

Technical Cooperation Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Unlocking Institutional Investors' Participation in Local Green Bond Markets and Direct Investments
▪ TC Number:	RG-T4213
▪ Team Leader/Members:	Vasa, Alexander (IFD/CMF) Team Leader; Frisari, Giovanni Leo (IFD/CMF) Alternate Team Leader; Alfonso, Mariana (CSD/CCS); Almeida Pamponet Moura, Andre (INO/FNP); Andrade, Sylvia Gabriela (IFD/CMF); Angela Pinzon (IFD/CMF); Azuara Herrera, Oliver (SCL/LMK); Cavazzoni Lima, Rafael (IFD/CMF); Couchet, Virginie (INO/FNP); Daniel Ricas (IFD/CMF); De Olloqui, Fernando (IFD/CMF); Demichelis, Jose Francisco (IFD/CMF); Enrique Angel Nieto Ituarte (IFD/CMF); Karina Azar (IFD/CMF); Laura Mondragon (IFD/CMF); Marquez, Claudia (IFD/CMF); Martinez Alvarez, Juan (IFD/CMF); Martinez Lopez, Cynthia (IFD/CMF); Meirovich, Hilen Gabriela (DSP/ADV); Mejia Caniz, Luis Alejandro (DSP/ADV); Mendoza Benavente, Horacio (LEG/SGO); Ninova, Goritza (ORP/GCM); Orlando De Souza Lima (IFD/CMF); Ricardo Goncalves (CSD/CCS); Riquelme Arriola, Leticia (IFD/CMF); Sanz-Paris, Carole (INO/FNP); Sierra Gonzalez, Eduardo (IFD/CMF); Sohany Flores (IFD/CMF); Us Alvarez, Hugo Amador (SCL/GDI); Visconti, Gloria (CSD/CCS)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	n/a
▪ Date of TC Abstract authorization:	n/a
▪ Beneficiary:	Financial regulators; institutional investors; public and private issuers of green and sustainable bonds with a link to energy and other low-carbon infrastructure from Brazil, Colombia, Mexico, and Peru.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Strategic Climate Fund(SCX)
▪ IDB Funding Requested:	US\$420,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	24 months
▪ Required start date:	March 15th, 2023
▪ Types of consultants:	Firms and/or individual consultants
▪ Prepared by Unit:	IFD/CMF-Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	IFD/CMF-Connectivity Markets and Finance Division
▪ TC included in Country Strategy (y/n):	n
▪ TC included in CPD (y/n):	n
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Environmental sustainability; Gender equality; Institutional capacity and rule of law

II. Objectives and Justification of the TC

2.1 Background. The transition to a green economy requires substantial investments in the next decades to ensure that the Latin America and the Caribbean (LAC)

region can mitigate climate change and better hedge against climate risks.^{1,2,3} The expected investment gap in LAC is about US\$1 trillion for the period 2021-2030.⁴ Low-carbon infrastructure, and, in particular, renewable energy infrastructure, requires financing conditions with longer term tenors.

- 2.2 These conditions can be provided by institutional investors (insurance companies and pension funds) through their investments in green and sustainable bonds or direct investments. As commercial bank lending is limited to short maturities due to the short-term nature of bank deposits, bonds provide a viable long-term financing alternative to bank loans, allowing issuers to diversify their sources of funding with longer-term tenors and adequate rates.⁵ At the same time, institutional investors can also invest directly into projects.^{6,7}
- 2.3 Focusing on the role of capital markets in financing sustainable energy and infrastructure projects, the LAC region has seen important progress take place: (i) Brazil's infrastructure investments are increasingly financed by capital market instruments, (ii) Colombia has enacted changes to the capital market and public private partnerships regulation over the past years focusing mainly in infrastructure projects; (iii) Mexico has developed new infrastructure-dedicated; and (iv) Peru has updated its regulation to promote capital markets.⁸ As of the first semester of 2022, cumulative issuance of labelled green bonds had reached US\$40 billion in LAC since 2014, representing over 1 percent of total global issuances of labelled green bonds (US\$2 trillion).⁹ About 52 percent of LAC issuances originated in Brazil, Colombia, Mexico, and Peru.
- 2.4 As Debt Capital Markets (DCMs) become more sophisticated, a critical mass of domestic savings and large local investors with long-term commitments are required. Local investors can provide a reliable and stable investor base, as domestic pensions, insurance and savings vehicles for individuals can nurture sustainable domestic investible asset pools.¹⁰
- 2.5 **Gender considerations.** Environmental and climate challenges impact women disproportionately, further increasing existing gender disparities which have also been exacerbated by the COVID-19 pandemic.¹¹ As the benefits of gender diversity have become more widely recognized, demand for gender-smart investment opportunities have increased considerably.¹² Green bonds can seize the opportunity of mainstreaming gender, by incorporating gender considerations into their frameworks, ensuring that bonds' proceeds are also meeting gender objectives. This can provide

