities for climate change mitigation and adaptation projects and programs. The incremental risk (higher risk relative to other types of projects) is related to characteristics inherent to these projects and programs. Normally, mitigation and adaptation projects involve the adoption of new technologies and/or the need to provide relatively long term maturities (for instance, in forest-related projects). See ¶2.6.

continue to generate those portfolios to back future bond issues, and a very powerful demonstration effect on the commercial banking system to follow suit.⁴

- 2.6 On the demand side of the market for climate-friendly investments, it is important to understand that many projects are of a very large scale or involve the adoption of new technologies for which capital costs are relatively higher. Under these circumstances, access to financing at adequate maturities is essential to ensure that the cash flows of the projects over a reasonable period of time are large enough to service their financial and operational obligations and generate a return to investors.
- 2.7 Some NDBs in the region are already actively engaged in climate finance and hence have generated relatively large portfolios of climate-friendly projects. Mexico's NAFIN is a case in point. Since 2009, NAFIN developed a large portfolio of wind projects and in October 2015 issued a US\$500 million green bond backed by that portfolio, becoming the first issuer of green bonds in the LAC region.⁵ NDBs in Colombia (BANCOLDEX, FINDETER and FINAGRO), Peru (*Fondo Mi Vivienda*, *Agrobanco* and COFIDE) and Ecuador (*Corporación Financiera Nacional*) have already expressed their interest in getting technical and logistical support to structure their first green bond issues and place them in the national and international markets.
- 2.8 The IDB has been supporting these institutions in structuring and financing comprehensive strategies to promote private investments with productivity and environmental sustainability objectives. In recent years, the IDB has been working increasingly with NDBs to integrate climate change and environmental concerns in their businesses through the development of financial strategies geared to promote climate-friendly investments, mobilizing local and foreign sources of private and concessional climate finance. The proposed technical cooperation (TC) is a natural extension of those efforts, since it would allow the aforementioned NDBs to securitize their existing and forthcoming portfolio of green assets.
- 2.9 The objective of this TC is to support NDBs in their efforts to raise private funds at adequate maturities in local and international capital markets through the issuance of green bonds. This should have an impact in their ability to diversify their sources of funding, promote low-carbon development, and launch new fixed income securities that could help to promote the development of their own local capital markets and be attractive for national and international institutional and impact investors.
- 2.10 Specifically, beneficiary NDBs will receive technical and promotional assistance required to: (i) structuring, review and verification of their first green bond issue backed by their existing green loan portfolios; (ii) market those new securities; and (iii) disseminate the results of these experiences and share the lessons learned and best practices among other NDBs and relevant public and private stakeholders in the region, in a joint effort with the Association of Development Financing Institutions of Latin America and the Caribbean (ALIDE) and the Latin American Federation of Commercial Banks (FELABAN). With this, the TC aims to exert also a powerful

⁴ In addition, as NDBs and commercial banks become more knowledgeable on green bonds and become recurrent issuers of this type of securities, increasing competition among second-party reviewers and independent verifiers may exert downward pressure in the cost of their services and hence reduce the transaction costs confronted by financial institutions interested in issuing green bonds. This in turn means access to long term funding from the capital markets at relatively lower rates.

⁵ See link: [Bono Verde. Nacional Financiera.](#)

demonstration effect with local private financial institutions that knowingly or not are already financing green projects in the region.

- 2.11 The aim is to support three countries in the Andean region: Colombia, Peru and Ecuador. Beneficiaries are expected to include NDBs in those three countries, which are already actively financing climate friendly projects, have generated a relatively large portfolio in this type of projects, and have already expressed to the IDB their interest in receiving technical support to structure their first green bond issue.⁶ Climate-friendly-project investors will benefit indirectly, as the increased knowledge of NDBs and local commercial banks on how to structure and issue this type of financial instruments may improve their access to long term funding. Society at large will also benefit, as the availability of financing for climate friendly projects will stimulate their structuring and deployment, with its consequently positive environmental impacts.
- 2.12 This TC is consistent with two sectoral priorities of the IDB under the GCI-9: (i) institutions for growth and social welfare, as it supports private sector investments and employment through financial market deepening; and (ii) protect the environment and respond to climate change, by reducing greenhouse gas (GHG) emissions through climate friendly investments. It is also consistent with priority areas under the Bank's country strategies with the three expected beneficiary countries. The project team will also ensure that the supported mechanisms are fully compatible with relevant Bank's policies and sectoral frameworks. From a donor's perspective this TC provides an opportunity to actively engage in promoting financial innovation, sustainable growth and in catalyzing increasing amounts of private financing to promote investments in climate-friendly projects.

III. Description of activities/components and budget

- 3.1 The main activities envisioned under the proposed TC in order to support each beneficiary NDB according to its particular needs, as well as the development of the green bond market across the Region, are grouped under three components:
- 3.2 **Component I: Support for the structuring, review and verification of a green bond issue**, including the following activities: (i) institutional diagnostic and screening of NDB's green loan portfolio and its positive environmental and social impacts;⁷ (ii) design of a credit enhancement mechanism, that could significantly improve the bond rating and hence its attractiveness for the issuer and the market;⁸ (iii) second party review or opinion to attest the issuer's process for project evaluation and selection (including project categories eligible for Green Bond financing), the "greenness" of the eligible projects or assets and the quality of the environmental and social safeguards under which the green portfolio backing the

⁶ It is expected that outreach and information activities envisioned for this TC will benefit other NDBs in the Andean region, as well as other regions in LAC.

