

## Technical Cooperation Document

### I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Private Finance Mobilization and Capital Markets Innovation
▪ TC Number:	RG-T4754
▪ Team Leader/Members:	Prats Cabrera, Joan Oriol (IFD/CMF) Team Leader; Vargas Macedo, Sebastian (IFD/CMF) Alternate Team Leader; Urquijo, Lee (TTD/TTR); Casco, Mario A. (TTD/TTR); Marquez, Claudia (IFD/CMF); Angela Pinzon (IFD/CMF); De Souza Lima, Orlando Cesar (IFD/CMF); Zanetti Belparda Maria Pia (IFD/CMF); Martinez Lopez, Cynthia Guadalupe (IFD/CMF); Goncalves Dos Santos Carolina (LEG/SGO)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	09 Apr 2025
▪ Beneficiary:	Brazil; Chile; El Salvador; Mexico; Peru; Suriname and LAC for regional initiatives. <sup>1</sup>
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US\$860,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	30 Sep 2025
▪ Types of consultants:	Firms and 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 2024-2030:	Social protection and human capital development; Sustainable, resilient, and inclusive infrastructure; Regional integration; Institutional capacity, rule of law, and citizen security; Public sector policy and management; Transparency and integrity; Private sector development

### II. Objectives and Justification of the TC

2.1 **Development finance needs and challenges.** The Latin American Economic Outlook 2024<sup>2</sup> estimates the annual financing gap for Latin America and the Caribbean (LAC) to achieve the Sustainable Development Goals (SDGs) is around US\$99 billion. Governments alone cannot meet the estimated billions of dollars needed to achieve the SDGs by 2030, which is where private investors become instrumental. However, LAC countries face several challenges to mobilize private capital into sustainable investments: (i) high perceived risk due to political instability, economic volatility, and

<sup>1</sup> In the event that, during the 36 months of execution and disbursement of the TC, it becomes convenient to incorporate other borrowing member countries of the Bank prior to the start of activities in those countries, a no-objection from the Bank's liaison body in the respective country will be required.

<sup>2</sup> OECD et al. (2024), [Latin American Economic Outlook 2024: Financing Sustainable Development](#), OECD Publishing, Paris.

currency volatility in some LAC countries; (ii) underdeveloped domestic capital markets; (iii) insufficient experience or knowledge in sustainability-linked financing among governments and local investors; (iv) weak regulatory frameworks and limited institutional capacity; (v) inadequate data and monitoring systems.

2.2 **New debt and capital markets instruments and structures to scale up private capital mobilization.** Structured finance offers a valuable opportunity to support countries in crowding in private financing by creating innovative financial products that attract private investors<sup>3</sup>. Debt Management Offices (DMOs) play a crucial role in this process by designing and issuing new debt instruments with the purpose, among others, to improve access to a broader set of investors at better prices. In this sense, instruments as sustainability-linked bonds or thematic bonds align public sector objectives with private sector investments facilitating market access. Multilateral Development Banks (MDBs) can also play a significant role by utilizing sovereign guarantees and providing Technical Cooperation (TC) to help countries design structures that address critical risks, such as credit and currency risk, and provide private market investors new structures that allow them to invest in emerging market economies at better terms and conditions. Furthermore, MDBs can assist in the development of new financial instruments and regulatory frameworks to facilitate the growth of domestic capital markets. This includes supporting the creation of Exchange Traded Funds (ETFs), Foreign Exchange (FX) facilities, and infrastructure funds, which can all serve to broaden the scope of private capital available.

2.3 Despite these opportunities, DMOs in LAC often face institutional capacity challenges that limit their ability to fully engage with and implement innovative financial solutions. These challenges include limited technical expertise in structuring and managing financial risks, underdeveloped regulatory environments for new investment vehicles, and coordination gaps between public institutions and private sector actors. Moreover, insufficient human resources to manage the complex structuring and negotiation processes, combined with the absence of standardized legal and financial templates, often lead to higher transaction costs and longer preparation timelines.

2.4 **Objective.** The general objective of this TC is to strengthen the government's capacities to mobilize private capital into sustainable investments. The specific objectives are: (i) to enhance regulatory frameworks and institutional capacity to strengthen domestic capital markets; and (ii) to support the design and implementation of innovative financial mechanisms.

2.5 **Value added.** The IDB is at the forefront of pioneering innovative financial mechanisms to boost private investment. The IDB sovereign guarantee offers the opportunity to create innovative financial structures aimed at mobilizing resources from the private sector in wide variety of sectors such as energy, bioeconomy, water and sanitation or housing. IDB has developed a portfolio of sovereign guarantees of US\$1.4 billion that has been able to mobilize more than US\$2.1 billion in private financing. Consolidating IDB leadership and scaling up these financial structures to a wider variety of sectors and countries offers an opportunity to scale up intervention crowding in the private sector. Furthermore, it also has vast experience in supporting LAC governments in developing the institutional capacities and strengthening the

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<sup>3</sup> Lindner, Peter, Ananthakrishnan Prasad, and Jean-Marie Masse. 2025. "The Scalability of Credit-Enhanced EM Climate Debt." [IMF Working Paper 2025/002](#), International Monetary Fund, Washington, DC.

regulatory frameworks necessary to create an environment conducive to private sector participation in sustainable projects.