¹ Serebrisky et al. (2015). [Financing Infrastructure in Latin America and the Caribbean: How, How much and by Whom?](#).

² Estache et al. (2015). [Financing infrastructure in developing countries](#).

³ Vergara et al. (2013). [The Climate and Development Challenge for Latin America and the Caribbean](#).

⁴ IIGCC. (2021). [Climate Investment Roadmap](#).

⁵ OECD. (2021). [Scaling up Green, Social, Sustainability and Sustainability-linked Bond Issuances in Developing Countries](#).

⁶ IDB. (2018). [Attractors of Institutional Investment in Latin American Infrastructure: Lessons from Envision Project Case Studies](#).

⁷ IRENA. (2020). [Mobilising Institutional Capital For Renewable Energy](#).

⁸ Raymond et al. (2020). [Raymond et al. "Financing Sustainable Infrastructure in LAC: Market Development and Recommendations"](#), IADB

⁹ BNEF. (2022). [Bloomberg New Energy Finance](#).

¹⁰ Narayanaswamy et al. (2017). [The Importance Of Local Capital Markets For Financing Development](#).

¹¹ GenderSmart. (2021). [Gender & Climate Investment: A strategy for unlocking a sustainable future](#).

¹² IISD. (2021). [Integrating a Gender Lens in Sustainable Investing](#).

issuers with an opportunity to differentiate themselves in the crowded sustainable bond market. However, incorporating gender consideration into green bond frameworks can be challenging and the selection of appropriate gender criteria that are relevant and applicable across eligible projects is key, so that it is not perceived as a limiting factor.¹³

- 2.6 **Justification.** Some barriers still prevent LAC from reaching its sustainable infrastructure targets. Among the barriers identified by investors¹⁴ are: (i) lack of bankable projects; (ii) inadequate experience in some regions; (iii) lack of available data to conduct full analysis; (iv) lack of acceptable credit rating; (v) lack of internal human resources; and (vi) inadequate experience in infrastructure, among others. Other barriers limiting channeling institutional investment identified by market participants globally¹⁵ are related to: (i) managing liquidity issues; (ii) institutional investor scale and direct project investment; (iii) diversification; (iv) policy barriers; and (v) investment practices of institutional investors. Although the research carried out to date provides a starting point, it is important to identify and classify barriers and bottlenecks specific to the context of the project's identified countries.
- 2.7 An enabling environment targeting specific knowledge gaps and regulatory reforms of the identified jurisdictions would allow further progress towards channeling sustainable investments through debt capital markets. First, due to the importance of top-down initiatives and innovations typically driven by regulators at the current stage of capital market development, the quality of the regulatory agencies and, more broadly, the public administration in the target countries is essential for effective planning and delivery.¹⁶ Second, borrower institutions will require awareness of the market of sustainable assets as well as knowledge and clarity on the use of green standards and labels to embed sustainability in their investment decisions. Third, it is important for regulators to clearly define the rules and functions of different financial sector actors (issuers, investors and intermediaries) and reinforce those by adequate and coherent regulation.
- 2.8 Considering the above-mentioned gender considerations, and to ensure gender mainstreaming, it is essential to include the issuer's commitment to improve gender equality in the framework's objective section and the key principles and priorities of its gender equality and inclusion strategy that are relevant to the eligible project categories.
- 2.9 Furthermore, the integration of the gender lens can be done through the four core components of ICMA's Green Bond Principles: Use of Proceeds (e.g., inclusion of gender indicators in the eligibility criteria that determine the type of projects that could be financed with the bond), the process for Project Evaluation and Selection (e.g., outlining how the project selection process integrates gender equality), Management of Proceeds (e.g., gender criteria can be applied to temporary placement of unallocated proceeds waiting to be used for green projects), and Reporting (e.g., how the issuer has complied with the gender criteria integrated throughout the framework).

