

Program for Enhancing the Institutional Capacity of Public and National Development Banks to Design and Implement Results-Based Frameworks for Achieving Environmental and Social Sustainability

I. Basic project data

▪ Country/Region:	Regional Project
▪ TC Name:	Program for Enhancing the Institutional Capacity of Public and National Development Banks to Design and Implement Results-Based Frameworks for Achieving Environmental and Social Sustainability
▪ TC Number:	RG-T2340
▪ Team Leader/Members:	Maria Netto (IFD/CMF), Team Leader; Jose Juan Gomes (IFD/CMF), Alternate Team Leader; Erin Compton (IFD/CMF), Team Member; Lorena Rodrigues Bu (KNL/KNM), Team Member.
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination.	Research & Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	Not applicable
▪ Reference to Request ¹ :	A first letter of request has been received from the Rural Development Bank of Mexico (FIRA)
▪ Date of TC Abstract:	04/17/2013
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	National Public and Development Banks of the Region
▪ Executing Agency and contact name (Organization or entity responsible for executing the TC Program)	IDB – IFD/CMF
▪ IDB Funding Requested:	USD 450,000 from the Institutional Capacity Strengthening Fund
▪ Local counterpart funding, if any:	Counterpart resources would be equivalent to 20% (USD 90,000) and will be provided in kind in the form of logistical and staff support of beneficiary entities
▪ Disbursement period (which includes execution period):	36 months (30 months of execution)
▪ Required start date:	01/01/2014
▪ Types of consultants (firm or individual consultants):	firm and individuals
▪ Prepared by Unit:	IFD/CMF
▪ Unit of Disbursement Responsibility:	IFD/CMF
▪ Included in Country Strategy (y/n);	Y
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	The proposed TC is closely related to two institutional priorities of the IDB under the GCI-9. They are: i) Institutions for growth / social welfare; and ii) Protecting the Environment and Responding to Climate Change.

II. Objective and Justification

The **main objective** of this technical cooperation (TC) is to support national development banks (NDBs) in the Latin America and the Caribbean (LAC) to develop relevant institutional capacities to design and implement results-based frameworks in their business and be able to rigorously monitor and evaluate over time the environmental and social benefits of the projects they finance.

¹ A first letter of request from FIRA, Mexico has already been received and is attached to this TC abstract.

Sustainability result metrics has received particular attention in recent years due to the potential cash flow impact and its risks and returns for investors of promoting environmental and socially friendly programs². There has also been increasing demand for regional sustainability metrics in the LAC as well³. Recently, several local financial institutions in LAC, recognizing this trend, have actively sought to integrate sustainability metrics into their portfolios and develop green financing programs, with some having been included in the Dow Jones Sustainability Index⁴.

Developing monitoring and evaluating systems of environmental benefits from NDBs financing lines are also key to ensure that environmental benefits can be monetized and integrated in financing programs as “cash flows”. While many environmental projects may reduce the use of natural resources (such as energy efficiency or enhanced water management projects) and hence reduce also overall production costs, in particular for SMEs, often investors associate performance risks and not benefits with these projects, discouraging their undertaking. Ensuring proper monitoring, reporting and verification (MRV) systems should provide for more certainty about the benefits of this type of investment projects and hence become an important element of investment risk mitigation.

Supporting NDB’s capacity to develop and implement appropriate MRV systems helps to better evaluate impacts of IDB “green finance” operations with NDBs and their alignment to GCI 9 environmental goals. In fact, the MRV system has been a very important part of both incentives and impact evaluation of green finance operations that CMF is designing with NDBs, such as in the case of promoting a system to guarantee performance of energy efficiency projects under CO-L1124 (Bancoldex, Colombia), ensuring that environmental programs result in increased productivity under ME-L1145 (FIRA, Mexico) or promote credit enhancing with “performance results based incentives” to clients under ME-L1121 (Sociedad Hipotecaria, Mexico). While there is a number of such pilots of MRV for environment benefits by NDBs underway, the information and systems are not fully systematized and integrated in the overall evaluation practices of the NDBs as of yet and they still **lack technical expertise and experience** in designing and implementing results-based frameworks.

