

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	URUGUAY
▪ TC Name:	Support the development of an IDB CLIMA pilot project in Uruguay
▪ TC Number:	UR-T1310
▪ Team Leader/Members:	Brusa, Federico (CSD/CCS) Team Leader; Aiello, Roberto Gabriel (INE/ENE) Alternate Team Leader; Correa Poseiro, Cecilia (INE/ENE) Alternate Team Leader; Rodriguez Cabrera, Luis Gaston (CSC/CUR); Sawada Emilio (INE/ENE); Martha Carvalho (INE/ENE); Filc, Gabriel (SPD/SDV); Rijter Gabriela (INE/ENE); Snyder, Virginia Maria (INE/ENE); Bueso-Merriam, Jacqueline (SPD/SDV); Chaves Graniero Juan Martin (CSD/CCS); Milicich Nieto-Polo, Allizon Patricia (VPC/FMP); Sanmartin Baez, Alvaro Luis (LEG/SGO); Sofia Polcaro (CSD/CCS); Celeste Marzo, Cristina (LEG/SGO); Gomez, Juan Carlos (CSD/CCS); Gomez Gomez De La Torre Mar (CSD/CCS); Ceva Alvarez Mariana Daniela (CSD/CCS); Bendix, Willy (VPC/FMP); Merino Juarez, Maria Fernanda (SPD/SMO)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	UR-L1177.
▪ Date of TC Abstract authorization:	22 Feb 2024.
▪ Beneficiary:	República Oriental del Uruguay
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Sustainability(W2A)
▪ IDB Funding Requested:	US\$400,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	September 2024
▪ Types of consultants:	Firms and Individual Consultants
▪ Prepared by Unit:	CSD/CCS-Climate Change
▪ Unit of Disbursement Responsibility:	CSC/CUR-Country Office Uruguay
▪ TC included in Country Strategy:	Yes
▪ TC included in CPD:	Yes
▪ Alignment to the Update to the Institutional Strategy 2024-2030:	Environmental sustainability; Productivity and innovation

II. Description of the Associated Loan/Guarantee

- 2.1 This Technical Cooperation (TC) aims to support Uruguay in the design of its first project (5680/OC-UR) “*Support for the consolidation of the country’s low carbon energy transition*” under the IDB CLIMA Pilot Program,¹ in support of the National

¹ On September 2023, the Board of Governors approved the IDB CLIMA Pilot Program, which could include up to US\$50 million in grants from the IDB Grant Facility (GRF). The IDB CLIMA Pilot Program includes in a single pilot individual operation: (i) an investment loan financed with ordinary capital; and (ii) a grant from GRF resources to be disbursed upon achievement and independent verification of three disbursement-linked Key

Administration of Electrical Power Plants and Transmission (UTE, for its acronym in Spanish).

- 2.2 This operation will undergo a process of reformulation following the Annex I of PR-200, to become an eligible IDB CLIMA pilot project. The operation was initially approved on November 30th 2022, for US\$40,000,000; with the objective of support the country in the consolidation of the inclusive and low-carbon energy transition under the following three components, to be executed by the Ministry of Finance: (i) investments for efficient and sustainable energy supply; (ii) energy efficiency; and (iii) investments to achieve universal access to electricity with renewable energy sources. Thus, the objective of the operation will be adapted to facilitate the country's access to green debt capital markets. The borrower is the Republic of Uruguay, and the UTE will conduct the necessary activities to reach the targeted results. UTE is a state-owned company that aims at the provision of energy services within a framework of economic, social and environmental sustainability, making access possible for all households and activities in Uruguay, in a safe and reliable manner, with a satisfactory level of quality and at the lowest possible cost.
- 2.3 The 5680/OC-UR intends to support the country with its goal to consolidate an inclusive and low-carbon energy transition. Despite the country's progress in the decarbonization of its electricity matrix, the energy sector has limitations to meet demand in a sustainable manner, facing challenges in the following areas: (i) economic; (ii) environmental; (iii) social; and (iv) institutional dimensions.

