PUBLIC
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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

LATIN AMERICA AND THE CARIBBEAN FACILITY FOR GREENING PUBLIC DEVELOPMENT BANKS AND THE FINANCIAL SECTOR

(RG-O1720)

FACILITY DOCUMENT

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CONTENTS

ANNEXES	
Annex I	Results Matrix
Annex II	Environmental and Social Risk Summary

ELECTRONIC LINKS	
EL#1	Operating Manual

ABBREVIATIONS	
AfDB	African Development Bank
ALIDE	Latin American Association of Development Finance Institutions
BMWK	Federal Ministry for Economic Affairs and Climate Action in Germany
CCS	Climate Change Division
CMF	Connectivity, Markets and Finance Division
CPI	Climate Policy Initiative
ESPF	Environmental and Social Policy Framework
ETF	Exchange Trade Funds
EUR	Euro
FC	Facility Coordinator
FI	Financial Intermediaries
GHG	Greenhouse Gas
IDB	Inter-American Development Bank
IFRS	International Financial Reporting Standards
IG	Investment Grant
IKI	Germany's International Climate Initiative
LAC	Latin America and the Caribbean
LFI	Local Financial Institutions
MDB	Multilateral Development Banks
MSME	Micro, Small and Medium Enterprises
NDC	Nationally Determined Contributions
NGFS	Network for Greening the Financial System
ODA	Official Development Assistance
OM	Operating Manual
PA	Paris Agreement
PAIA	Paris Agreement Implementation Approach
PBP	Performance-Based Payments
PCAF	Partnership for Carbon Accounting Financials
PDB	Public Development Banks
PIF	Performance-based Incentive Facility
PSG	Project Specific Grant
TA	Technical Assistance
TC	Technical Cooperation
UNFCCC	United Nations Framework Convention for Climate Change

PROJECT SUMMARY
REGIONAL
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Implementation Arrangements and Budget

Beneficiary Countries

Argentina, Bahamas, Bolivia, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Suriname, and Uruguay.[a]

Implementing Agency and Executing Agencies

The IDB will be the implementing agency of the facility (¶4.1) and legally established entities will act as executing agencies of the eligible individual operations under this facility (¶4.6).

Source	Amount (EUR)	Amount (US$)	%
The Federal Ministry for Economic Affairs and Climate Action in Germany (BMWK)	19,000,000	19,950,000	100
Total:[b]	19,000,000	19,950,000	100

Project Summary

Objectives: The general objective of this facility is to foster the greening of the public financial sector and its alignment to the Paris Agreement (PA) and Nationally Determined Contributions (NDC). The facility will have three specific objectives that complement and leverage each other:

i. Support and advise Public Development Banks (PDBs) and their network of Local Financial Institutions (LFI) to align their strategy and business models to the PA and create a public policy environment conducive to greening the public financial sector.
ii. Implement an innovative Performance-Based Payments (PBP) mechanism, that incentivizes PDBs financially to: (a) maintain and implement institutional enhancements; (b) achieve ambitious Greenhouse Gas (GHG) emissions reductions at the institutional and beneficiary level; and (c) increase PA-aligned share of the PDBs' portfolio.
iii. Support in-depth feasibility analysis, structuring and piloting of innovative financial structures aimed at enhancing PDB's lending capacity and the mobilization of private sector capital for ambitious climate investments.

Funding and types of financing: The facility will be funded in the amount of EUR19 million by the Federal Ministry for Economic Affairs and Climate Action in Germany (BMWK). The facility will provide non-reimbursable funding to executing agencies through two financial instruments: (i) Non-Reimbursable Technical Cooperation (TC); and (ii) Investment Grants (IG).

Structure: The facility will be structured in two main components: (i) **Component 1:** Implementation of the IDB Technical Advisory Program to support PDBs and their network of LFIs in their PA Alignment Pathway[c] (EUR5 million); and (ii) **Component 2:** PBP and other catalytic investment support for innovative financial mechanisms with high mobilization potential (EUR14 million).

Exceptions to Bank policies: N/A.

Strategic Alignment

Challenges[d]:	SI ☐	PI ☒	EI ☐
Cross-Cutting Themes[e]:	GE ☒ DI ☒	CC ☒	IC ☒

[a] Eligibility and prioritization criteria is reflected in the Operating Manual (OM) of the facility. Countries eligible for funding under this facility are IDB borrowing member countries that are Official Development Assistance (ODA) eligible. For the avoidance of doubt, it would be possible to incorporate non-ODA-eligible countries "exceptionally" on a case-by-case basis during the implementation of the facility upon mutual agreement by BMWK and IDB. The list of countries includes IDB member countries with PDB. The list of countries may be modified and/or expanded by the parties upon mutual agreement. The facility aims to be replicable and scalable to all regions in Latin America and the Caribbean (LAC) and will consider a balance of beneficiary countries (i) in different LAC sub-regions; (ii) in different levels of financial sector development; and (iii) the ambition level of PDB's PA plans in line with the facility's key results indicators (¶2.10).

[b] The IDB will administer these funds through a Project-Specific Grant (PSG). BMWK will contribute EUR20 million, which is equivalent to US$21 million at the exchange rate of US$1.05 per EUR as of October 18, 2023. Out of this contribution, EUR1 million will be set aside as an administration fee. The remaining contribution of EUR19 million corresponds to the project amount as indicated in Section III.B– Budget and co-financing. The administration fee will be distributed to the Bank's offices involved in the origination and execution of the resources to make up for the costs associated with the administration and execution of the contribution.

[c] To be developed jointly by the Connectivity, Markets and Finance Division (IFD/CMF) and the Climate Change Division (CSD/CCS).

[d] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[e] GE (Gender Equality) and DI (Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. FACILITY DESCRIPTION AND OBJECTIVES

A. Background, problem addressed, and justification

1.1 **The Paris Agreement (PA) and Latin America and Caribbean (LAC).** One of the main objectives of the PA is to ensure a path that leads to climate resilient development and keeps the average rise in the planet's temperature well below 2°C compared to the levels registered in the pre-industrial era, and to limit the temperature increase even further to 1.5 degrees Celsius and mobilize the financial flows for this purpose. The LAC region is already committed to the goals and objectives of the PA. All 26 of the IDB Group's borrowing member countries have ratified the PA, signaling the region's resolve to pursue the mitigation and adaptation goals and objectives of the agreement.

1.2 **The role of financial institutions and the public financial system under the PA.** In this context, financial institutions and the public financial system play a key role in aligning their activities with the long-term objectives of the PA. Article 2.1(c) of the PA calls on governments to 'make financial flows consistent with a pathway towards low Greenhouse Gas (GHG) emissions and climate-resilient development. By adopting Article 2.1(c), countries in LAC and around the world effectively agreed to completely overhaul their financial systems to support net zero and resilience. For financial institutions that means, either by mandate of their shareholders and stakeholders and/or by their own, the need to provide a pathway towards the transformation to a low carbon and climate resilient economy through the projects they finance. Financial sector regulators and supervisors, who supervise systemically important banks and other finance actors such as insurance groups, can enable policies that have a significant impact in channeling finance flows towards climate objectives. While current approaches focus on ensuring that financial actors account for climate-related physical and transition risks in their decisions, several central banks have already adjusted their policy frameworks to incorporate these risks,[1] for instance by using stress tests to model the effect of climate risks on macro-financial stability, mandating the disclosure of climate-related risks by regulated banks, or measuring the carbon emissions of their own non-monetary-policy portfolios.[2] In LAC, central banks from 12 countries have joined the Network for Greening the Financial System (NGFS).[3]

1.3 **The need for PA alignment for Multilateral Development Banks (MDB), Public Development Banks (PDB) and Local Financial Institutions (LFI) to mobilize climate finance.** In that context, a group of MDBs has developed the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations which are operationalized through specific guidelines that tailor the approach to their own portfolios and processes. The IDB Group is part of this commitment and is working on aligning its operations with the PA, including those through financial institutions in LAC. By aligning national and subnational PDBs in LAC with the PA and supporting regulators and supervisors to design and implement enabling policies for PDBs' PA alignment, the facility will enable PDB and their network of LFIs to access funding from international organizations that are adopting these guidelines, mobilize private capital, and contribute to

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[1] Dikau, Simon, and Ulrich Volz. Central Bank Mandates, Sustainability Objectives, and the Promotion of Green Finance. Ecological Economics 184 (June 1, 2021): 107022.