⁷ This will be determined by the expert hired to that effect based on green and climate bonds generally accepted standards, including CBI's own climate bond standards, if available

⁸ Program resources will be used exclusively for the design of such mechanism. NDBs' credit ratings are closely linked to those of the country in which they operate. Even if they are solid, well-managed financial institutions, potential downgrades to the countries by rating agencies also affect their credit ratings, making it more difficult for them to gain access at adequate terms and conditions to international and local capital markets, unless their bond issuance is backed by a credit enhancement granted by an investment grade institution in the international markets.

issue has been structured and managed;⁹ and (iv) attesting services from an certified independent third party to verify the bond issue against existing Climate Bonds Standards, certify that the planned use-of-proceeds adhere to the Climate Bond Standard Framework (v 2.0) and to relevant eligible asset-specific standards (e.g., solar, wind, low-carbon BRT systems or buildings) that have already been developed and are available in the market. Resulting from this activity, NDB may then use the Climate Bond Certified Mark in marketing efforts and roadshows. The Climate Bonds Standards Board confirms Climate Bond certification once the bond has been issued and the proceeds have been allocated to projects and assets.

3.3 Component II: Support for the marketing of the bond issue. Success of a new financial asset placement in local and foreign capital markets depends largely on its promotion, particularly among institutional and impact investors. In most cases, targeted NDBs would be carrying out their first bond issuance, since their funding has traditionally come from budgetary appropriations (capital) from their own government or long term loans from bilateral and multilateral institutions. Under this component, the TC will provide logistical support for marketing events (roadshow) to advertise the green bond locally and abroad.¹⁰

3.4 Component III: Dissemination of sub-project results, lessons learned and best practices, including: (i) a regional dialogue on integrating sustainability in financial systems through the promotion of green bonds or green asset-backed securities markets; and (ii) support for the collection and dissemination of lessons learned and best practices accumulated by NDBs in the process of structuring and marketing their green bond issues. Activities will be undertaken in close collaboration with regional financial networks such as ALIDE and FELABAN and will rely on existing web-based platforms such as *Klave Finanzas Verdes* and finanzascarbono.org.

Table 3.1: Indicative Results Matrix

Indicator / Description	Unit	Base-line (Yr 0)	Target (Yr 3)	Expected completion date	Data source
Component I: Support for the structuring, review and verification of a green bond issue					
List of green loan sub-portfolios susceptible to be securitized through green bond issuances	Number	0	3	Q2 2018	NDB/consultancy report
Proposal for a credit enhancement mechanism	Number	0	2	Q2 2019	NDB/consultancy report
Second party report/review document	Number	0	1	Q2 2019	NDB/consultancy report
Certification of bond under Climate Bond standard prior to its issuance	Number	0	1	Q2 2019	NDB/consultancy report
Component II: Support for the marketing of the bond issue					
Marketing events*	Number	0	2	Q4 2018	NDB/IDB report
Component III: Dissemination of sub-project results, lessons learned and best practices					
Regional workshops*	Number	0	2	Q2 2019	NDB/IDB report
Publications (technical notes, web)	Number	0	1	Q3 2018	NDB/IDB report

*Outputs of activities related to logistic support for events (marketing events, meeting, roadshows, and workshops) include costs associated to the event per se, plus supporting material (see Table 3.2).

⁹ This activity shall be carried out by environmental, social and governance research service providers (e.g. Oekom, Sustainalytics, Viego, DNV GL) and scientific experts (e.g. CICERO). Reports from this activity may only be made publicly available at the discretion of the corresponding beneficiary NDB.

¹⁰ Experience from the region shows that most bond issues are marketed in foreign capital markets, though there may be interest from local institutional investors such as pension funds and insurance companies.

- 3.5 **Costs of the program.** The total cost of this TC is US\$840,000 with US\$750,000 financed by the Swiss Trust Fund. There will be in kind counterpart resources from beneficiary NDBs for US\$90,000, including staff time, facilities for events, and office space for consultants. An indicative budget by component is indicated below:

Table 3.2: Indicative Budget (US\$)

Component/ Activities Description	IDB Funding	Counterpart (NDB) Funding ¹¹	Total Funding
Component I.- Support for the structuring, review and verification of a green bond issue	470,000	45,000	515,000
Institutional diagnostic and screening of beneficiary NDBs' green loan portfolios	125,000	45,000	170,000
Design of credit enhancement*	120,000	0	120,000
Second party review or opinion	150,000	0	150,000
Independent third-party verification**	75,000	0	75,000
Component II.- Support for the marketing of the bond issue	150,000	30,000	180,000
Support for marketing events	100,000	30,000	110,000
Roadshow marketing material	50,000	0	50,000
Component III.- Dissemination of sub-project results, lessons learned and best practices	109,000	15,000	124,000
Support for regional workshops	70,000	15,000	85,000
Knowledge products	39,000	0	39,000
Other expenses	21,000	0	21,000
TOTAL	750,000	90,000	840,000

*This activity will only be completed if a need for a credit enhancement is identified. If not used, funds originally budgeted for this activity will need to be reallocated.