¹³ Gender Smart, IISD, IMC Worldwide and EU. (2022). [Integrating Gender Considerations into Sustainable Bonds. A How-to-Guide.](#)

¹⁴ Frisari and Messervy. (2021). [Investing in Sustainable Infrastructure in Latin America: Instruments, Strategies and Partnerships for Institutional Mobilization](#), IADB.

¹⁵ Nelson and Pierpont. (2013). [The Challenge of Institutional Investment in Renewable Energy](#), CPI.

¹⁶ Demekas and Nerlich. (2020). [Creating Domestic Capital Markets in Developing Countries: Perspectives from Market Participants.](#)

- 2.10 **IDB Strategic Alignment.** This TC strengthens good governance and institutions that aim to put in place policy and institutional frameworks to crowd in private capital and ensure sustainable investments and reinforces gender equality, diversity and climate change. It is also aligned with the second-tier priority of scaling up financial capacity through efficient and increased resource mobilization.
- 2.11 Specifically, this TC is aligned with the operational areas of emphasis for the Bank's Second Update of the Institutional Strategy 2020-2023 (AB-3190-2), specifically with increasing overall resource mobilization. The operation is also aligned with the cross-cutting themes of: (i) Institutional Capacity and Rule of Law; (ii) Climate Change and Environmental Sustainability as it supports the assessment of debt capital markets and the proposal of enabling environment measures in Brazil, Colombia, Mexico, and Peru in productive and environmentally sustainable activities; and (iii) Gender Equality and Diversity, as it integrates the gender perspective in tools such as surveys, country assessments, and sustainability bonds and frameworks. Similarly, the implementation of the program is aligned with the IDBG's Climate Change Action Plan 2021-2025, contributing to the catalyzation of domestic private capital for climate investment and transition.
- 2.12 The Project is aligned with the respective country strategy of each of the countries listed as beneficiaries. With regards the Country Strategy of Brazil 2019-2022 (GN-2973), the project is aligned through the strategic objectives of promoting greater economic competitiveness, and with its cross-cutting themes of gender equality and sustainable development. Additionally, it is also aligned with IDB Strategy in Colombia 2019-2022 (GN-2972), with the strategic objective of consolidating a sustainable and inclusive pension system. The Project is also aligned with the IDB Country Strategy for Mexico 2019-2024 (GN-2982), in supporting the strengthening of public and private entities in the sector to improve their ability to respond to investment needs, particularly in underserved segments. Finally, the Project is aligned with the IDB Group Country Strategy of Peru 2017-2021 (document GN-2889) through the strategic objectives of Strengthen the business climate and improving the public management.
- 2.13 This technical assistance will complement technical cooperations and loan operations from the IADB that are on-going and in preparation. Some of these include the Regional Green Bonds Program for LAC ([ATN/AC-17318-RG](#)) and the IDB Green and Sustainable Finance Program for LAC ([ATN/CF-18899-RG](#)), both under implementation, that support the scale-up and replication of the IDBG support for green bonds, targeting new issuers (governments and municipalities) and new instruments (sustainable bonds). Additionally, this technical assistance also complements technical cooperation Scaling-Up Sustainable Debt Capital Markets Financing for Brazil's Economic Recovery ([ATN/OC-19012-BR](#)) which is under implementation and its objective is to scale-up the use of innovative debt capital market instruments such as asset-backed securitizations, bond issuances, as well as other sustainable financing alternatives, to enhance the availability of medium-to-long term financing to sustainable investments in the country. Furthermore, this operation complements the technical cooperation Strengthening financial instruments and capital markets for low carbon infrastructure in Brazil ([ATN/PI-19367-BR](#)) which is under implementation and aims to piloting innovative green financial instruments and structuring climate-related de-risking mechanisms; and developing the Brazilian capital market and enhancing legal, regulatory, and institutional systems.
- 2.14 This TC will also complement green bonds operations from IDB Invest (IDBI) – in particular the strategy to develop thematic bond in the region to mobilize private capital