III. Objectives and Justification of the TC

- 3.1 The IDB CLIMA Pilot Program aims to incentivize sector-driven investments that will help accelerate the access of sovereign borrowers to thematic green capital markets. To attain this goal, IDB CLIMA offers a grant to borrowers that successfully reach results through sectoral investments measured through Key Performance Indicators (KPI) that: (i) reduce development gaps while delivering impact in terms of biodiversity and climate; (ii) strengthen the sector's capabilities to develop sectoral project pipelines that include climate and/or biodiversity considerations; and (iii) strengthen sector-driven biodiversity and climate monitoring, reporting and verification (MRV) systems to meet international climate, biodiversity and thematic green debt standards.
- 3.2 To define actions associated with investments (ii) and (iii), borrowers must first assess their existing capabilities in terms of the IDB CLIMA Assessment Questionnaire. This questionnaire measures a borrower's level of readiness for the fulfillment of the IDB CLIMA Pilot Program Objectives through questions structured around eight conditions. Therefore, this questionnaire will serve to identify borrowers' areas for improvement, which will then lead to the design of the grant linked KPI and develop a roadmap to address these areas. Therefore, to reach this objective, the TC will: (i) assess the capabilities of UTE and the Republic of Uruguay through the IDB CLIMA Assessment Questionnaire; (ii) support the strengthening of said capabilities; and (iii) conduct applied research activities to contribute to the strengthening of UTE's first pilot project and at the same time feed the development of the Assessment Questionnaire and the roadmap, so that it can better serve future borrowers of the IDB CLIMA Pilot Program.

Performance Indicators (KPIs). The IDB CLIMA grant will imitate the equivalent of a 45bps step-down through a reward equivalent to five percent of the investment loan's principal amount in an IDB CLIMA operation.

- 3.3 The objective of this TC is to support the design of the IDB CLIMA Pilot Project (5680/OC-UR), as well as to accelerate Uruguay's access to thematic green capital markets through: (i) the integration of biodiversity and climate aspects in public investment; (ii) the development of capacities and systems to scale investments that facilitate the achievement of the climate and biodiversity commitments assumed by the country; and (iii) the development of systems and capacities to monitor, report and verify these investments and their compliance with environmental objectives. Additionally, the TC complies with paragraph 3.38 of the IDB CLIMA Pilot Program Operational Guidelines which confirms that the TC resources will be used to support the General Objective of the IDB CLIMA Pilot Program.
- 3.4 This TC will address the barriers to mainstreaming climate and biodiversity considerations into development financing, namely: (i) lack of sectoral expertise and capacities on the development of climate and nature-friendly projects and investments that address specific development challenges aligned to national policies that incorporate these dimensions; (ii) lack of sectoral incentives to incorporate climate and biodiversity aspects, which hinders the identification and design of investments at the scale needed to achieve national targets, which in turn hinders the issuance of green and thematic debt; and (iii) lack of capacities to monitor, report and verify the impacts of climate and biodiversity actions in accordance with international requirements and green and thematic debt markets. MRV systems present limitations in the quantity, quality, and frequency of data.
- 3.5 The studies developed under this TC will help generate further evidence to address these knowledge gaps and identify effective strategies to incentivize access to thematic markets and attract concessional financing.
- 3.6 In addition, the IDB has designed an Assessment Questionnaire to assess the capacity gaps of borrowers to integrate climate change and biodiversity into their sector investments, to facilitate the identification and design of investments that incorporate climate and nature-friendly considerations at a larger scale, and to carry out climate and/or biodiversity MRV work. The Assessment Questionnaire will be complemented by a roadmap jointly designed between the IDB team and the borrower to identify priority areas of intervention to strengthen their capacities to meet both the general and specific objectives of the IDB CLIMA Pilot Program. The roadmap will help to design interventions that adequately fit the country's needs, priorities, and capacities, as well as to define more precisely the necessary studies and activities to strengthen the country's sectoral and/or national capacities.
- 3.7 This TC aligns with the "IDB Group Institutional Strategy: Transforming for Scale and Impact" (CA-631) since it contributes to the core objective of "addressing climate change" and aligns with the focus areas of "biodiversity, natural capital and climate action" and "sustainable, resilient and inclusive infrastructure", by: (i) improving financial instruments and increasing resource mobilization aimed at strengthening the capacities of national environmental MRV systems—which will help the country gain access to green and thematic debt markets and mobilize large-scale capital to address sustainability challenges; and (ii) strengthening sector and/or national capacities to develop and implement the IDB CLIMA pilot project, which rewards countries for achieving nature and climate-related targets. This is directly aligned with one of the three main objectives of the Institutional Strategy in terms of mitigating the effects of and adapting to climate change, reducing emissions, and preserving biodiversity, while strengthening the resilience of the countries in the region.