** it is expected to work on this part with [The Climate Bond Initiative](#) for a cost not superior to the one mentioned in this table.

- 3.6 Due to its limited resources, the proposed TC will not support beneficiary NDBs with customary issuance costs other than those incurred due to “green” requirements. These costs, as well as those generated following the issuance of the green bond to provide assurance to investors (i.e. a second party opinion on adherence of the use of proceeds to eligible green projects defined at issuance and on the results of key performance indicators, independent verification on adherence to Climate Bonds Standards, including the allocation of proceeds to eligible green projects) are expected to be assumed by each beneficiary NDB.¹²

IV. Executing agency and execution structure

- 4.1 Given its regional scope, plus the need to coordinate activities with a variety of NDBs, generate economies of scale in the contracting of consultancy services, extract best practices and lessons learned and disseminate them among other NDBs in the region, it is appropriate for the IDB to execute the proposed TC. No Steering Committee is foreseen. To ensure a consistent working methodology and proper execution, launching, mid-term and final review meetings will be organized with SECO local representatives, beneficiary NDBs, and consultants for each activity. SECO representatives will also be involved in the organization of envisioned events.

¹¹ Local or counterpart funding will be made in the form of logistical and staff support.

¹² Costs related to bond issuance per NDB are estimated to be, in average, US\$200,000. In the case of NAFIN's recent bond issuance, financial and legal structuring costs were over US\$500,000.

- 4.2 The IDB will sign formal letters of agreement with each participating NDB which will lay out the conditions under which support from this TC will be provided and commitments of the IDB and the beneficiary NDB under the program. This includes the commitment of NDBs to assume customary structuring costs of a bond issuance, as well as any costs related to monitoring, reporting and verification of results of the portfolio supported by the proceeds of the bond issue once it has been placed in the market (see ¶3.6). Non-objection letters from participant NDBs' governments shall also be provided to the IDB prior to providing any support with program resources.
- 4.3 The IDB will contract individual consultants, firms and other services in accordance with IDB's current procurement policies and procedures. Execution reports will be submitted to the donor in compliance with current stipulations under the existing Trust Fund agreement between the IDB and the Swiss Government. Based on this, specific fiduciary arrangements and financial audits for the TC are not foreseen.
- 4.4 In addition to the proposed results to be monitored (see Table 3.1) and to the extent possible, ex-post reporting will be provided to donors on the following: (i) number of new financial mechanisms issued; (ii) investments mobilized through new green bonds (in US\$); and (iii) saved emissions by the portfolios backed in tons of CO₂. As these are all indirect outcomes, which depend on a series of factors that are out of the scope of the TC, this information, when available, should be taken as indicative.

V. Major issues

- 5.1 This TC demands strong ownership and involvement by beneficiary NDBs' officers. A risk has been identified on the possibility of NDBs not undertaking the proper actions or providing the resources needed to ensure TC support effectively contributes to actual bond issuances. To mitigate this risk, beneficiary institutions will be required to sign Letters of Agreement with the IDB as part of their formal incorporation to the program (see 4.2). Furthermore, as new players of such structured and disciplined markets, NDBs are expected to have a strong incentive to fulfill their issuers' obligations, particularly if they want to remain credible in the capital markets.

VI. Exceptions to Bank policy

- 6.1 No exceptions to Bank policy are envisioned.

VII. Environmental and Social Strategy

- 7.1 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 green portfolio that would back any NDB green bond issue 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 link: [Safeguard Policy Filter Report](#) and [Safeguard Screening Form](#)).

Required Annexes:

- Annex I: [Request from the client](#)
- Annex II: [Terms of Reference](#)
- Annex III: [Procurement Plan](#)

B - VFI - 109951
Bogotá D.C., 17 de mayo de 2016

Doctor
Rafael de la Cruz
Representante de Colombia
Banco Interamericano de Desarrollo - BID
Carrera 7 No. 71 – 21 Torre B Piso 19
Código Postal 110111
Bogotá D.C.

Asunto: Expresión de interés a los efectos de obtener asistencia técnica no reembolsable para la Integración de las consideraciones ambientales y sociales en los mercados de capital: Apoyando la capacidad institucional de los Bancos Nacionales de Desarrollo (BNDs) para la emisión de bonos verdes.

Estimado doctor De la Cruz:

Por medio de la presente, quisiera expresar el interés de Bancoldex en ser beneficiario en el mediano plazo de recursos no reembolsables que nos permitan fortalecer nuestra capacidad institucional en la emisión de bonos verdes que el BID, a través de la División de Mercados de Capital e Instituciones Financieras (IFD/CMF), se encuentra tramitando ante el Gobierno Suizo.

Este apoyo del BID es importante para nuestra institución en el desarrollo de estrategias de financiamiento efectivas que permitan que la oferta de financiamiento para los referidos proyectos se encuentre con su demanda, promoviendo así el desarrollo del mercado de financiamiento para dichos tipos de proyectos de inversión.

Demás está decir que el apoyo solicitado una vez que se materialice permitiría fortalecer y complementar los esfuerzos que nuestra entidad viene adelantando a los efectos de impulsar las inversiones en mitigación y adaptación al cambio climático, sostenibilidad ambiental y productividad empresarial.

Agradeciéndole de antemano la atención que le pueda brindar a esta comunicación.