– which ultimately benefits the overall thematic bonds market. IDBI encourage issuers' participation by establishing new asset classes and seek to attract investor by reducing price uncertainty (IDBI acting as anchor investor) or credit risk mitigants to match investors' risk. I could give you info on the private mobilization we achieved with other thematic bonds.

- 2.15 The [Green Bond Transparency Platform](#) (GBTP) launched in 2021 has become the key reporting tool for thematic bond issuances in the LAC green bond market, covering 80 percent of the region's market, or a total of US\$33 billion. Additionally, the [Latam Projects Hub](#) was launched in 2022 by the Brazilian Development Bank (BNDES), the Inter-American Development Bank (IDB), the National Works and Public Services Bank S.N.C. of Mexico (Banobras), and ALIDE (Latin American Association of Development Financing Institutions).
- 2.16 **Objective.** This project will support the assessment of DCMs and the proposal of enabling environment measures in the LAC Region, with a particular focus on Brazil, Colombia, Mexico, and Peru with the objective to further mobilize private financing into low-carbon investments. The project will focus on: (i) the assessment of DCM development; and (ii) the proposal of enabling environment measures to foster participation in DCM¹⁷.

III. Description of activities/components and budget

- 3.1 The program aims to address above mentioned barriers and challenges and contribute toward the development of sustainable finance and low-carbon investments in LAC, focusing on Brazil, Colombia, Mexico, and Peru. To this end, it proposes two components as described below:
- 3.2 **Component 1. Assessment of Debt Capital Market Development Investor Base and Limitations (US\$220,000).** This component will support the identification and classification of the identified countries' investor base and market participants as well as the constraints that limit their participation in green and sustainable bond markets¹⁸, including gender considerations. Two outputs are expected for this component: (i) investor base and market participants identified; and (ii) constraints, bottlenecks, and potential issues identified. This includes specific activities necessary for the implementation of the project.
- 3.3 **Activity 1.1** Identification and classification of the investor base and market participants in local DCM overall and green or sustainable bond markets. To assess market participants who have participated in concrete deals and understand what made these deals work. This activity will consist of a comprehensive survey of domestic and international institutional investors (pension funds and insurance companies), banks, asset managers, together with local stock-exchanges, regulators, project developers and academics. When considering credible gender integration in green investment, it is paramount to start with an analysis of the need and opportunities of women. In this sense, the survey will ensure gender balance of

¹⁷ Debt capital markets, in particular thematic bonds, have great potential still to be unwrapped in the LAC region. Brazil, Colombia, Mexico, and Peru, with deeper and deepening financial markets, present an attractive opportunity for investors seeking sustainable investments.

¹⁸ The green and sustainable bond market faces several challenges to realize this potential including institutional capacity, project pipeline identification, upfront costs, investment grade ratings, need for harmonized standards and transparency, as well as the lack of institutional knowledge.

participants and will include gender related issues on the identification of investor base and market participants through a specific module on gender to gather a basic preliminary diagnosis. Also, the survey will be complemented with available investment data.