- 3.8 Furthermore, the operation is aligned with: (i) the sustainable development strategic area, paragraph 3.17 of the IDB Group Country Strategy with Uruguay 2021-2025 (GN-3056) by promoting the development of financial instruments for sustainable productive development; (ii) paragraph 5.4 of the Climate Change Sector Framework Document (GN-2835-13) and specifically with the objectives of: (a) generate greenhouse gas and climate data to inform climate policy; (b) implement climate strategies; (c) promote engagement and participatory approaches to climate policy formulation; and (iii) the Ordinary Capital Strategic Development Program (OC-SDP), particularly with the objectives of its Window 2 (Sustainability - W2A) (GN-2819-14), specifically with the priority area of climate change and environmental sustainability.
- 3.9 This operation's activities are aligned with initiatives implemented as part of other TC currently in execution, namely: (i) ATN/AC-19523-UR, which focuses on the support provided by the Ministry of Environment to the preparation of Uruguay's second Nationally Determined Contribution (NDC), with a focus on sectoral ministries, such as the Ministry of Industry, Energy and Mining; (ii) ATN/OC-19541-UR supports the mainstreaming of climate change in the different operational areas of the Ministry of Economy and Finance (MEF) of Uruguay. This TC focuses on the identification and prioritization of critical macroeconomic instruments so that the MEF can take ownership of climate change issues within its institutional mandate; and (iii) ATN/OC-20085-UR, which main objective is to help the country achieve the Sustainability Performance Targets (SPT) of the first Sovereign Sustainability Linked Bond (SLB) with a step-down mechanism. These SPT are directly tied to the targets of the country's first NDC. To achieve this objective, the TC will identify: (i) critical interventions in priority sectors; (ii) relevant knowledge gaps; and (iii) possible interventions which will allow the country to meet the mitigation and nature objectives of its first NDC, by 2025. Complementarily, the country's transparency capacities will be bolstered with aims to monetize them and enable the access to new concessional green finance debt instruments while also fostering a productive dialogue with relevant actors from the international financial system. Furthermore, the country is currently preparing Policy Based Loan UR-L1199 "*Innovation to Support the Energy Transition and Climate Action in Uruguay*". The general objective of the program is to contribute to the sustainable growth of the country through the fair energy transition and innovation within the framework of climate change commitments. The specific objectives are to: (i) contribute to the decarbonization of the transportation sector; (ii) support the development of green hydrogen with private participation in the use of renewable energy resources; and (iii) strengthen the ecosystem of innovation, capacity development and financing for Climate Action.
- 3.10 The IDB has valuable experience in carrying out this kind of intervention in Uruguay. In fact, the Bank supported the country through technical assistance in the structuring and issuance of a sovereign sustainability-linked bond with a variable interest rate (including a step-down coupon reward) conditioned on the achievement of the country's NDC targets and biodiversity/land use KPI. Indeed, the IDB's support to Uruguay in the design of the world's first coupon step-down mechanism in a sovereign debt obligation helped establish a market-based incentive for climate ambition and set a precedent at a global scale.
- 3.11 The beneficiary of the TC is the Republic of Uruguay, through UTE, which will enable the promotion of sustainable and resilient infrastructure for the renewable energy transition.