Cordialmente,


Claudia María González Arteaga
Vicepresidente Financiero

cc. BID: Jose Juan Gomes, Maria Netto

Regional

IFD/CMF

Integration of Environmental and Social concerns into capital markets: Supporting National Development Banks' Capacities to Issue Green Bonds

Consultancy Services for Providing Specialized Second Opinion on the Evaluation and Selection of the Green Portfolio Backing a Green Bond

TERMS OF REFERENCE

I. Background

Green bonds aggregate and structure debt financing in a way that enables investments to raise funding from debt capital markets. They can provide dedicated funding to climate change mitigation, adaptation, and other environmentally friendly projects—small and large scale—by increasing access to green financing on appropriate terms and conditions, including longer tenures given the maturity of the underlying assets that back the issue.

Annual issuance of labelled green bonds tripled from US\$11 billion in 2013 to US\$36.6 billion in 2014. Green bonds have been the subject of increasing government, investor and media interest and expectations, driven by the prospect of matching large low-carbon investment requirements with the trillions of dollars in global bond markets held by institutional investors. The mix of issuers has expanded from the multilateral development banks (MDBs) that pioneered the market to include local governments and agencies, utility companies, national development banks and other corporate issuers.

The growth in the market and the range of issuers has led to the need for more structure, more transparency and standardization, in order to ensure the credibility and potential for growth of the green bonds market. A set of Green Bonds Principles (GBP) has been developed by a consortium of issuers, investors and intermediaries in the green bond market to ensure quality and transparency. The voluntary guidelines cover four aspects including: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) monitoring and reporting, including on impacts. Assurance to investors and stakeholders about the issuer's adherence to these principles is provided by independent entities.

Many countries in Latin America and the Caribbean (LAC) are increasingly promoting low-carbon development strategies and mitigation action plans. But they face important challenges in the lack of an environment that is conducive to investing on low-carbon development and limited financial resources to effectively support the adoption of climate change mitigation measures. The absence of long-term bank financing for investment purposes in the region, in addition to slow-evolving financial legal and regulatory frameworks, have impaired the development of local capital markets, the traditional main source of investment finance in more developed economies. In this context, most governments in Latin America have traditionally resorted to their national development banks (NDBs) as an important source of long-term finance for productive investments, and more recently for climate change mitigation and adaptation investments. Thanks to their capital endowments and their access to long-term funding from MDBs and bilateral

financial institutions, these institutions have been able to fulfil their development finance mandate. However, to the extent that many of them are already quite active in terms of generating portfolios of climate-change-related investments, and that there is growing interest by national and international institutional and impact investors for acquiring green fixed-income securities, there is an opportunity for NDBs to diversify their traditional sources of long-term funding through the issuance of use-of-proceeds green bonds, backed by those portfolios. Mexico's NAFIN, for instance, developed a large portfolio of wind projects since 2009 and in October 2015 issued a USD 500 million green bond backed by that portfolio, becoming the first issuer of green bonds in the LAC region. NDBs in Colombia, Peru and Ecuador have already expressed their interest in getting technical and logistical support, in order to structure their first green bond issues and place them in the national and international markets.

The overall objective of the proposed TC is to support NDBs in their efforts to raise private funds at adequate maturities in local and international capital markets through the issuance of green bonds. This should have an impact in their ability to diversify their sources of funding, promote low-carbon development, and launch new fixed income securities that could help to promote the development of their own local capital markets. With funding from this TC, beneficiary NDBs will receive technical and promotional assistance required to: (i) structuring, review and verification of their first green bond issue backed by their existing green loan portfolios; (ii) market those new securities; and (iii) disseminate the results of these experiences and share the lessons learned and best practices among other NDBs and relevant public and private stakeholders in the region.

As part of the verification process of the selection of the green portfolio, a second opinion on the validity and appropriateness of the procedures undertaken for this selection may be deemed necessary. This may include a review on the issuer's process of evaluation of these projects or project categories, the way in which the "greenness" of these projects has been determined, environmental and social standards, etc. The aim of this consultancy is to undertake a comprehensive analysis on the aforementioned issues, whenever it is recommended as a result of the first institutional and portfolio analysis review, in order to obtain a second opinion from a specialized technical expert. To this end, the IDB is seeking a firm with significant experience on environmental, social and governance issues related to sustainable development projects or low-carbon market sectors and their environmental outcomes.

II. Consultancy objective(s)

The purpose of this consultancy is to provide an independent assessment of the integrity of the framework, capacity, information and criteria used to structure green bonds under the program, which will contribute to reassure investors that the green bond will meet their requirements.

III. Main activities

The selected firm will be required to provide an independent review of the set of activities (upon request) related to the development and placement of the bonds, which may include one or a combination of the following:

- Assessment of the issuer's (NDB) sustainability performance
- Revision of use of proceeds criteria, management and reporting commitments

- Review of the transparency and accuracy of the procedures for selecting projects-associated loans to be included in the bond
- Qualitative assessment of the portfolio and verification of alignment with Green Bond Principles
- ESG analysis of the bond and its issuer

IV. Reports / Deliverables

The firm shall present¹:

- An independent review report for each required NDB issuance. Public disclosure of the report by the firm will be subject to authorization by the issuing NDB.