[2] NGFS, 2023. Submission to United Nations Framework Convention for Climate Change (UNFCCC) Standing Committee on Finance consultation on Art 2.1c of the PA (FCCC/PA/CMA/2022/L.9, paragraph 4).

[3] NGFS members include the central banks of Argentina, Barbados, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Paraguay, Peru, Trinidad and Tobago, and Uruguay, and the regulators and supervisors of the financial system Chile, Colombia, and Mexico. See NGFS members.

the decarbonization and resilience of the economy in line with global market trends, national priorities and investment plans of the respective countries.

1.4 **Limited PA alignment among PDBs due to institutional capacity and information asymmetries.** A recent study (Climate Policy Initiative, 2023) describes that very few of the public financial institutions surveyed in the sample (20 out of 70) have commitments or targets aligned to the PA or Net-Zero goals. Public financial institutions are being slow to adopt institutional climate strategies compared to the private institutions. In this context, according to an internal survey developed by IDB, PDBs in LAC region have not yet integrated climate change-related risks in their governance, risk management, strategy, and operations. Climate risks remain unmanaged mainly due to information asymmetries and capacity gaps.

1.5 **Five financial and non-financial barriers impede PDBs to holistically green their respective institutions towards the PA:[4] (i) Institutional climate mandate:** PDB mandates do not always contain climate investment objectives, or frameworks for implementing such objectives have not been developed; **(ii) Currency risk:** Most international and concessional funding available to PDBs is provided in hard currencies and is not always competitive especially if PDBs want to reach beneficiaries that exclusively finance their operations in local currency (e.g. smallholder farmers and Micro, Small and Medium Enterprises (MSME)); **(iii) General risk appetite:** PDBs need more competitive financing to effectively invest in climate projects, whether it is in local currency, longer tenor, or financing across all stages of the project lifecycle, including early ones; **(iv) Institutional capacity and expertise:** (a) Project pipelines: International funding criteria require advanced levels of project preparation and bankability, resulting in missed opportunities to fund early-stage and innovative projects with initial higher perceptions of risk; (b) Financial intermediation: Tenors of funding need to be sufficiently long-term for the development of certain types of climate projects, such as infrastructure, and decarbonizing cases of digital connectivity; and (c) Procedures and approval policies: Stringent reporting requirements by international financiers are currently difficult for PDBs to meet due to lack of capacity and GHG emissions data. PDBs are subject to local regulation, which may complicate international reporting processes even further and add in additional transaction costs; and **(v) Political economy and governance:** PDBs are exposed to shifting national policy priorities when their bank governance is affected by changes in elected government.

1.6 **The internal governance, policies processes, and instruments of PDBs lack the necessary requirements for PA alignment.** PDBs and LFIs are complex, regulated, policy- and process-oriented organizations, so all their governance, strategy, processes, and systems need to evolve gradually from basic environmental and social management compliance to the establishment of green credit lines, capital market thematic products, robust climate risk management, to climate champs setting PA alignment and Net-Zero goals. To be PA-aligned, institutions must focus on increasing their low-carbon and climate-resilient portfolio, while at the same time identifying and managing those parts of their portfolio with significant physical and transition climate risks. Specific strategies are needed to ensure long-term resilience of climate-vulnerable sectors and contexts, and to phase out carbon-intensive investments incompatible with the temperature goal of the PA.

[4] Third Generation Environmentalism [E3G and CPI]. Enhancing MDB-National Development Bank Cooperation: Understanding Climate Finance flows and Paris Alignment. Working Paper.

1.7 **The current business model of PDBs is not well aligned with the PA.** Since 2010, IDB has supported PDBs to access international climate finance for the development of green finance credit lines, and subsequently build the conceptual basis for greening of PDBs and their alignment to country Nationally Determined Contribution (NDC) and the PA.[5] Since 2016, the projects ATN/CF-15571-RG and ATN/CF-17992-RG, both financed by the International Climate Initiative (IKI) of the German government, supported: 17 PDBs; 8 government institutions (including central banks, pension fund regulators and sovereigns); 4 public-private dialogues (such as the Financial Innovation LAB in Brazil, and green finance project platforms (Green Bond Transparency Platform, LATAM Projects Hub) leveraging public and private investments through 11 green credit lines); 2 Green Climate Fund Proposal projects for energy efficiency and Bioeconomy in the Amazon; 4 green or sustainable bonds such as the issuance of the sovereign sustainability-linked bond of Uruguay, and the incorporation of sustainability criteria into pension fund investments in Chile, in coordination with the Chilean Pension Supervisor. In 6 years, those operations have mobilized over US$2 billion in sustainable investments in Brazil, Chile, Colombia, Mexico, Paraguay, and Uruguay. Furthermore, in the framework of the following projects, ATN/AC-18933-RG/ATN/OC-18934-RG, ATN/OC-19026-RG, ATN/OC-17575-RG, ATN/OC-18237-RG, ATN/OC-18887-RG, ATN/OC-18467-RG, ATN/OC-17811-RG, ATN/SX-19054-RG, ATN/OC-20045-RG, the Connectivity, Markets and Finance Division (IFD/CMF) is strengthening the capacity of PDBs on topics ranging from rural sector and climate risk, digitalization, monitoring and evaluation, access to credit for women entrepreneurs, access to credit to MSME, economic recovery, public-private partnerships, regional dialogues, and the initial development of tools for alignment with the PA. These projects, together with ATN/CF-15571-RG and ATN/CF-17992-RG, demonstrate the importance of the IDB's relationship with the PDB network. Lessons learnt from the aforementioned projects, include the need to go beyond a transaction-based approach towards a holistic strengthening of PDB institutions to enable long-term institutional change, which enables PDBs to independently access climate resources and capital markets funds, respectively. Current NDC[6] and actions by financial institutions are not yet sufficient to meet the goals of the PA. PDBs and LFIs in LAC need a holistic PA-aligned strategy, clear diagnostic tools, and innovative financial instruments to implement such systemic transformational changes, affecting all the sectors they work in (e.g., infrastructure, industry, commercial, agriculture and land-use). This implies a new paradigm of their business models that would influence their clients and the financial sector towards low GHG emissions and climate-resilient development. Furthermore, PDBs are a key actor to facilitate the achievement of the NDCs in line with government priorities and therefore would benefit from a coherent

[5] IDB, 2013. The Role of National Development Banks in Catalyzing International Climate Finance; IDB, 2017. Supporting National Development Banks to Drive Investment in the Nationally Determined Contributions of Brazil, Mexico, and Chile; IDB, 2017. The contribution of public development banks to the Sustainable Development Goals in the countries of Latin America and the Caribbean; Smallridge et al, 2019. Build or Renovate? The decision to establish a new Green Bank, or "green" an existing National Development Bank; IDB, 2021. A Guidebook for National Development Banks on Climate Risk. For a recent overview, see Organization for Economic Cooperation and Development (OECD), 2022. Green, social, sustainability and sustainability-linked bonds in developing countries: How can donors support public sector issuances? and International Monetary Fund (IMF), 2022. Here's how to scale up private climate finance in emerging economies.

[6] The latest NDC assessment by the UNFCCC reveals that climate pledges put the world on track for around 2.5 degrees Celsius of global warming by the end of the century, which is 0.5 above the temperature goal of the PA.

strategy that enables them to contribute to the achievement of NDCs. The facility builds on those experiences and lessons learnt and will systematize capacities at the institutional level to achieve a coherent PA strategy that incorporates different end-beneficiaries (MSMEs, women entrepreneurs, rural small holders, project developers), as well as build on and enhance monitoring, supervision, and evaluation capacities with a focus on climate investments.