From the international public finance point of view, governments and MDBs have been increasingly paying attention to the need to also **track and assess results of dedicated environmental financing programs**⁵. This is not only a requirement for increased transparency and comparability of various programs⁶, but also for demonstrating that the public resources available to address environmental issues and promote low carbon economic trajectories are relatively small compared to the private investments needed and hence those public resources should be used strategically and efficiently⁷. **The ability of MRVing the results of projects supported by international environmental public finance has become an important condition for prioritizing sectors and types of projects to be financed.**

² According to the Dow Jones Sustainability Index (DJSI), about 15% to 20% of the world’s assets under management will be managed according to sustainable guidelines by 2015. Data provided by the [Sustainable Asset Management \(SAM\)](#) shows the relevance of sustainability for private sector business as 20% most sustainable companies in the DJSI outperformed their benchmarks over 10 years, while the 20% least sustainable companies underperformed benchmarks over the same period.

³ As example the ISE Corporate Sustainability Index of Bovespa (São Paulo Stock Exchange) created in 2005 assesses, in an integrated way, the economic, financial, social and environmental criteria and indicators of listed companies.

⁴ Brazil: Banco do Brasil, Banco Estado do Rio Grande do Sul S.A., Itau Unibanco Holding SA, Banco Santander Brazil Unit, Banco Bradesco, Itausa Investimentos Itau S.A.; Chile: Banco de Credito e Inversiones, Banco de Chile, Banco Santander Chile, CorpBanca SA, Sociedad Matriz Banco de Chile SA B; Colombia: Banco Davivienda SA Pref, Banco de Bogota SA, BanColombia SA, Grupo Aval Acciones y Valores; Mexico: Banregio Grupo Financiero SA de CV, Grupo Financiero Banorte O, Grupo Financiero Inbursa O; Peru: Credicorp Limited.

⁵ [OECD, Tracking climate finance: what and how?](#)

⁶ [Stockholm Environment Institute, Monitoring, Reporting and Verifying systems for climate finance in EU and its Member States.](#)

⁷ [The Landscape of Climate Finance 2012.](#)

III. Description of activities and outputs

The TC proposes to support the strengthening of the institutional capacity of up to 3 NDBs through the following activities:

1. Assessment of the NDBs policies, strategies and portfolio to identify strategic areas of operations and the requirements for the design of a results-based framework. This component will result on a proposal for the results-based framework, including the priority sustainability interventions in which the NDB would focus and relevant intermediate results (outputs and intermediate outcomes) and the core set of critical outcomes for assessing the performance of both the Banks’s strategic environmental and social priority areas as well as its performance in general.
2. Establishment of implementation plans. This component will support NDBs in developing performance monitoring, training and communication plans to implement the results-based framework strategy in their institutions, including budgets, methodologies and systems for implementation. It would support NDBs not only in tracking and analyzing the impact of their portfolio in terms of environmental and social benefits, but also in defining the added value these benefits could have in the development of financing products as well as in the identification of the relevant sectors and types of clients.
3. Development of monitoring and verification systems of results. Based on Activities 1 and 2 above, the NDBs would be supported in developing a results-based framework for assessing the results of their portfolio. The application of the system will allow for the identification of needed adjustments of the systems as well as the metrics and indicators specified in the diagnostic and planning phases.
4. Institutional capacity, outreach and training to internal and external stakeholders. The NDBs staff will be trained and supported to implement the plans and systems developed under components 1-3 above. In addition, it is expected that dedicated teams and institutional capacity will be needed for the implementation of the program. In this regard, it is expected that this component will provide specific institutional recommendations. This component will develop training materials, guides and dialogue sessions for staff of commercial financial institutions to be able to better internalize new products and play a proactive role in the promotion of new financing lines with the potential to generate large environmental and social benefits.
5. Regional knowledge sharing, dialogue events. The experiences built in the 3 selected NDBs supported under this regional program will be shared knowledge platforms such as that of Association of Development Financing Institutions of Latin America and the Caribbean (ALIDE). This component will result in a series of knowledge products such as the finanzascarbono.org community of practice, webinars, key lessons learned and best practices documents, presentations, newsletters and guidelines. It is expected that at least 1 regional workshop and training on specific systems, opportunities and challenges will be organized in collaboration with ALIDE and other relevant partners.