IV. Description of Activities/Components and Budget

- 4.1 **Component 1. Assessment of Uruguay’s and UTE’s capabilities (US\$100,000).** Activities under this component will contribute to gathering evidence and conducting an analysis that will provide an accurate picture of Uruguay’s and UTE’s capabilities in terms of the Assessment Questionnaire. This component will finance consulting services to: (i) carry out a diagnosis of UTE’s institutional capacities; (ii) conduct quantitative and qualitative research in the country to identify climate vulnerabilities and assess adaptive capacity, considering Intergovernmental Panel on Climate Change (IPCC) climate modelling data or similar sources of information; (iii) identify policies that could help tackle said vulnerabilities and use them to develop an adaptation strategy in the energy sector based on the analysis of vulnerability and adaptive capacity; (iv) define interventions to be prioritized, and (v) develop a roadmap for UTE with a focus on decarbonization and resilience.
- 4.2 **Component 2. Strengthening of sectoral and/or national capabilities (US\$250,000).** Activities under this component will help bolster sectoral and/or national capabilities to develop and implement the IDB CLIMA pilot project, and in this way progress along the roadmap. This component will finance consulting services to: (i) support to create specific technical teams or strengthen teams to meet type 2 and type 3 KPI; (ii) prefeasibility and pre-investment studies to ensure that investments are aligned with decarbonization and resilience goals; (iii) establish metrics and methods for continuous monitoring and evaluation of the pilot project’s impact and progress; (iv) provide comprehensive training sessions, workshops, and seminars to improve technical knowledge and practical skills related to the roadmap.
- 4.3 **Component 3. Applied research to continuously enhance Uruguay’s pilot project and simultaneously strengthen the Assessment Questionnaire and the roadmap (US\$50,000).** Activities under this component will gather evidence from lessons learned through Uruguay’s experience to strengthen the pilot project and the Assessment Questionnaire and the roadmap through learning by doing. This component will finance consulting services to: (i) specific support related to the alignment of this operation with the IDB CLIMA Pilot Program; (ii) dissemination and training workshops to strengthen the Assessment Questionnaire and the roadmap, setting targets and indicators, and initial reporting efforts. The results of the studies will support the KPI and their targets, one for each Specific Objective of the IDB CLIMA Pilot Program.
- 4.4 The total estimated cost of this operation is US\$400,000, which will be financed with resources from the Ordinary Capital Strategic Development Program (OC SDP), specifically from its Window 2 (Sustainability – W2A).

Indicative Budget

Activity/Component	IDB Funding	Total
Component 1. Assessment of Uruguay’s and UTE’s capabilities	100,000	100,000
Component 2. Strengthening of sectoral and/or national capabilities	250,000	250,000
Component 3. Research to enhance Uruguay’s pilot project and strengthen the Assessment Questionnaire and the roadmap	50,000	50,000
Total	400,000	400,000

V. Executing agency and execution structure

- 5.1 Given the requesting entity does not have the necessary technical, operational or institutional capacity to duly and timely execute the activities provided in the respective project and given the Bank’s proven track record in developing operational and institutional capacity-building activities, the Bank will act as executing agency for the

TC as requested by the Recipient, in accordance with the guidelines and requirements set forth in the Technical Cooperation Policy (GN-2470-2) and in the TC Operational Guidelines (GN-619-4). Additionally, the Climate Change Division of the IDB (CSD/CCS) will coordinate with other IDB Group departments and liaise with other key initiatives and stakeholders involved in the design, implementation, and financing of IDB CLIMA pilot projects. The Bank will supervise the consultancy services and the beneficiary will be able to provide technical inputs to the consultants' reports.

- 5.2 All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (i) hiring of individual consultants, as established in the Complementary Workforce Document (AM-650); and (ii) contracting of services in accordance with the Institutional Procurement Policy (GN-2303-33) and its associated guidelines.
- 5.3 Knowledge products generated within the framework of this technical cooperation shall be the property of the Bank and may be made available to the public under a creative commons license. However, at the request of the beneficiary, the intellectual property of such products may also be licensed to the beneficiary.

VI. Important Risks

- 6.1 Coordination with the entities involved in the evaluation and technical approval processes of the studies, as well as inter-institutional dialogue, are identified as risk factors for the TC. In order to successfully develop the implementation, a continuous dialogue will be carried out with the above-mentioned entities.
- 6.2 Sector and national capacity building may face resistance from public administration officials, which will slow down progress through the stages of the IDB Green Transition Framework (GTF). The experience of CSD/CCS in different country contexts, as well as the experience of the IDB Group, will be critical to mitigate these risks. The knowledge products developed through this TC will also help address the knowledge gaps associated with the GTF, so as to contribute in a timely manner to the successful completion of the pilot project.

VII. Exceptions to Bank policy

- 7.1 There are no exceptions to the Bank's policies.

VIII. Environmental and Social Aspects

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

Required Annexes

[Request from the Client_79754.pdf](#)

[Results Matrix_73475.pdf](#)

[Terms of Reference_24666.pdf](#)

[Procurement Plan_80317.pdf](#)