1.8 **Support to PDBs for PA alignment.** In this context, the IDB advanced conversations with the Federal Ministry for Economic Affairs and Climate Action (BMWK, by its acronym in German) to create a facility, financed by IKI, to strengthen the public financial sector in LAC countries and align it to the PA. It was agreed that the facility would focus on greening up to ten PDBs to achieve climate-relevant results and manage transition and physical climate risks.

B. Objectives

1.9 The general objective of this facility is to foster the greening of the public financial sector and the alignment of it to the PA and NDCs. The facility will have three specific objectives that complement and leverage each other:

i. Support and advise PDBs and their network of LFIs to align their strategy and business model to the goals of the PA and create a public policy environment conducive to greening the public financial sector.

ii. Implement an innovative Performance-Based Payments (PBP) mechanism, which incentivizes PDBs financially to: (a) maintain and implement institutional enhancements; (b) achieve ambitious GHG emissions reductions at the institutional and beneficiary level; and (c) increase PA-aligned share of the PDBs portfolio.

iii. Support in-depth feasibility analysis, structuring and piloting of innovative financial structures aimed at enhancing PDB's lending capacity and the mobilization of private sector capital for ambitious climate investments.

1.10 **Participating countries.** The facility will support up to ten PDBs in corresponding countries. Potential countries include: Argentina, Bahamas, Bolivia, Belize, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Suriname, and Uruguay.[7] Eligibility criteria to provide tailor-made support to PDBs are specified in ¶2.7.

1.11 **Target beneficiaries.** The facility's direct beneficiaries are first and second-tier PDBs that will receive Technical Assistance (TA) to improve their institutional capacities and that will have access to Investment Grants (IG)[8] to implement innovative performance and results-based financial instruments (Performance-based Incentive Facility (PIF)) or innovative financial structures with high mobilization potential. Payments from the PIF are triggered if PA alignment pre-defined measures and/or targets are successfully implemented or achieved.[9] The indirect beneficiaries will be the clients of the

[7] These are some of the IDB borrowing member countries which have PDBs. See also PDB Database and Project Summary - Footnote (a). The list of countries may be modified and/or expanded by the parties upon mutual agreement.

[8] IGs will have a revolving nature, such that if they are unused, they can be used by another PDB.

[9] Payments would be made in one of the following two manners: (i) 100% of the payment upon final target achievement; and (ii) gradual/partial incentive payments against the achievement of interim milestones, proportional to such level of interim achievement. Such interim milestones would need to represent a

supported PDBs and LFIs, who will have improved access to financing suitable for investments with mitigation and adaptation benefits. For this end, the facility will benefit from the wide range of IDB's key stakeholders, such as regulators, Ministries of Finance, Debt Management Offices, regulatory and supervisory bodies, Public-Private sustainable roundtables, associations of public and private banks, think tanks, and related institutions, like United Nations Environment Program Finance Initiative (UNEP-FI), Latin American Association of Development Finance Institutions (ALIDE), green finance external reviewers, rating agencies and global standard setters. Regarding gender considerations on green and climate related financing, it is important to better understand linkages between green/climate finance and gender equality, given the structural gender-based inequalities and further increasing existing gender disparities.[10] In this line, financial instruments and global debt capital markets play an important role in financing progress toward gender equality in both the public and private sectors, with avenues to direct capital towards reducing the inequalities that persist between women and men.[11] Mainstreaming gender in the vast market generated by climate investment opportunities will maximize returns and gain ground.[12] Incorporating gender considerations into climate portfolios and frameworks can contribute to meeting gender objectives.[13]

1.12 **Strategic alignment**. This facility is consistent with the Second Update to the Institutional Strategy (UIS) 2020-2023 (AB-3190-2) and is aligned with the development challenges of Productivity and Innovation, as it is expected to support a series of public climate-related investments in manufacturing, energy, and other production sectors, as well as to create jobs and support the region's goals to build back better and greener. Likewise, the facility is aligned with the following cross-cutting themes: (i) Climate Change and Environmental Sustainability, by increasing PDB's capacity to manage climate risks, pursuing opportunities for mitigation, resilience, and adaptation to climate impacts, developing PA-aligned decarbonization pathways, and contributing to a just and inclusive transition toward low GHG emissions. Thereby, the facility will contribute to countries delivering on their NDCs and PA alignment. Furthermore, the facility enhances the mobilization from traditional and non-traditional partners and thereby catalyze private financing; (ii) Gender Equality and Diversity, by assessing the feasibility of disaggregating climate portfolios and providing insights on how climate finance can integrate the gender lens; and, thereby, promoting gender mainstreaming activities in all financed projects to prevent or mitigate any negative effect on women and vulnerable populations (¶2.9); and (iii) Institutional Capacity and the Rule of Law, as it will improve the capacity of PDB to deploy green financing in the region.

1.13 All interventions under this facility will be aligned with IDB Group's Country Strategies with each country. Furthermore, it is consistent with Long-Term Financing Sector Framework Document (GN-2768-12), aiming to improve access to finance for PDBs and consequently their end-beneficiaries in the real economy.

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legitimate "additional" achievement per se so that if the final target is not reached, the partial payments made are justifiable based on the own merit of the partial achievement.

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

[11] For more information on Gender Lens Investing and gender lens investing strategies, see International Finance Corporation (IFC) and Commonwealth Development Corporation (CDC). 2020. *Private Equity and Value Creation: A Fund Manager's Guide to Gender Smart Investing Guide.* Washington, DC: IFC.

[12] Ibid.

[13] Ibid.

II. COMPONENTS AND RESULTS

A. Components

2.1 **Component 1: Implementation of the IDB Technical Advisory Program to support PDBs and their network of LFIs in their PA alignment pathway (EUR 5,000,000 equivalent to US$5,250,000).**[14]This component will support the diagnosis and strengthening of PBDs' institutional capacity to be aligned with PA mitigation and adaptation objectives. This entails a phased approach differentiated by PDBs needs (addressing specific requirements or demands), type (sectoral focus and size of PDB), and readiness linked to institutional capacity and/or governance structures. The phased approach consists of the following stages:

1. Baseline assessments on PDB/LFIs' integration of climate and socio-environmental risks in their decision-making processes, incentives for green lending, and access to climate and capital markets finance, to be used for defining the milestones for achieving significant improvement of the respective PDB towards PA alignment.
2. Tools and methodologies. Implementation of a portfolio management system that facilitates identification and tagging of PA-aligned investment.
3. Advisory program consisting of:
   a. Identification and development of sustainable finance instruments, thematical capital market instruments and institutional practices aligned with low carbon and climate resilient development taking into consideration national and sub-national commitments, regulation, and context (portfolio segmentation, tracking of use of proceeds). This includes the development of innovative financial structures by supporting feasibility analysis, design and/or financial structuring for instruments and mechanisms with potential of helping PDBs increase their overall lending capacity for climate investments and/or improve their financing conditions to make them suitable to the financial profile of climate investments and the companies pursuing them.[15] Some benefits that a structure adapted to focus on climate finance could provide to PDBs in LAC would be to: (i) crowd-in private capital to help increase availability of (public) climate finance (i.e. PDB lending); and (ii) substantially increase the share of climate finance in PDBs portfolios (thus helping them move forward on their PA alignment

[14] At the exchange rate of US$1.05 per EUR, as of October 18, 2023.