IV. Budget

Below is a cost estimate and sources of funds:

Component	Description	IDB/Fund Funding*	Counterpart Funding**	Total Funding
Component 1	Activity 1.1: Diagnosis and identification of priority areas of interventions and environmental and social benefits	90,000	20,000	110,000
	Activity 1.2: Proposal of Results-based framework	60,000	10,000	70,000
Component 2	Establishment of the Plans for Implementation of the results based framework (including budgets, methodologies and systems for implementation)	120,000	20,000	140,000

Component 3	Design of system for monitoring and implementation of results framework	120,000	20,000	140,000
Component 4	Staff training	10,000	20,000	30,000
Component 5	Regional dialogues and knowledge sharing	30,000	-	30,000
Quality review of project products and results		20,000	-	20,000
Total		450,000	90,000	540,000

* The amounts correspond to support to 3 banks. ** Each NDB should provide co-financing or in kind support of 20% of the support by this TC.

** In the case of Component 3, the support corresponds to in kind resources from ALIDE over 3 years.

V. Executing agency and execution structure

The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of IFD/CMF. The support will be provided upon demand. This initiative will be promoted through regional events that have been and are being organized with ALIDE. However, several NDBs have already expressed their interest in working with the Bank in this area. FIRA, for instance, has already formally requested support (including its execution by the IDB), and expressions of interest have already been received from Bancoldex, Findeter, Banco Agrario and Bandesal. Beneficiaries will be selected on a first come, first served basis. In case the requests are sent simultaneously and resources become scarce to attend the different requests, the selection of beneficiary will also take into account the need for regional balance.

Given the diversity of actors that this TC aims at supporting and its regional scope, it is appropriate for the IDB to directly execute it in order to provide a centralized coordination of the various studies and ensure their dissemination to all countries in the region. The Capital Markets and Financial Institutions Division (IFD / CMF) will have technical responsibility, coordination, direction and supervision of this TC, with support of the Learning & Knowledge Management Division (KNL/KNM). Moreover, the fact that the IDB will be the executing agency of this TC ensures independence and transparency regarding the elaboration of studies and assessments to be carried out within the activities of this TC.

It is also important to note that this TC would be complementary with a number of other efforts IFD/CMF has been undertaken with NDBs to promote green financing lines, in particular efforts to support the NDBs to develop internal environmental and social risks management systems (i.e. RG-T2166), to design financing green strategies (RG-T2160) and to exchange experiences on environmental lines (RG-T2159). As mentioned in section I above, the TC is expected to support a better and more systematized system for assessing the impacts of CMF “green” operations with NDBs.

VI. Project Risks and issues

This technical cooperation requires a strong counterpart and ownership of the beneficiary banks. It is expected that the NDBs benefitting will make staff and resources available for its implementation. CMF will ensure that beneficiaries agree to provide counter-part resources in kind as a condition to receive support from this initiative, being the most important one the allocation of dedicated staff to implement and follow up the TC results. Regarding the evaluation of this initiative, a budget of USD 20,000 has been put aside to develop a methodology for such an evaluation.

VII. Environmental and Social Classification

Based on the Environmental and Social Safeguard Filter, the proposed technical assistance has been classified as category C.