V. Payment Schedule

The payment will be made in a lump sum amount. The payment structure will be in accordance with the selected firm's proposal; pricing shall be made per review (up to one review may be needed per NDB). Price indicated shall include all expenses foreseen by the firm, including travel expenses. A list of the names of the team members assigned to the consultancy and a detailed budget shall be presented with the proposal.

VI. Qualifications

The selected firm and the members of the team assigned must demonstrate qualifications and experience at least in the following areas:

- Active involvement in the green bonds markets for at least 3 years and proven experience with second opinions for green bond issuances in the past.
- Leading technical and operational expertise in the development of green bond verification frameworks
- Analytic services for issuers and investors in the green bonds market. Specific methodologies for grading of bonds will be evaluated.
- In-depth knowledge of emerging and developing economies
- Selected firm must be an approved verifier under the Climate Bond Standard
- Languages: English and Spanish

VII. Characteristics of the Consultancy

- Consultancy category and modality: Consulting firm selection, Lump Sum
- Contract duration: 1 year, starting Dec 2016. Contract for the same services may be extended for up to one additional year.
- Place(s) of work: External consultancy. Activities included in these TOR shall be carried out in the firm's facilities, as well as those of the beneficiary institution in the corresponding country.
- Division Leader or Coordinator: Technical responsibility of the consultancy will be in charge of
Jose Juan Gomes, Financial Markets Lead Spec, IFD/CMF (202.623.3634; joseg@iadb.org) and Maria Netto, Financial Markets Lead Spec,

¹ Every report must be submitted to the Bank in an electronic file. The report should include cover, main document, and all annexes. Zip files will not be accepted as final reports, due to Records Management Section regulations.

IFD/CMF (202.623.2009; mnetto@iadb.org). All of the activities of the consultancy will be coordinated between the IDB and the firm.

Payment and Conditions: Compensation will be determined in accordance with Bank's policies and procedures. In addition, candidates must be citizens of an IDB member country.

Consanguinity: Pursuant to applicable Bank policy, candidates with relatives (including the fourth degree of consanguinity and the second degree of affinity, including spouse) working for the Bank as staff members or Complementary Workforce contractuels, will not be eligible to provide services for the Bank.

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Regional

IFD/CMF

Integration of Environmental and Social concerns into capital markets: Supporting National Development Banks' Capacities to Issue Green Bonds

Consultancy Services for Technical Support on the Structuring, Review and Verification of Green Bond Issuances

TERMS OF REFERENCE

I. Background

Green bonds aggregate and structure debt financing in a way that enables investments to raise funding from debt capital markets. They can provide dedicated funding to climate change mitigation, adaptation, and other environmentally friendly project—small and large scale—by increasing access to green financing on appropriate terms and conditions, including longer tenures given the maturity of the underlying assets that back the issue.

Annual issuance of labelled green bonds tripled from US\$11 billion in 2013 to US\$36.6 billion in 2014. Green bonds have been the subject of increasing government, investor and media interest and expectations, driven by the prospect of matching large low-carbon investment requirements with the trillions of dollars in global bond markets held by institutional investors. The mix of issuers has expanded from the multilateral development banks (MDBs) that pioneered the market to include local governments and agencies, utility companies, national development banks and other corporate issuers.

The growth in the market and the range of issuers has led to the need for more structure, more transparency and standardization, in order to ensure the credibility and potential for growth of the green bonds market. A set of Green Bonds Principles (GBP) has been developed by a consortium of issuers, investors and intermediaries in the green bond market to ensure quality and transparency. The voluntary guidelines cover four aspects including: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) monitoring and reporting, including on impacts. Assurance to investors and stakeholders about the issuer's adherence to these principles is provided by independent entities.

Many countries in Latin America and the Caribbean (LAC) are increasingly promoting low-carbon development strategies and mitigation action plans. But they face important challenges in the lack of an environment that is conducive to investing on low-carbon development and limited financial resources to effectively support the adoption of climate change mitigation measures. The absence of long-term bank financing for investment purposes in the region, in addition to slow-evolving financial legal and regulatory frameworks, have impaired the development of local capital markets, the traditional main source of investment finance in more developed economies. In this context, most governments in Latin America have traditionally resorted to their national development banks (NDBs) as an important source of long-term finance for productive investments, and more recently for climate change mitigation and adaptation investments. Thanks to their capital endowments and their access to long-term funding from MDBs and bilateral

financial institutions, these institutions have been able to fulfil their development finance mandate. However, to the extent that many of them are already quite active in terms of generating portfolios of climate-change-related investments, and that there is growing interest by national and international institutional and impact investors for acquiring green fixed-income securities, there is an opportunity for NDBs to diversify their traditional sources of long-term funding through the issuance of use-of-proceeds green bonds, backed by those portfolios. Mexico's NAFIN, for instance, developed a large portfolio of wind projects since 2009 and in October 2015 issued a US\$500 million green bond backed by that portfolio, becoming the first issuer of green bonds in the LAC region. NDBs in Colombia, Peru and Ecuador have already expressed their interest in getting technical and logistical support, in order to structure their first green bond issues and place them in the national and international markets.

The overall objective of the proposed TC is to support NDBs in their efforts to raise private funds at adequate maturities in local and international capital markets through the issuance of green bonds. This should have an impact in their ability to diversify their sources of funding, promote low-carbon development, and launch new fixed income securities that could help to promote the development of their own local capital markets. With funding from this TC, beneficiary NDBs will receive technical and promotional assistance required to: (i) structuring, review and verification of their first green bond issue backed by their existing green loan portfolios; (ii) market those new securities; and (iii) disseminate the results of these experiences and share the lessons learned and best practices among other NDBs and relevant public and private stakeholders in the region.