[15] An example of one structure this facility program aims to assess and eventually help replicate is *Room2Run*, a synthetic securitization piloted by the African Development Bank (AfDB) in 2018, through which it transferred a mezzanine portion of its portfolio risk to private investors (the Mariner Investment Group and the Africa 50 Infrastructure Fund). The transaction was done over a US$1 billion portfolio of Pan-African loans, and by absorbing losses on the mezzanine tranche of such portfolio, it meaningfully reduced the risk weight on the senior portion of the structure retained by AfDB. By doing so, the structure helped AfDB reduce the risk capital it had to hold and recycle this released capital, enabling US$650 million of new development lending in Africa.

objectives) as this recycled lending capacity is earmarked at design stage for climate lending.[16]

b. Support the integration of climate-related financial risks in PDBs' operation. This includes implementing pilots to test existing tools that enable PDBs to understand the potential exposure of their portfolios and supporting the integration of climate-related risks into their risk management strategy.

c. Development of impact metrics and disclosure protocols. The methodology and definitions will consider standards created under the International Sustainability Standards Board (ISSB), such as the International Financial Reporting Standards (IFRS) - Sustainability Disclosure Standards.[17] An analysis will be conducted to understand the feasibility and materiality of disaggregating data by gender.

d. Preparation of fledged PA-aligned sustainable finance strategies for PDBs, including institutional commitments, revision of governance arrangements, strategy, and target setting for portfolio decarbonization and monitoring.

e. Support for designing and implementing public policies, regulations, and institutional capacities conducive to greening the public financial sector and reducing its GHG contribution in line with the PA and NDCs.

4. Knowledge sharing, trainings, and promotion of best practices via regional knowledge exchange, mentoring programs and sharing initiatives (seminars and workshops). The facility will provide flexibility to support other TA activities that are identified during project implementation and that equally contribute towards PDB's PA alignment efforts. Overall, this component is expected to support up to ten PDB through the various types of TA activities it will deploy, including assessments on how PDBs can increase their capacity to enhance their gender approach for climate and PA-aligned finance.

2.2 The activities of this component will contribute to the specific objective #1 (¶1.9) by supporting and advising the PDBs and LFI to align their strategy and business model to the PA through capacity building, development of tools and methodologies to analyze and manage portfolios, risks and climate vulnerabilities, definition of commitments and targets, among others. Furthermore, the component will contribute to objective #1 through supporting financial regulators and supervisors, and central banks, in developing public policies, regulations, and institutional capacity for two goals: (i) creating public policies that enable financial instruments, reporting and disclosure standards, market creation, among other instruments for environmental, social and governance-related financial markets; and (ii) enabling the adequate regulatory and supervisory frameworks for climate related-risks. Finally, the component will also support specific objective #3 (¶1.9) by providing TA to undertake in-depth feasibility analyses and develop financial structures for innovative instruments aimed at increasing PDB lending capacity for climate investments. Successful implementation of TA activities is expected to translate to an enhanced institutional profile of participating PDBs, illustrating the value of a coherent, holistic, and realistic PA strategy, and subsequently increasing the PDBs' diversified access to private sector capital and

[16] Other examples of innovative structures that IDB is seeking to fully assess and replicate with PDBs in LAC are Sustainability Linked Funds and Exchange Trade Funds (ETF)-type structures. A PDB-driven ETF-structure oriented towards sustainable/climate investments could have a game-changing impact in driving new, large volumes of institutional and retail investment to green assets in the region, facilitated by the enhanced efficiency, transparency, and liquidity of this investment vehicle.

[17] IFRS Sustainability Standards Navigator.

climate finance, and diversifying the PDB's products and thereby achieving long-term sustainable results.

2.3 **Synergies.** The facility focuses on the greening and PA alignment of PDBs. To ensure that methodological approaches are aligned between the PDBs and private sector local financial institutions, the facility team will coordinate with IDB Invest methodological approaches on PA alignment to promote best practices in the process and implementation and collaborate on dissemination activities with the public and private banking associations, including roundtables and dialogues.

2.4 **Component 2. PBP and catalytic investment support for innovative financial instruments with high mobilization potential (EUR14,000,000 equivalent to US$14,700,000).**[18] This component entails the provision of IGs support to PDBs (and, in some cases, to the final borrowers delivering climate benefits) structured in the form of PBPs[19] mainly, and eventually other modalities for the case of investment support deemed relevant in the structuring and early piloting of financial mechanisms with high mobilization potential. A mandatory prerequisite for IKI supported PBPs is that PDBs comply with the IKI safeguards standards as defined in the Operating Manual (OM). In the case of PBPs, there will be three types of payments that can be defined as part of this structure in each PDB project:

1. **Type I: Linked to PDB's Corporate Climate milestones.** These payments will be defined and triggered based on the achievement of ambitious corporate milestones across five competencies evaluated by IDB in the self-assessment created during 2022 (strategy management; portfolio management; risk management; financial strategy; metrics and disclosure). Examples of these milestones could be:

   a. **Design, approval, and implementation of a climate/sustainability strategy** for the institution that includes risk management, commercial management, financial products, resource management, governance, targets for green lending, among others. This will include using the Science Based Targets initiative (SBTi) as a basis as it defines steps to develop target(s) in line with their science-based criteria.

   b. **Integrated climate tagging of the portfolio** and creation of disclosure mechanisms of the PA-aligned share of the portfolio, including setting commitments; and disclosure on the transitional nature of the share of the portfolio that is not PA-aligned.

   c. **Design, adopt and implement environmental and social management systems**, including biodiversity risk screening[20] and the assessment of vulnerable and indigenous populations (minimum requirement to be combined with further elements to create ambitious incentives to PA).

   d. **Climate Risk Management Heatmaps** integrated as a mandatory element in risk management policy and screening and able to correctly identify clients vulnerable to physical and transition risks during the loan due diligence process.[21]

[18] At the exchange rate of US$1.05 per EUR as of October 18, 2023.
[19] To be tailored by IFD/CMF Division and Climate Change (CSD/CCS) Division.
[20] IDB is currently working on the development of a biodiversity risk methodology for PDBs.
[21] IDB developed a methodology for to assess the portfolio exposure to physical climate-related risks for PDBs. The facility would support the adaptation of the methodology to also consider transition risks.

e. **Carbon footprint measuring tool** (of the PDB's financing/investment pipeline and portfolio projects) including scope 1, 2, and 3 financed emissions. Supply chain tools would need to be developed and adapted, especially for difficulty to assess sectors where small beneficiary entities with low data provision ability are concerned. The methodology used here is planned to be Partnership for Carbon Accounting Financials (PCAF), as it provides a harmonized approach to assess and disclose GHG emissions associated with loans and investments. It will be part of the work to adapt PCAF for PDBs.

f. **Full PA alignment** including all the above elements. Several of these milestones will be combined (ideally all elements) to ensure actual incentives for significant institutional progress towards full PA alignment. The current (green) portfolio of PDBs can be used as a baseline starting point.

2. **Type II: Linked to PDB's green portfolio growth targets.** These payments will be defined and triggered based on the achievement of green portfolio growth targets of the PDBs. Examples of such milestones could be: (i) Target percentage (%) of the total portfolio being green; (ii) Target percentage (%) of new lending being green; and (iii) Target annual growth of green lending. Targets proposed by PDBs will be evaluated by IDB and deemed valid or not (and as a result supported or not) based on their level of ambition and additionality relative to the baseline of each PDB.

3. **Type III: Linked to final borrowers' implementation of climate investments.** These payments will be defined and triggered by the verified installation/commissioning of investments with mitigation/adaptation benefits undertaken by final borrowers in low carbon/resilient energy and infrastructure, manufacturing, agriculture, among others. Eligibility and sizing for each payment would be determined based on additionality and minimum concessionality approaches to be developed at the design stage of each specific PDB sub-project. Payments could adopt different modalities (e.g., direct payment to final borrower, payment to PDB lender to be credited to final borrower as loan principal pre-payment), as deemed more effective and efficient in each case. This type of support would only be available for climate investments, both mitigation and adaptation. For mitigation projects with high abatement cost-efficiency, benchmarks to assess such cost-efficiency (in terms for example of value of IKI support per ton of CO_2 or as a percentage of total project cost) will be determined on the basis of the type of project/technology and market where investments are taking place, as an acceptable level of efficiency needs to be determined relative to adequate references and comparable benchmarks. Benchmarks references that will be considered include market-relevant carbon prices and abatement cost-efficiency in comparable projects supported by climate funds, among others. Furthermore, for adaptation projects, the MDB Joint Methodology will be applied. In the case of investment support for innovative financial mechanisms with high mobilization potential, relevant support would be aimed at buying-down or mitigating disproportionally high first mover cost or risks, including set-up or early operational costs, liquidity risk support, or anchor/junior funding, for example. By supporting innovating structures, this activity directly supports specific objective #3 of the facility.

