

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Regional Green Bonds Program for Latin America and the Caribbean
▪ TC Number:	RG-T3368
▪ Team Leader/Members:	NETTO DE A. C. SCHNEIDER, MARIA E. (IFD/CMF) Team Leader; TAPIA BONILLA, MARIA (CSD/CCS) Alternate Team Leader; NIETO ITUARTE, ENRIQUE (IFD/CMF); VILLACORTA ALVAREZ, OMAR (IFD/CMF); BRALY-CARTILLIER, ISABELLE FREDERIQUE FRA (IFD/CMF); VASA, ALEXANDER (IFD/CMF); ARROYO, JOHAN FLOYD (IFD/CMF); DEMICHELIS, JOSE FRANCISCO (IFD/CMF); DOMINGUEZ, JOAQUIN J. (IFD/CMF); FRISARI, GIOVANNI LEO (CSD/CCS); FERNANDEZ-BACA, JAIME (CSD/CCS); DOHERTY BIGARA RODRIGUEZ, JENNIFER (CSD/CCS); CABRERA BOTERO, MARIA MARGARITA (CSD/CCS); STREATFEILD, DAISY MARGARET JANE (CSD/CCS); ARCIA, DIEGO ANDRES (CSD/HUD); RUIZ VILAR, DAYUMA AVELINA (CSD/HUD); ARAUZ HERRERA, ALISON (IFD/CMF); MARQUEZ, CLAUDIA M (IFD/CMF); BERNEDO, CECILIA (IFD/CMF); JIMENEZ DE ARECHAGA, MARIA DEL PILAR (LEG/SGO); GUIZA CERON, CARLOS ANDRES (CSD/CCS); AMARO ANDRADE, FLOR EVELYN (IFD/CMF).
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	17 Dec 2018
▪ Beneficiary:	National Development Banks (NDBs) or Financial Markets Regulators in IDB Borrower Members
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$1,900,000.00
▪ Local counterpart funding:	US\$150,000.00 (In Kind)
▪ Disbursement period:	60 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	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:	Social inclusion and equality; Productivity and innovation; Institutional capacity and rule of law; Environmental sustainability

### II. Objective and Justification

- 2.1 The objective of the proposed program is to scale-up and replicate the IDBG support for green bonds, while as well expand the experience to new issuers (governments and municipalities) and to new instruments (sustainable bonds): "Providing the necessary technical assistance to governments and NDB clients relating to issuances on more challenging sectors beyond Renewable Energy, including sustainable agriculture, multi-sector portfolios, Sustainable Development Goals (SDGs) thematic projects by – among others - developing methodological, knowledge and technical frameworks; Providing the

necessary technical assistance to identify national and subnational budget expenditures that could be eligible for green and sustainability bonds, promoting inter-ministerial dialogues to prioritize assets, allocate proceeds and ensure bonds alignment with countries' commitments under their NDC and SDG. Providing technical support to governments and additional NDB clients regarding financial structuring aspects of the bond issuance and aggregation of portfolios, as well as regarding the use of credit enhancement features and identifying opportunities for the IDB or IDB Invest to offer financial instruments (guarantees, private placement, anchor investments and blended finance solutions for the mobilization of resources through other multilateral partners, such as EIB and KfW); Assessing international appetite for investments in LAC sustainable and green bonds issuances (including the conditions in terms of costs and framework, and potential for Green Panda Bonds issuances in China, the potential of SGD bonds and the impact of credit enhancement).

- 2.2 Countries' ministries of finance, several municipalities and most financial Institutions in our region have expressed interest in the issuance of green or SDG bonds. The first pilots – supported by the IDB with previous TCs - indicate that without technical assistance, issuers in LAC face significant barriers to their first green and sustainable bond issuance especially in terms of: identification of eligible assets to be financed, preparation of the dedicated documentation and outreach to the specialized investors' community subscribing this type of bonds. Without any technical support from the IDB and financial support by key donors, those beneficiaries would not have been able to structure their issuances. The issuances can lead to new product lines, dedicated to the financing of SDG-aligned projects as it was the case in Colombia. The program is therefore expected to be additional and enabling a wider range of actors to benefit from the experience gained.