The aim of this consultancy is to provide the program with high quality technical expertise to support the activities associated with the structuring, review and verification of the first green bond issue for each of the beneficiary NDBs. To this end, the IDB is seeking a firm with significant knowledge of the climate bond market and proven experience with capital markets in developing and emerging economies.

Consultancy objective(s)

The purpose of this consultancy is to provide technical advisory and validation services for successfully completing all stages of a green bond issuance in at least three and up to five NDBs in the region. This includes activities from screening of portfolios to certification and marketing of the bond, based on the description of Component I of the TC RG-T2720.

II. Main activities

The selected firm will:

- Brief selected contractuels hired by the IDB for specific related activities, including but not limited to: (i) institutional diagnostic and screening of NDB's green loan portfolio; (ii) design of a credit enhancement mechanism for the bond; (iii) second party review to attest the issuer's process for project evaluation and selection, the "greenness" of the eligible projects or assets and the quality of the environmental and social safeguards under which the green portfolio backing the issue has been structured; and (iv) organization of marketing and training events.
- Review the products of the contractual services from the abovementioned activities. Based on these products, the firm shall also provide a recommendation

on whether or not the need for credit enhancement mechanisms and/or second party reviews for each NDB is identified.

- Work jointly with representatives from corresponding NDBs, contractuels and the IDB to ensure the incorporation of optimal technical criteria in the selection, execution and verification of all activities involved in the structuring of the bond, as well as the marketing and training events.
- Verify the bond issue against existing Climate Bonds Standards and, if applicable, certify that the planned use-of-proceeds adhere to the Climate Bond Standard Framework (v 2.0) and to relevant eligible asset-specific standards (e.g., solar, wind, low carbon BRT systems, low-carbon buildings) that have already been developed and are available in the market (i.e. certify the bond).

III. Reports / Deliverables

The firm shall present¹:

- A periodic report of detailed activities carried out, including concepts such as: (i) type of activity (brief, review, accompaniment, certification); (ii) team assigned to the execution of the activity; (iii) time spent in the execution of the activity; (iv) travel required, if applicable; (v) institutions/organizations with which they have interacted; and (vi) beneficiary country/NDB for which the activity is being carried out, or if its scope is regional.
- A final report, incorporating lessons learned and best practices accumulated throughout the program. The firm is responsible for making any clarifications that the IDB may find necessary, as well as for providing additional information that is deemed reasonable with regards to the development of the activities listed in the previous section.

IV. Payment Schedule

The payment will be made in a lump sum amount. The payment structure will be in accordance with the selected firm's proposal. Price indicated shall include all expenses foreseen by the firm, including travel expenses. A list of the names of the team members assigned to the consultancy and a detailed budget shall be presented with the proposal.

V. Qualifications

The selected firm and the members of the team assigned must demonstrate qualifications and experience at least in the following areas:

- Climate bond markets, including: (i) tracking; (ii) policy; (iii) advisory; (iv) marketing; and (v) climate bond standards
- Significant knowledge (at a project level) of at least two sectors associated with green projects/green development
- Advisory services, project development and management
- Banking sector and financial intermediaries (familiarity with development banks is a plus), including but not limited to portfolio analysis, structuring bonds and certification of bonds
- Emerging and developing economies and their corresponding bond markets

¹ Every report must be submitted to the Bank in an electronic file. The report should include cover, main document, and all annexes. Zip files will not be accepted as final reports, due to Records Management Section regulations.

- Languages: English and Spanish

VI. Characteristics of the Consultancy

- Consultancy category and modality: Consulting firm selection, Lump Sum
- Contract duration: 2 years, starting May 2016. Contract for the same services may be extended for up to one additional year.
- Place(s) of work: External consultancy. Activities included in these TOR shall be carried out in the firm's facilities, as well as those of the beneficiary institution in the corresponding country. Given the regional nature of the works under this contract, several meetings with and conferences for contractuels, firms and beneficiary institutions are foreseen. All of these shall be coordinated with the IDB.
- Division Leader or Coordinator: Technical responsibility of the consultancy will be in charge of
Jose Juan Gomes, Financial Markets Lead Spec, IFD/CMF (202.623.3634; joseg@iadb.org) and Maria Netto, Financial Markets Lead Spec, IFD/CMF (202.623.2009; mnetto@iadb.org). All of the activities of the consultancy will be coordinated between the IDB and the firm.

Payment and Conditions: Compensation will be determined in accordance with Bank's policies and procedures. In addition, candidates must be citizens of an IDB member country.

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Regional

IFD/CMF

Integration of Environmental and Social concerns into capital markets: Supporting National Development Banks' Capacities to Issue Green Bonds

Consultancy Services for Institutional Diagnostic and Screening of NDB's Green Loan Portfolio

TERMS OF REFERENCE

I. Background

Green bonds aggregate and structure debt financing in a way that enables investments to raise funding from debt capital markets. They can provide dedicated funding to climate change mitigation, adaptation, and other environmentally friendly projects—small and large scale—by increasing access to green financing on appropriate terms and conditions, including longer tenures given the maturity of the underlying assets that back the issue.