2.5 **Resource mobilization.** It is estimated that the level of support required to accelerate mobilization of dedicated mitigation/adaptation finance from PDBs is up to 5% of the size of the individual PDB and private facilities. In addition, the level of TA support or performance-based incentives required to promote institutional measures that

advance PA alignment in PDBs is estimated at 1%-2% of the volume of climate finance that could conservatively be catalyzed through this facility.

2.6 It is thus estimated that the TA support available through this facility will catalyze the provision of PDB climate financing of at least EUR0.8 billion and an additional EUR0.2 billion of private climate funding (equity co-investment from end borrowers) through the shift in PDB portfolio towards PA alignment as well as through capital market operations. In regard to direct mobilization, at least EUR280 million[22] and EUR70 million of public and private sector climate finance, respectively, are estimated to be mobilized through the EUR14 million performance-based incentives support provided through the facility. IDB climate-related loans may provide resources to the facility individual operations and may be provided with Ordinary Capital (OC) or additional separate donor resources following the normal IDB programming exercise and, the processing of each loan operation will follow the applicable IDB policies and procedures.

2.7 **Individual projects' eligibility criteria.** Technical Cooperations (TC) and IGs to be financed under any of the facility's components must comply with the following criteria: (i) be aligned with the objectives of the facility; (ii) benefit PDB from participating countries; (iii) not encompass any activity under the IDB's Exclusion List, IKI's Exclusion List or Category A; and (iv) comply with the Environmental and Social Policy Framework (GN-2965-23) (ESPF) and Environmental and Social Performance Standards which are considered equivalent to or more stringent than the IFC Performance Standards, as per IKI's requirement for environmental and social safeguards. The facility will consider a balance of beneficiary countries: (i) in different LAC sub-regions; (ii) in different levels of financial sector development; and (iii) the ambition level of PDB's PA plans in line with the facility's key results indicators. To provide tailor-made support, PDBs interested in participation will submit a letter of interest with a draft action plan for activities to be supported. The IDB and eligible participants will then create the operational document (TC or IG) adhering to criteria such as the assessment of progress and needs towards PA goals, alignment with strategic priorities, committing to active participation in exchanging best practices and committing to ensure sustainability of developed tools and methodologies.

2.8 **Individual project's approval.** The IDB has been granted with delegated authority by IKI to approve PBP-eligible projects under the facility without direct consultation to the donor, as long as individual projects meet the eligibility criteria established in this document (¶2.7). The approval of individual projects will follow all IDB policies and regulations for Non-Reimbursable TCs and IGs.

[22] This amount of EUR280 million could correspond to potential IDB climate-related loan operations to PDBs over the 8-year implementation period of the facility. The EUR70 million represents additional 20% capital provision by end beneficiaries such as private sector project developers, consistent with traditional assumptions of 80:20 Debt/Equity ratio in banks' financing of private projects. The proposed allocation of EUR14 million corresponds to an average 5% incentive relative to the size of the public climate financing expected to be mobilized (i.e. EUR280 million). In regards, to catalyzation estimates (i.e. EUR1 billion), these are based on traditional multiplier approaches over expected mobilization levels. Assuming a conservative 3x multiplier between direct (mobilization) and indirect (catalyzation) effects, and applying it to the EUR350 million mobilization estimate, at least EUR1 billion of combined public and private catalyzation is expected. The catalyzation effect is expected as a result of the PA alignment measures to be supported at the PDBs' institutional level. These are expected to indirectly result in a higher share of climate investments in new lending operations and/or the incremental issuance of green bonds.

2.9 **Gender and diversity considerations.** All individual projects approved under this facility must comply with IDB's gender and diversity policies and procedures and complement and reinforce the approach of the IKI Gender Strategy (see OM).

B. Key results indicators

2.10 The financing provided by the facility will lead, among others, to the following results: (i) increasing the climate finance portfolio of PDBs; (ii) increasing the share of PDB's portfolio alignment to the PA; and (iii) increasing private sector mobilization for climate investments via loan and capital market operations, and thereby contribute to a reduction in the PDBs' portfolio's carbon footprint.

2.11 The facility Results Matrix (Annex I) and indicators will be aligned with the Joint MDB Methodological Principles for Assessment of PA Alignment of New operations for their specific application to IDB Group operations, as established in the PA Implementation Approach (PAIA, GN-3142-1). Furthermore, the technical work developed under the facility will assist in updating and advancing the "IDB Group guidance for intermediated finance through financial institutions" that is part of PAIA, as it will provide greater specificity and lessons learned to improve its applications and operations.

III. Financing Structure

A. Financing instruments

3.1 **Source of funding.** The total resources of this facility will be provided by the BMWK in the amount of EUR19,000,000, which is equivalent to US$19,950,000 based on the exchange rate of US$1.05 per Euro. Final resources in US Dollars will be dependent on the exchange rate of the date when the resources are received by the Bank and converted into US Dollars. Resources of this facility will be received from the BMWK through a Project Specific Grant (PSG). A PSG is administered by the Bank according to the "Report on COFABs, Ad-Hocs and CLFGs, and a Proposal to Unify Them as PSGs" (Document SC-114). As contemplated in these procedures, the commitment of donor will be established through a separate Administrative Agreement.

3.2 **Types of financing instruments.** The facility will deploy funding through: (i) Non-Reimbursable TC operations; and (ii) IGs operations. The use of these financing instruments will be defined based on the investment support and technical assistance needs of each of the up to ten PDBs expected to participate under this facility.

B. Budget and co-financing

3.3 **Budget.** The facility's budget will be structured as follows:

Table 1. Summary of Program Costs

Components	IDB (IKI) (EUR)	IDB (IKI) (US$)[23]	%
Component 1. Implementation of the IDB Technical Advisory Program to support PDBs and their network of LFIs in their PA alignment pathway	5,000,000	5,250,000	26
Component 2. PBP and catalytic investment support for innovative financial instruments with high mobilization potential	14,000,000	14,700,000	74
Total	**19,000,000**	**19,950,000**	**100**

[23] The contribution will be provided in Euro (EUR) and will be converted into US Dollars (US$). The IDB will deposit the resulting amount (subject to the exchange rate prevailing at the time of conversion) into an account denominated in US dollars. Table 1 uses for illustrative purposes an exchange rate of US$1.05 per Euro (Status Oct 18, 2023).

IV. Implementation Arrangements and Main Risks

A. Implementation and execution arrangements

4.1 **Overall implementation arrangements.** The IDB, through IFD/CMF and CSD/CCS, will be the Implementing Agency of the facility. IFD/CMF will appoint a dedicated Facility Coordinator (FC) to oversee the day-to-day management of the facility, including internal administrative tasks as well as validation of potential individual projects against the eligibility criteria and objectives of the facility. The facility is governed via the OM. The FC will proactively promote, through IDB institutional channels, access to the facility among interested countries and PDBs with a view to maximizing the results achievement of the facility and diversifying the portfolio of PDBs supported, in line with the eligibility criteria.[24]

4.2 **IDB comparative advantage.** The LAC Green Finance Program (ATN/CF-15571-RG and ATN/CF-17992-RG) implemented by IDB, illustrated the potential of working with PDBs and the capital market on green finance and provided several pilot experiences. Since September 2016, the program has supported seventeen PDBs, eight government institutions, four Public-Private dialogues, and three green finance platforms leveraging public and private investments through eleven green credit lines, two Green Climate Fund projects in Paraguay for energy efficiency and a Regional Program in Amazon countries for the bioeconomy and supported the issuance of four green or sustainable bonds. In six years, the program has catalyzed over US$2 billion in sustainable investments in Brazil, Chile, Colombia, Mexico, Paraguay, and Uruguay.