- 3.4 **Activity 1.2** Identification of emerging solutions and under which conditions these solutions would work to increase institutional investor participation in green or sustainable bonds. With a multi-stakeholder approach, this activity will consist of country-specific assessments to understand national contexts and needs. The diagnosis will initially be carried out from a general perspective and will move towards a more detail evaluation of the identified issues limiting further participation and finally pilots will be included based on the obtained results. The activity would also include an assessment of the level of just transition that can be attained by the different stakeholders under the scope of this project (e.g. narrow transition, systems change, incremental reform, top-down transition). Furthermore, under this activity opportunities challenges for integrating gender considerations into social and/or sustainable bonds will be explored. In the same line, identification of complementarities and escalated impact for the interconnection of sustainable development goals will be explored within the context of institutional investors missions as a way to trigger gender perspective.
- 3.5 **Component 2. Development of Enabling Environment Measures (US\$200,000).** The second component will focus on the promotion of a robust enabling environment in identified countries that encourages private participation in DCM. Two outputs are expected for this component: (i) knowledge sharing tools available for market participants; and (ii) regulatory and legal frameworks proposed. For this component the Bank will carry out specific activities.
- 3.6 **Activity 2.1** Design knowledge-sharing tools for participants This activity will consist of: (i) development of institutional strengthening tools that could support financial regulatory agencies and public administration agencies to attain effective planning, drafting, implementation and supervision of regulation; and (ii) knowledge tools and workshops on standards and labels to embed sustainability in investment decisions, including gender lens in its design with an integrated module on gender in investment decisions. A training course for Institutional Investors will be developed in partnership with key strategic partners (e.g. UN Principles of Responsible Investment). The course would focus on identified countries and would be accessible to other countries as well to facilitate replication and knowledge transfer. Furthermore, lesson learnt publications will be developed and disseminated both nationally and regionally utilizing existing IDB Knowledge and Data Platforms (e.g. Green Bond Transparency Platform, Green Finance LAC) and events with technical and senior decision-maker participation.
- 3.7 **Activity 2.2** Regulatory frameworks, institutional arrangements, and market structure proposals. To promote active, efficient, and fair markets for sustainable investments, the project will assess regulatory and supervisory frameworks, as well as market arrangements and structures, proposing eventual amendments to current practices, and/or new and innovative frameworks for the development of sustainable DCM and incorporate or further gender integration within the frameworks to boost sustainability impact. Support regulators in assessments and the implementation of specific topics for enabling markets. This will require input and coordination with exchanges, regulators, investors as well as local structuring banks and placement agents.
- 3.8 **Budget.** The total cost of this TC will be US\$420,000 which will be financed by the Strategic Climate Fund (SCX). The contribution will finance the hiring of consulting

services (individual & firms) for the development of the activities. Table 1 details this budget:

Table 1. Indicative Budget in (US\$)

Component/ Activity	Description	IDB/SXC	Total Funding
Component 1	Assessment of Debt Capital Market Development Investor Base and Limitations	220,000	220,000
	1.1 Identification and classification of the investor base and market participants	110,000	110,000
	1.2 Identification of constraints and bottlenecks as well as potential issues preventing participation	110,000	110,000
Component 2	Development of Enabling Environment Measures	200,000	200,000
	2.1 Knowledge-sharing tools for participants	120,000	120,000
	2.2 Regulatory framework proposals	80,000	80,000
TOTAL		420,000	420,000

3.9 **Stakeholder engagement and partnerships.** IDB will collaborate with the United Nations Principles for Responsible Investment (UNPRI) and its regional network of over 100 institutional investors consisting of private pension funds and insurance companies. Furthermore, the project will benefit from UNPRI's Environmental, Social and Governance (ESG) evaluation process which assesses the performance of member institutions according to the integration of ESG aspects in their corporate governance and their investment activities.

3.10 **Monitoring arrangements.** For the proper development of the planned activities, CMF's project team will make the preparations of terms of reference, monitoring of activities, deliverable review, and logistic support, among other tasks. The project team will prepare progress and final reports for the activities and products of this TC (see Annex II. Results Matrix), including a description of progress made, results obtained, status of execution of planned activities, and suggestions for adjustments to the remaining execution period. All those activities related to the annual and final report on the progress of the activities of the TC will be carried out in accordance with the Technical Cooperation Monitoring and Reporting System (TCM) (OP-1385-4).