Annual issuance of labelled green bonds tripled from US\$11 billion in 2013 to US\$36.6 billion in 2014. Green bonds have been the subject of increasing government, investor and media interest and expectations, driven by the prospect of matching large low-carbon investment requirements with the trillions of dollars in global bond markets held by institutional investors. The mix of issuers has expanded from the multilateral development banks (MDBs) that pioneered the market to include local governments and agencies, utility companies, national development banks and other corporate issuers.

The growth in the market and the range of issuers has led to the need for more structure, more transparency and standardization, in order to ensure the credibility and potential for growth of the green bonds market. A set of Green Bonds Principles (GBP) has been developed by a consortium of issuers, investors and intermediaries in the green bond market to ensure quality and transparency. The voluntary guidelines cover four aspects including: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) monitoring and reporting, including on impacts. Assurance to investors and stakeholders about the issuer's adherence to these principles is provided by independent entities.

Many countries in Latin America and the Caribbean (LAC) are increasingly promoting low-carbon development strategies and mitigation action plans. But they face important challenges in the lack of an environment that is conducive to investing on low-carbon development and limited financial resources to effectively support the adoption of climate change mitigation measures. The absence of long-term bank financing for investment purposes in the region, in addition to slow-evolving financial legal and regulatory frameworks, have impaired the development of local capital markets, the traditional main source of investment finance in more developed economies. In this context, most governments in Latin America have traditionally resorted to their national development banks (NDBs) as an important source of long-term finance for productive investments, and more recently for climate change mitigation and adaptation investments. Thanks to their capital endowments and their access to long-term funding from MDBs and bilateral

financial institutions, these institutions have been able to fulfil their development finance mandate. However, to the extent that many of them are already quite active in terms of generating portfolios of climate-change-related investments, and that there is growing interest by national and international institutional and impact investors for acquiring green fixed-income securities, there is an opportunity for NDBs to diversify their traditional sources of long-term funding through the issuance of use-of-proceeds green bonds, backed by those portfolios. Mexico's NAFIN, for instance, developed a large portfolio of wind projects since 2009 and in October 2015 issued a US\$500 million green bond backed by that portfolio, becoming the first issuer of green bonds in the LAC region. NDBs in Colombia, Peru and Ecuador have already expressed their interest in getting technical and logistical support, in order to structure their first green bond issues and place them in the national and international markets.

The overall objective of the proposed TC is to support NDBs in their efforts to raise private funds at adequate maturities in local and international capital markets through the issuance of green bonds. This should have an impact in their ability to diversify their sources of funding, promote low-carbon development, and launch new fixed income securities that could help to promote the development of their own local capital markets. With funding from this TC, beneficiary NDBs will receive technical and promotional assistance required to: (i) structuring, review and verification of their first green bond issue backed by their existing green loan portfolios; (ii) market those new securities; and (iii) disseminate the results of these experiences and share the lessons learned and best practices among other NDBs and relevant public and private stakeholders in the region.

As part of the initial stage of this process (see point (i) above), the aim of this consultancy is to undertake an institutional diagnostic and screening of NDB's green loan portfolio and its positive environmental and social impacts, in order to determine a set of loan sub-portfolios susceptible to be securitized through green bond issuances. To this end, the IDB is seeking candidates with knowledge of loan portfolio (first and second tier) and financial data and statement analyses, and deep understanding of sustainable development projects or low-carbon market sectors and their environmental outcomes (particularly, but not limited to, renewable energy).

II. Consultancy objective(s)

The purpose is to support at least three and up to five NDBs in the region in carrying out an analysis of its existing portfolio, in order to determine a potential sub-portfolio susceptible to be securitized through a green bond issuance. The diagnostic shall be based on green and climate bonds generally accepted standards, including Climate Bonds Initiative (CBI) standards, if available.

III. Main activities

The selected candidate will:

- Perform an institutional diagnostic on the NDB's activity related to financing climate friendly projects, and the way in which they generate portfolio in this type of projects and operate this line of business.
- Propose a clear definition of what constitutes the green portfolio and/or eligible green projects, including the inclusion of these definitions in NDB's systems for future reference of the beneficiary institution and its members.

- Carry out an analysis of the existing loan portfolio and determine which segment is considered green under the proposed definition.
- Work jointly with representatives from corresponding NDBs and ensure capacity is created locally with regards to green portfolio segmentation.

IV. Reports / Deliverables

The consultant shall present¹:

- A draft report per beneficiary NDB, including the basis for and findings of the above institutional and portfolio analysis/selection;
- A final report per beneficiary NDB, incorporating all comments after revision of the IDB and the corresponding NDB; this final report shall include a green portfolio proposal that will serve as input for a bond issuance in the terms required by each institution.

V. Payment Schedule

The payment will be made in a lump sum amount. The form of payment will be in accordance with the following guidelines:

- 15% at the signing of the agreement.
- 35% with delivery of drafts of the products described in these TOR after approval by the IDB.
- 50% with delivery and compliance of the final products of the consultancy after approval by the IDB.