4.3 Furthermore, IDB has recently launched the Green Coalition during the Amazon Presidential Summit in August 2023 to promote financial solutions and the enabling conditions to create and strengthen local productive activities and boost socially, environmentally, and economically sustainable projects in the Amazon. The Green Coalition illustrates the commitment of seventeen PDBs, signing the Joint Declaration in addition to the ALIDE and the Brazilian Development Association (ABDE). The institutions are committed to working in a coordinated and complementary way, leveraging each one's capacities and expertise to: (i) financially support public and private projects that create sustainable, inclusive, climate-positive economic alternatives for job creation, especially for low-income households; (ii) design innovative financial solutions that combine public and private resources to mitigate risks (including blended finance approaches, co-financing and guarantees); and (iii) boost technical cooperation to generate a robust project pipeline, enhance local capacities and consolidate a new sustainable development model for the Amazon region. Key areas of work of the Green Coalition include activities to foster a just transition via green infrastructure, the energy transition; and the conservation and restoration of the Amazon biome; supporting MSMEs in generating value-added products and services aimed at climate-friendly economic alternatives; and improving institutional capacities and the digitalization of public services. The Green Coalition is an important additional vehicle for the IDB to support PDBs PA alignment

[24] In line with AM-903 (Partnership Modalities Related to Mobilization of Financial Resources), the Bank will manage the contribution as a facility, rather than a Trust Fund. Facilities can be more suitable for interventions with a narrow scope and high degree of technical specialization. In facilities, the project team leads the identification, eligibility, and donor reporting, consistently with the result framework, which in this case has been agreed with the donor. Trust funds, on the contrary, normally have a less specialized focus and serve as a pool of funds accessible to various Bank offices. Another advantage is that facilities do not entail fixed expenses. Consequently, the entire contribution amount is available for project execution.

active in sensitive areas such as the Amazon, also considering Brazil's G20 Presidency in 2024.

4.4 Furthermore, IDB supported the creation of the Green Bond Transparency Platform,[25] a platform to facilitate detailed reporting by issuers and decision-making by investors. As of September 2023, there are 235 bonds published on the platform accounting for US$43.5 billion with the project participation in 18 countries representing 80% of green bonds issued by the public and private sector in LAC. The platform won an international award and IDB works with partner MDBs on providing the concept as a global public good illustrating how solutions created in LAC can be replicated in other regions of the world.[26]

4.5 Finally, the IDB co-hosted the Finance in Common Summit, where about five hundred PDBs world-wide gathered in Colombia in September 2023 for knowledge exchange on how to achieve climate and Sustainable Development Goals targets.[27]

4.6 **Executing agencies.** Legally established entities may receive and administer resources under this facility as executing agencies of eligible operations. These executing agencies must be one of the following: (i) borrowing member countries, including national and sub-national institutions with legal capacity to enter into legal agreements with the Bank; (ii) regional and sub-regional agencies established by the same countries; (iii) international or regional cooperation agencies; and (iv) academic institutions and local Non-Governmental Organizations (NGO) that fulfill the necessary Bank requirements and conditions.

4.7 The individual TC operations to be financed by the facility could be also executed by the Bank. In accordance with the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), the justification for the Bank to execute the TC operations is because countries have recognized the technical and operational expertise of the Bank which would allow for a more effective implementation.

4.8 **Operational Manual (OM).** An OM has been developed to systematize the implementation arrangements of the facility, including the role of executing agencies. The OM will guide the operational management of the facility, including the approval of individual projects. IFD/CMF will be responsible for updating the OM.

4.9 **Execution period.** The execution period of the facility extends eight years from the signature date of the Administration Agreement (December 14, 2023) for the completion of the individual projects under the facility. This execution period is considered adequate to complete the estimated TCs and IGs, as the TCs will be focused on strengthening the PBDs' institutional capacity for PA alignment and the IGs will be designed to execute the performance-based mechanism. IDB and BMWK may consult about a potential extension of the execution period following IDB policies and procedures.

B. Development effectiveness and arrangements for monitoring and results evaluation

[25] See Vasa et al., 2022. A novel database for green bonds to support investment analysis and decision making, research, and regulatory decisions: The Green Bond Transparency Platform.

[26] Joint Declaration by the Multilateral and Bilateral Development Institutions for the Global Enhancement of Accountability and Transparency in the Green and Sustainable Bond Market.

[27] Finance in Common 2023 Agenda.

4.10 **Development effectiveness.** The facility will integrate the concept and practice of development effectiveness that has gained strategic relevance within development institutions in general and the Bank in particular. At the level of the overall facility as well as for each operation, the facility will: (i) align available resources with country priorities; (ii) improve the impact of interventions in line with a results-based logic; and (iii) account for the results achieved.

4.11 The facility will implement two dimensions of development effectiveness; doing the right things and doing things right. By doing the right things, any operation proposal is a choice on what to prioritize. As every proposal approved for financing has an opportunity cost, the selection of operation to finance must respond to a planning exercise that explains why certain operations are chosen over others. In this dimension, the facility's central approach is to scale up proven or promising interventions to align PDBs portfolio with the goals of the PA. By doing things right, the facility aims to develop a sequential approach tailor-made to the needs and existing capabilities of the PDBs and monitor the progress over time and learn from and between PDBs.

4.12 **Monitoring.** IFD/CMF will monitor the implementation of the facility. The FC will liaise with external executing agencies (PDBs) to obtain information necessary to track individual projects, verify the portfolio's sustainable impacts, monitor expected results, support problem solving and prepare portfolio management reviews and reporting documents. The FC will also be responsible for managing the BMWK accountability and reporting requirements provided by individual projects. Reporting, monitoring and evaluation will comply with IDB and BMWK requirements as outlined in the OM, and it will apply to all individual projects approved under the facility. Reporting for individual projects will follow the rules that apply to non-reimbursable TCs and IGs, including: (i) monitoring of progress; and (ii) evaluation of performance and achievement of targets. Individual projects approved under Component 2 will adhere to IDB's financial management and operational guidelines (disbursement by results) which include semester progress reports, continuous monitoring of outputs and outcomes achieved, and knowledge management requirements.

4.13 **Evaluation.** Each operation of the facility will adhere to the Bank's standard monitoring and evaluation requirements. An overall intermediate and final review of the facility will be conducted through an independent third party. The donor and the IDB shall agree on the scope and conduct of such review. The donor may review the activities financed by the facility at any time. The results of such review will be shared with the IDB and may be published for the purpose of accountability. All associated costs for such review shall be borne by the donor. It is understood that such review does not constitute a financial compliance or other audit of the facility.

4.14 **Communication with donor.** As the implementing agency of the facility, the IDB will be responsible for all formal communication with and submission of reports to the BMWK.

4.15 **Procurement of goods and services and financial management**. The contracting of consulting services and the procurement of goods and related services financed with the facility's resources will follow the Bank's procurement policies and procedures established in Policies for the Selection and Contracting of Consultants Financed by the IDB (GN-2350-15), and Policies for the Procurement of Goods and Works Financed by the IDB (GN-2349-15). Financial management of the facility's resources will follow the Financial Management Guidelines for IDB-financed Projects (OP-273-12). In the case of a Bank executed TC, the activities will be included in the Procurement Plan and will be contracted in accordance with Bank policies and

procedures, as amended from time to time: (i) AM-650 for Individual consultants; (ii) GN-2765-4 and its Operational Guidelines for Consulting Firms for services of an intellectual nature (OP-1155-4); and (iii) GN-2303-28 for logistics and other related services, if required.