IV. Executing agency and execution structure

4.1 The IDB will act as executing agency for this technical assistance. Since the scope of work of this TC encompasses the private sector, the IDB would seek IDB Invest technical collaboration with the purpose of knowledge sharing and will take into consideration lessons learned from other similar projects implemented by the Bank in the past. The intervention of this TC is the result of collaborative work between both private and public windows of the IDBG. The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of Connectivity Markets and Finance Division (IFD/CMF), considering its technical expertise in the field.

- 4.2 IDBG is already implementing various initiatives to foster private participation in the four most developed Capital Markets in the region with access to ODA-funding (Brazil, Colombia, Mexico, Peru). Since 2017, IDBG has supported the issuance of more than seventy public and private Green, Social, Sustainability and SLB (GSSS) bonds through its holistic technical assistance program, mobilizing over US\$36 billion in capital market finance.
- 4.3 **Procurement and financial management.** The IDB execution would be implemented in accordance with the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4) and its Annex II as Research and Dissemination TC. All activities to be carried out under this TC will be included in the Procurement Plan and contracted in accordance with Bank policies as follows: (i) Hiring of individual consultants, as established in the regulation AM-650; (ii) Hiring of consulting firms for services of an intellectual nature according to the Bank Policy for the Selection Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and its Operational Guidelines OP-1155-4 for services of an intellectual nature; and (iii) Hiring of logistics services and other expenses related to non-consulting services, according to the Corporate Procurement Policy (GN 2303-28). These activities are scheduled for completion within 24 months of approval of the TC. The Connectivity Markets and Finance Division (IFD/CMF) of IDB will be responsible for executing the disbursements under this TC.

V. Major issues

- 5.1 The possible implementation risks are:

Type of Risk	Description	Likelihood	Impact	Mitigation measure
Capacity	Target countries lack financial depth to channel private sustainable investments through their debt capital markets	Low	Low	The selected target countries (Brazil, Colombia, Mexico, and Peru) show high-level of financial development. Furthermore, IDB is already implementing various initiatives to foster private financial participation in these countries.
Engagement / Participation	Inability to identify target institutions/organizations or generate interest to successfully engage and participate in the project's activities	Medium	Medium	IDB has strong experience and network in the target countries and has already identified preliminary demand for DCM and thematic bond technical support
Reputational	Beneficiaries' involvement in unsustainable or greenwashing practices could feed back to IDB	Low	Low	The Bank will implement its ESG policies and will thoroughly screen all beneficiaries to avoid engaging with institutions/organizations that could cause reputational harm. Furthermore, the Bank will enhance beneficiaries' awareness and capabilities for promoting sustainable financial practices.
Political	Changes in government priorities and government elections could	Medium	Medium	Target countries have made international commitments and participate in initiatives aligned with sustainable development. In addition, public opinion exerts

	hinder the implementation of climate-friendly regulation in the financial sector			pressure on governments and investors to deliver the environment required to facilitate sustainable private investment
Fiduciary	Mismanagement of the resources provided for the project	Low	Low	Funds will be managed by IDB, subject IDB internal audit and financial reviews
Implementation	Delays in project implementation due to external events such as new pandemic waves and global economic recession.	Medium	Medium	Considering the potential for external shocks to affect the short- and medium-term prospects, the IDB will manage risk through on-going comprehensive (cross-sector) engagement with beneficiaries through its country offices.

VI. Exceptions to Bank policy

6.1 There are no exceptions to the Bank policies present in this TC.

VII. Environmental and Social Strategy

7.1 This TC will not finance feasibility or pre-feasibility studies of investment projects nor associated environmental and social studies; therefore, it does not have applicable requirements from the Bank's Environmental and Social Policy Framework (ESPF)".

Required Annexes:

[Results Matrix_13723.pdf](#)

[Terms of Reference_89894.pdf](#)

[Procurement Plan_23866.pdf](#)