VI. Qualifications

- Academic Degree / Level & Years of Professional Work Experience: University and Masters' degree in economics, energy, finance, engineering, environmental sciences or a related discipline; at least five years of relevant working experience with green/energy financial instruments and markets; excellent knowledge and relevant work experience in project development and management; knowledge and work experience with banking sector and financial intermediaries (familiarity with development banks is a plus), including but not limited to portfolio analysis and structuring bonds.
- Languages: English, Spanish
- Areas of Expertise: Finance, Energy, Environment
- Skills: Knowledge of analytic tools; demonstrated strong relationship management skills with internal clients; specific understanding of green bonds market.

VII. Characteristics of the Consultancy

- Consultancy category and modality: Products and External Services Contractual, Lump Sum
- Contract duration: 120 days in a period of 2 years, starting May 2016

¹ Every report must be submitted to the Bank in an electronic file. The report should include cover, main document, and all annexes. Zip files will not be accepted as final reports, due to Records Management Section regulations.

- Place(s) of work: External consultancy. Activities included in these TOR shall be carried out in the contractual facilities, as well as those of the beneficiary institution in the corresponding country.
- Division Leader or Coordinator: Technical responsibility of the consultancy will be in charge of Jose Juan Gomes, Financial Markets Lead Spec, IFD/CMF (202.623.3634; joseg@iadb.org) and Maria Netto, Financial Markets Lead Spec, IFD/CMF (202.623.2009; mnetto@iadb.org). All of the activities of the consultancy will be coordinated between the IDB and the contractual with the participation of the beneficiary NDB.

Payment and Conditions: Compensation will be determined in accordance with Bank's policies and procedures. In addition, candidates must be citizens of an IDB member country.

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PROCUREMENT PLAN FOR NON-REIMBURSABLE TECHNICAL COOPERATIONS										
Country: REGIONAL					Executing agency: IDB				Public or private sector: PUBLIC	
Project number: RG-T2720					Title of Project: Integration of Environmental and Social concerns into capital markets: Supporting National Development Banks’ Capacities to Issue Green Bonds					
Period covered by the plan: 2016 - 2019 (30-month execution period)										
Threshold for ex-post review of procurements: 6 months					Goods and services (in US\$): 265,000		Consulting services(in US\$): 554,000			
Item Nº	Ref. AWP	Description (1)	Estimated contract cost (US\$)	Procurement Method (2)	Review of procurement (3)	Source of financing and percentage		Estimated date of the procurement notice or start of the contract	Technical review by the PTL (4)	Comments
						IDB/MIF %	Local/other %			
1		Component A: Support for the structuring, review and verification of a green bond issue								
		Individual consultants								
		Consultancy to determine green loan sub-portfolios susceptible to be securitized	170,000	IICQ	Ex-post	125,000	45,000	Q3 2016	No	
		Consultancy to design credit enhancement mechanism for bond	120,000	IICQ	Ex-post	120,000	0	Contingent	No	Procurement of this contract is contingent to results of diagnostic
		Consulting services								
		Consultancy services for second party review of green portfolio (evaluation, selection, E&S safeguards)	150,000	CQS	Ex-post	150,000	0	Contingent	No	
		Consultancy technical services from Climate Bond Initiative to structure, review and verify the bond against C	75,000	SSS	Ex-post	75,000	0	Q3 2016	No	Procurement of this contract is contingent to results of diagnostic
2		Component B.- Support for the marketing of the bond issue								
		Goods and non-consulting services								
		Planning and logistic services for related events	130,000	PC	Ex-post	100,000	30,000	Q4 2016	No	
		Dissemination/marketing material	50,000	PC	Ex-post	50,000	0	Q4 2016	No	
3		Component C.- Dissemination of sub-project results, lessons learned and best practices								
		Goods and non-consulting services								
		Planning and logistic services for related events (including regional)	85,000	PC	Ex-post	70,000	15,000	Q4 2018	No	
		Individual consultants								
		Consultancy services for edition and/or publication of knowledge products	39,000	IICQ	Ex-post	39,000	0	Q4 2017	No	
4		Project Execution Unit								
		Other expenses (contingencies)	21,000			21,000	0			
Total			840,000	Prepared by: IFD/CMF			Date: MAY 2016			
(1) Grouping together of similar procurement is recommended, such as computer hardware, publications, travel, etc. If there are a number of similar individual contracts to be executed at different times, they can be grouped together under a single heading, with an explanation in the comments column indicating the average individual amount and the period during which the contract would be executed. For example: an export promotion project that includes travel to participate in fairs would have an item called "airfare for fairs", an estimated total value od US\$5,000, and an explanation in the Comments column: "This is for approximately four different airfares to participate in fairs in the region in years X and X1".										
(2) Goods and works: CB: Competitive bidding; PC: Price comparison; DC: Direct contracting.										
(2) Consulting firms: CQS: Selection Based on the Consultants' Qualifications; QCBS: Quality and cost-based selection; LCS: Least Cost Selection; FBS: Selection nder a Fixed Budget; SSS: Single Source Selection; QBS: Quality Based selection.										
(2) Individual consultants: IICQ: International Individual Consultant Selection Based on Qualifications; SSS: Single Source Selection.										
(2) Country system: include selection Method										
(3) Ex-ante/ex-post review: In general, depending on the institutional capacity and level of risk associated with the procurement, ex-post review is the standard modality. Ex-ante review can be specified for critical or complex process.										
(4) Technical review: The PTL will use this column to define those procurement he/she considers "critical"or "complex"that require ex ante review of the terms of reference, technical specifications, reports, outputs, or other items.										