C. Environmental and social aspects

4.16 Pursuant to the ESPF (GN-2965-23), the facility is an umbrella program for TCs, IGs and future individual projects under the facility. Since individual projects have not yet been defined, and participating countries and PDB have been preliminarily identified, there are no environmental and social risks or impacts related to it, and the environmental and social risk rating is low. Once identified, each individual project under the facility will be assessed according to IDB's ESPF. Those specific projects under the facility that are IGs with Financial Intermediaries (FI) [operations for which the financing structure involves the provision of funds through FIs or through delivery mechanisms involving intermediation, whereby the FI undertakes the task of subproject appraisal and monitoring] have specific provisions in the ESPF in terms of due diligence and supervision, and monitoring. No category A subprojects will be financed under this facility. Under Component 1, the operation will support the sustainable finance self-assessments, implementation of a portfolio management system, integration of climate risk management in PDB processes, development of impact metrics and disclosure protocols, preparation of a finance and funding strategy, so no direct and significant negative socio-environmental impacts are foreseen. Under Component 2, individual projects are expected to yield positive environmental impacts as they will advance the climate change agenda related to the PA and NDCs in participating countries. All individual projects approved under this facility will have to comply with IDB's Exclusion List, the ESPF and IKI's Exclusion List.

D. Fiduciary and other risks

4.17 The following fiduciary risk has been identified: the lack of interested PDB. The facility seeks to support a very specific pipeline of public sector operations which could result in the lack of eligible individual projects, especially under current economic circumstances. This is considered a high impact risk with high probability. To mitigate this risk, IFD/CMF will support PDB with sustainable finance self-assessments to provide a baseline to understand their readiness. The lack of interest of PDBs is mostly a result of the lack of predictability of available resources to holistically meet the needs of promoting institutional change. The facility will provide adequate technical assistance resources and additional incentives for the realization of the objectives at the individual PDB level.

RESULTS MATRIX

Number of PDBs	10
Available Funds for the Performance Based Payments Mechanisms	€14,000,000

Component	*Unit*	*Associated Objectives*	*Unit Cost (EUR)*	*Unit Cost (USD)*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	Total Cost (EUR)	Total Cost (USD)	*Means of Verification*
Component 1: Implementation of the IDB Technical Advisory Program to support Public Development Banks and their network of Local Financial Institutions in their Paris Agreement Pathway													**€5,000,000**	**$5,250,000**	
Baseline assessments													€1,240,000	$1,302,000	
Defining base-line and sectoral targets for decarbonizing portfolio	Institutions (#)	1	€44,000	$46,200	8	2	0	0	0	0	0	0	€440,000	$462,000	Reports
Assessing the deployment of sustainable finance self-assessments and access to climate and capital markets finance	Diagnostics (#)	3	€20,000	$21,000	10	0	0	0	0	0	0	0	€200,000	$210,000	Reports
Conducting a thorough analysis of regulation, national climate policies and policy incentives for green lending.	Diagnostics (#)	1	€60,000	$63,000	5	5	0	0	0	0	0	0	€600,000	$630,000	Reports
Tools and methodologies													€1,280,000	$1,344,000	
Integrating adaptation into financing accounting	Plan (#)	1	€24,000	$25,200	0	10	0	0	0	0	0	0	€240,000	$252,000	Reports
Integrating mitigation into financing accounting	Plan (#)	1	€40,000	$42,000	0	10	0	0	0	0	0	0	€400,000	$420,000	Reports
Integrating socioenvironmental and climate risks assessments into the PDBs practice and operations	Plan (#)	1	€64,000	$67,200	0	5	5	0	0	0	0	0	€640,000	$672,000	Reports
Build an advisory program.													€1,040,000	$1,092,000	
Developing sustainable finance instruments and institutional practices for the identification of financing opportunities. Engaging stakeholders to support the PDB in their decarbonisation strategy and Paris Agreement Alignment	Institutions (#)	3	€16,000	$16,800	10	0	0	0	0	0	0	0	€160,000	$168,000	Agreements; minutes of formal meetings
Facilitating PDB involvement in the development of impact metrics and disclosure protocols for the guidance documents. Implementing pilots to test existing tools.	Diagnostics (#)	3	€40,000	$42,000	10	0	0	0	0	0	0	0	€400,000	$420,000	Reports
Preparation of a green finance and funding strategy	Strategies (#)	3	€48,000	$50,400	5	5	0	0	0	0	0	0	€480,000	$504,000	Reports
Knowledge sharing, trainings and promotion of best practices via regional knowledge exchange, mentoring programs and sharing initiatives													€1,440,000	$1,512,000	
Enabling independent access to climate finance from external sources through existing channels.	Institutions (#)	1	€32,000	$33,600	0	5	5	0	0	0	0	0	€320,000	$336,000	Reports
Expanding institutional capacity and strengthening within PDBs for Paris Agreement alignment (Workshops and Seminars)	Institutions (#)	1	€32,000	$33,600	0	5	5	0	0	0	0	0	€320,000	$336,000	Reports
Mentoring Programs. Empowerment through capacity building and training of PDBs to issue,monitor, and report green and sustainable bonds.	Institutions (#)	1	€32,000	$33,600	0	5	5	0	0	0	0	0	€320,000	$336,000	Reports
Promotion of best practices via regional knowledge exchange,	Products (#)	1	€48,000	$50,400	3	2	3	2	0	0	0	0	€480,000	$504,000	Reports
Component 2. Performance-Based Payments and other catalytic investment support for innovative financial mechanisms with high mobilization potential													**€14,000,000**	**$14,700,000**	
Climate Finance Instruments and Performance-Based Payments mechanism													€14,000,000	$14,700,000	
Design, approval and implementation of a climate/sustainability strategy	Mechanism (#)	2	€1,000,000	$1,050,000	0	0	5	5	0	0	0	0	€10,000,000	$10,500,000	Reports
Integration of climate tagging of the portfolio and creation of mechanisms for disclosure of the climate-aligned share of the portfolio	Products (#)	2	€100,000	$105,000	5	5	0	0	0	0	0	0	€1,000,000	$1,050,000	Reports
Design, adoption, and Implementation of environmental and social risk management systems	Products (#)	2	€100,000	$105,000	10	0	0	0	0	0	0	0	€1,000,000	$1,050,000	Externally Verified Report
Climate Risk Management Heatmaps	Products (#)	2	€100,000	$105,000	5	5	0	0	0	0	0	0	€1,000,000	$1,050,000	Finished Mechanism available
Carbon footprint measuring tool	Products (#)	2	€100,000	$105,000	5	5	0	0	0	0	0	0	€1,000,000	$1,050,000	Externally Verified Report
TOTAL DIRECT EXPENSES													**€19,000,000**	**$19,950,000**	

Component					*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	Total Cost (EUR)	Total Cost (USD)	
Component 1					1,796,000	2,164,000	944,000	96,000	0	0	0	0	€5,000,000	$5,250,000	
Component 2					2,500,000	1,500,000	5,000,000	5,000,000	0	0	0	0	€14,000,000	$14,700,000	
GRAND TOTAL					**4,296,000**	**3,664,000**	**5,944,000**	**5,096,000**	**0**	**0**			**19,000,000**	**19,950,000**	

General Objective

The general objective of this Facility is to foster the greening of the public financial sector and its alignment to the Paris Agreement

Specific Objectives

1 Support and advise PDBs and their network of LFIs to align their strategy and business model to the goals of the PA and create a public policy environment conducive to greening the public financial sector.
2 Implement an innovative Performance-Based Payments (PBP) mechanism, that incentivizes PDBs financially to: (i) maintain and implement institutional enhancements; (ii) achieve ambitious Greenhouse Gas (GHG) emissions reductions at the institutional and beneficiary level; and (iii) the increasing PA-aligned share of the PDBs portfolio.
3 Support in-depth feasibility analysis, structuring and piloting of innovative financial structures aimed at enhancing PDB's lending capacity and the mobilization of private sector capital for ambitious climate investments.