### **III. Description of Activities and Outputs**

- 3.1 Activity 1. Support for up to seven NDBs in the issuing of pilot green and/or sustainable bond programs, including with new and more challenging thematic scopes (SDG thematic, sustainable agriculture, conduit for municipalities or other sub-sovereign green and sustainable funding etc.). The support will be based on the methodology developed in previous technical assistance covering the whole issuance process –portfolio identification, preparation of the framework, support to financial structuring (including assessment of credit enhancement, co-finance/anchor investment and guarantee opportunities), second party review and certification, promotion and roadshow - see <http://www.greenfinancelac.org/our-initiatives/gb/>. In addition, the technical cooperation will support the NDBs in financial structuring aspects of the bond issuance and aggregation of portfolios.
- Activity 2. Support up to five government entities at national and subnational level (such as Ministry of Finance, Province, Municipality or a State-owned entity) for identifying opportunity and developing a framework (alongside program in Activity 1) for the issuance of sovereign and sub-sovereign bonds. Additionally, the design and structuring of a financial solution to support sovereign and subnational entities to access markets and attract institutional investors where market conditions prove challenging due to size of issuance and risk appetite.
- Activity 3. Development of knowledge products such as: a methodology and framework for SDG-aligned bonds, a methodology for specific sectors such as sustainable infrastructure (aligning the IDB Sustainable Infrastructure framework to capital markets instruments), sustainable agriculture and land use, and regulatory good practices to develop local markets in collaboration with local capital market regulators and stock markets.
- Activity 4. Realization of a survey to assess the international appetite for investing in LAC green sustainable bonds issuances and potential leverage of credit enhancement instruments (such as guarantees) and anchor investments solutions. In addition, through a

parallel effort with the Chinese Government, this TC will receive inputs and lessons learned from a roadmap for LAC NDBs and other government issuers that would like to issue green in international markets –such as issuing panda bonds in China

- 3.2 **Component I: Support for up to 7 NDBs in the issuing of pilot green and/or sustainable bond programs for direct funding of their own activities or as conduit for municipalities green and sustainable funding.** Support is provided all along the issuance process: portfolio identification, definition of monitoring indicators, preparation of the framework, support to financial structuring (including assessment of credit enhancement, co-finance/anchor investment and guarantee opportunities), second party review and certification, promotion and roadshow. The methodology applied is the one developed for RG-T2720.
- 3.3 **Component II: Support to up to 5 sovereign entities (finance ministry, province, municipalities or state-owned entity) for the issuance of green or SDG-aligned bonds. Issuances could be direct or through an issuing conduit provided by an NDB (act 1), or via a financial mechanism supported by IDB.** Support is provided all along the issuance process: portfolio identification, definition of monitoring indicators, preparation of the framework, support to financial structuring (including assessment of credit enhancement, co-finance/anchor investment and guarantee opportunities), second party review and certification, promotion and roadshow. The methodology applied is the one developed for RG-T2720.
- 3.4 **Component III: Development of knowledge products on credit enhancement.** Development of knowledge products such as: a methodology and framework for SDG-aligned bonds, a methodology for specific sectors such as sustainable infrastructure
- 3.5 **Component IV: Realization of an International Investors survey.** Realization of a survey to assess the international appetite for investing in LAC green sustainable bonds issuances and potential leverage of credit enhancement instruments (such as guarantees) and anchor investments solutions

#### IV. Budget

Indicative Budget			
Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Support for up to 7 NDBs in the issuing of pilot green and/or sustainable bond programs for direct funding of their own activities or as conduit for municipalities green and sustainable funding	US\$750,000.00	US\$37,500.00	US\$787,500.00
Support to up to 5 sovereign entities (finance ministry, province, municipalities or state-owned entity) for the issuance of green or SDG-aligned bonds. Issuances could be direct or through an issuing conduit provided by an NDB (act 1), or via a financial mechanism supported by IDB	US\$1,050,000.00	US\$37,500.00	US\$1,087,500.00
Development of knowledge products on credit enhancement	US\$50,000.00	US\$37,500.00	US\$87,500.00
Realization of an International Investors survey	US\$50,000.00	US\$37,500.00	US\$87,500.00
<b>Total</b>	<b>US\$1,900,000.00</b>	<b>US\$150,000.00</b>	<b>US\$2,050,000.00</b>

## **V. Executing Agency and Execution Structure**

- 5.1 The Bank, as executing agency, will be responsible for approving the products of the different consultancies of the operation. In this regard, if the Bank requests beneficiaries' technical validation for the approval of a product of this TC, it may do so without prejudice of the Bank's final decision on any matter related to any such product
- 5.2 The execution of this TC will be done by IDB. Given the demonstration objective of the TC, the need to generate economies of scale, and the regional scope of the intervention, it seems more appropriate for the IDB to directly execute this TC. The project will be executed by IFD/CMF (Activities 1,3,4) and CSD/CCS (Activity 2), in collaboration with CSD/HUD for the subnational bond issuance program

## **VI. Project Risks and Issues**

- 6.1 The main risk associated with this TC is the loss of ownership from beneficiary entities over the course of their respective project which could occur because of a reversal of market conditions, or because of institutional reasons. To mitigate that risk, each project will be divided into phases, ensuring that each phase only kicks-off once the full support of the beneficiary institution's Board of Directors or Finance Vice-presidency has been formalized

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "C".