Outcomes

1 Increased share of climate finance portfolio of Public Development Bank
2 Increased share of PDB's portfolio alignment to the Paris Agreement
3 Increased private sector mobilization for climate investments via loan and capital market operations

Indicator	*Unit*	*Baseline*	*Year*	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Final (cumulative)*	*Means of Verification*
Specific Objective 1: Support and advise PDBs and their network of LFIs to align their strategy and business model to the goals of the PA and create a public policy environment conducive to greening the public financial sector.													
Number of entities covering key stakeholders that are involved in technical and strategic discussions on Greening the Banks and Paris Agreement Alignment.	Entities (#)	0	2024	5	5	0	0	0	0	0	0	10	Agreements; minutes of formal meetings
Partnership agreements signed and implemented with PDB members.	Partnerships Agreements (#)	0	2024	5	5	0	0	0	0	0	0	10	Agreements; minutes of formal meetings
Number of climate/sustainable strategies designed and implemented by PDB	Policies/approaches improved (#)	0	2024	2	4	4	0	0	0	0	0	10	Reports and final output documents.
Number of finance and funding strategies per PDBs approved.	Strategy approved (#)	0	2023	5	5	0	0	0	0	0	0	10	Reports and final output documents.
Detailed evaluation of national climate policies and obligations in all covered countries and their relationship with PDB's targets developed.	Evaluation (#)	0	2024	5	5	0	0	0	0	0	0	10	Reports and final output documents
Number of institutions with Paris Agreement Alignment pathways established.	Institutions (#)	0	2024	5	5	0	0	0	0	0	0	10	Agreements; minutes of formal meetings
Number of PDB that implement new or improved Environmental and Social Risk Management Systems	Number of PDB (#)	0	2024	2	3	2	3	0	0	0	0	10	Final evaluation (assessment)
Number of relevant staff directly supported by the facility through networking, training and certifications	People (#)	0	2024	30	40	40	0	0	0	0	0	110	Final evaluation (assessment)
Number of Impact Assessment Tools developed.	Products (#)	0	2024	5	5	0	0	0	0	0	0	10	Final evaluation of final tool released.
Number of specific climate milestones established.	Milestones established (#)	0	2024	2	4	4	0	0	0	0	0	10	Monitoring reports , diclosure of milestones
Specific Objective 2: Implement an innovative Performance-Based Payments (PBP) mechanism, that incentivizes PDBs financially to: (i) maintain and implement institutional enhancements; (ii) achieve ambitious Greenhouse Gas (GHG) reductions at the institutional and beneficiary level; and (iii) the increasing PA-aligned share of the PDBs portfolio.													
Variation of share of climate finance as percentage of annual relevant new lending by PDBs relative to baseline [1]	Percentage (%)	0	2024	0	0	0	0	25%	50%	75%	100%	100%	Milestones disclosed.
Number of Performance-Based Payments mechanisms integrated.	Mechanism (#)	0	2024	2	4	4	0	0	0	0	0	10	Reports and final output documents.
Climate Finance Leveraged [2]	USD (M)	0	2024	0	0	100	300	400	550	0	0	1,350	Reports and final output documents.
Specific Objective 3: Support in-depth feasibility analysis, structuring and piloting of innovative financial structures aimed at enhancing PDB's lending capacity and the mobilization of private sector capital for ambitious climate investments													
Number of Climate Risk Management Heatmaps integrated plus eligibility criteria.	Policies/approaches improved (#)	0	2024	5	5	0	0	0	0	0	0	10	Reports and final output documents.
Number of green and sustainable bonds issued	Number of bonds (#)	0	2024	2	4	4	0	0	0	0	0	10	Final evaluation (assessment)

[1] Note: The relevant portfolio refers to the part of the PDB's lending/investment portfolio where climate investments are suitable to be pursued and/or identified; for example, credit card lending would be excluded.
[2] Note: Reporting to the donor, IDB will differentiate between public and private sector finance mobilised and catalysed, respectively.

E&S Screening Filter

Operation Information

Operation Name	
[I·ûλY ! YŜℕλŎI· I·yŘ ûKŜ / I·ℕλōōŜI·yˆCI·ŏλfλûè ŦƵℕ DℕŜŜyλyƎ tdzōfλŎ 5ŜØŜf2LJYˆŜyû . I·y⌈ă I·yŘ ûKŜ CλyI·yŎλI·f {ŜŎû2ℕ	
Operation Number	RG-O1720

Operation Details

Organizational Unit	IDB Sector/Subsector
IFD/CMF	Banking Market Development
Type of Operation & Modality	Original IDB Amount
CON – Container / Facility	US$ мф,фр0,000
Executing Agency	Borrower
INTER-AMERICAN DEVELOPMENT	Multiple LAC countries
Completion Date	Team Leader
11/14/2023	Alexander Vasa
Applicable ESPSs with requirements	
N/A for the container but will be assessed on a case-by-case basis for projects under the container.	

Operation E&S Classification Summary

Environmental and Social Impact Categorization (ESIC)	N/A
Overwritten ESIC Justification	N/A

Disaster and Climate Change Risk Classification (DCCRC)	N/A
Overwritten DCCRC Justification	N/A

Environmental and Social Risk Rating (ESRR)	Low
Overwritten ESRR Justification	Container with no E&S impacts and direct risks – Specific projects under the container will follow the requirements of the ESPF and will have their own ESIC and ESRR when / if applicable.

Summary of Impacts / Risks and Potential Solutions

N/A for the Container but will be assessed on a case-by-case basis for projects under the container.

LATIN AMERICA AND THE CARIBBEAN FACILITY FOR GREENING PUBLIC DEVELOPMENT BANKS AND THE FINANCIAL SECTOR

RG-O1720

CERTIFICATION

The Grants and Co-Financing Management Unit (ORP/GCM) certifies that the referenced operation will be financed through:

Funding Source	Fund Code	Currency	Amount Up to
Project Specific Contribution Account	PSC	USD	19,950,000

For operations financed by funds where the Inter-American Development Bank (IDB) does not control liquidity, the availability of resources is contingent upon the request and the receipt of the resources from the donors. Additionally, in case of operations financed by funds that require a post-approval agreement with the donor, the availability of resources is contingent upon the signature of the agreement between the Donor and the IDB. (i.e.: Project Specific Grants (PSG), Financial Intermediary Funds (FIF), and single donor trust funds).

Certified by: *(Original Signed)* February 1, 2024

María Fernanda Garcia Rincón
Chief
Grants and Co-Financing Management Unit
ORP/GCM

Date

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/24

Regional. RG-O1720. Latin America and the Caribbean Facility for Greening Public Development Banks and the Financial Sector

The Board of Executive Directors

RESOLVES:

1. To approve the establishment of the “Latin America and the Caribbean Facility for Greening Public Development Banks and the Financial Sector” (the “Facility”) in accordance with the terms and conditions set forth in document AT-___.

2. That up to the sum of €19,000,000 chargeable to the resources granted by the Federal Ministry for Economic Affairs and Climate Action in Germany (BMWK) (the “Donor”), pursuant to the Administrative Agreement entered into between the Donor and the Bank on December 14, 2023, will be granted for the financing of individual nonreimbursable technical cooperation operations and investment grant operations in accordance with the terms and conditions of the Facility.

3. That the President of the Bank, or such representative as he shall designate, is authorized in the name and on behalf of the Bank, to enter into such agreement or agreements as may be necessary, and to adopt such other measures as may be pertinent for the implementation of the Facility in accordance with the terms and conditions set forth in document AT-___.

4. That the President of the Bank, or such representative as he shall designate, is authorized to distribute the administrative fees received by the Bank among the relevant departments for which additional workload is generated by the Facility.

(Adopted on ___ _____ 2024)

LEG/SGO/RG/EZIDB0000366-456533210-64497
RG-O1720