2.6 **Strategic Alignment.** This TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) that states that to address countries' development needs while tackling cross-border regional issues, the IDB Group will tap public and private co-financing sources in international and domestic markets and scale up private direct and catalytic mobilization through innovative lending instruments and financial products, while supporting the provision of an enabling environment through financing instruments to crowd in private sector investments. It is aligned with the objectives of: (i) reduce poverty and inequality; (ii) address climate change; and (iii) bolster sustainable regional growth. It is also aligned with the operational focus areas of: (i) biodiversity, natural capital and climate action as it supports the development and standardization of new financial instruments, such as debt-for-nature conversions and sustainability-linked bonds, to enhance private capital mobilization into biodiversity and climate resilient projects; (ii) institutional capacity, rule of law, and citizen security as it enhances the regulatory framework and strengthens the institutional capacity to enable the development of capital markets and new financial instruments; (iii) social protection and human capital development as it will contribute to deploy innovative financing solutions such as debt-for-health and debt-for-education conversions; and (vi) sustainable, resilient, and inclusive infrastructure as it supports the development and standardization of new financial instruments, such as debt-for-climate resilient conversions and sustainability-linked bonds, to enhance private investment in climate-resilient infrastructure. It is aligned with the Ordinary Capital Strategic Development Program (OC SDP) (GN-2819-14), particularly with the priority area "Effective, efficient, and transparent institutions" as it is expected to strengthen the capacities of the region's DMOs, as well as the implementation of policies to improve public sector management and promote private sector development.

2.7 Moreover, it also contributes to the following strategic objectives and/or priority areas included in the IDB Group Country Strategy with: (a) **Brazil 2024-2027** (GN-3243-3): (i) Enabling the Green Transition and Strengthening Climate Resilience; and (ii) Accelerating Growth Through Strong Institutions and Enhanced Productivity; (b) **Chile 2022-2026** (GN-3140-3): (i) improvement of the efficiency and quality of Chilean institutions; and (ii) increase the economy's environmental and social sustainability through decarbonization of the productive and consumption matrix, growth of the circular economy, nature-based solutions, and enhancement of natural capital; (c) **El Salvador 2021-2024** (GN-3046-1)<sup>4</sup>: efficiency and fiscal sustainability; (d) **Peru 2022-2026 (GN-3110-1)**: (i) strengthen the business environment and business climate; and (ii) strengthen environmental management with a focus on sustainability and climate change; (e) **Mexico 2019-2024** (GN-2982): (i) strengthen the labor market; (ii) strengthen public finances; (iii) strengthen access to credit; (f) **Suriname 2021-2025** (GN-3065): (i) restoring macroeconomic sustainability; and (ii) Promoting private sector competitiveness.

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<sup>4</sup> Extended valid period until July 15th, 2025. The extension has been granted in accordance with the provisions set forth in paragraph 4.101 of the IDB Group Strategic Framework: Architecture of Strategic Documents. Approved version (GN-3254-4, CII/GN-575-4) and paragraph 3.62 of the New Guidelines Proposal for the Country Strategy Framework. Final Version (GN-3267-3, CII/GN-587-3).

### **III. Description of activities/components and budget**

3.1 **Component 1. Design and implementation of FX Edge, Foreign Capital Mobilization and currency Hedging Program in LAC countries (US\$560,000.00).** This component aims to contribute to implement FX Edge Program,<sup>5</sup> inspired by Eco Invest Brazil model<sup>6</sup> across Latin America and the Caribbean (LAC), adapting it to countries specificities. Eight outputs are expected, comprising the following activities:

3.2 **Activity 1.1.** A comprehensive regional and country-level diagnosis—an -in-depth analytical report with detailed selected country annexes—built on data collection, potentially stakeholder consultations, and field missions. It will: (i) assess enabling conditions; (ii) identify potential countries, (iii) evaluate the long-term foreign exchange (FX) market and hedging landscape, including FX rate volatility, average hedging premia, cost fluctuations, volume and availability of hedging instruments, extreme scenarios, and market failures and (iv) identify -high-level customization opportunities and preliminary risks for implementing FX Edge across selected LAC countries. The package will also deliver tailored preliminary recommendations for potential implementation as support for national counterparts during subsequent phases.

3.3 **Activity 1.2.** A pre-launch assessment —analytical report focused on evaluating the technical and operational feasibility of the implementation of FX Edge and its customization features according to guidance of interested countries. It will: (i) assess the customization needs of the Program, high-level design and governance, highlighting key considerations, operational watchpoints and implementation risks; and the output will deliver critical insights and recommendations to inform the Program's final design and launch strategy.

3.4 **Activity 1.3.** Design of the Program's governance mechanisms—definition of institutional architecture of FX Edge in the beneficiary country based on best practices. It will: (i) propose a multi-stakeholder governance structure that enables effective oversight, accountability, and coordination among public and private actors; (ii) define institutional roles and responsibilities; (iii) establish reporting and decision-making processes; and (iv) define Monitoring, Reporting and Verification (MRV) within the governance framework, (v) development of a digital platform for transparency purposes. The output will serve as a foundational input for subsequent institutional arrangements and agreements, and the implementation of financial solutions. The project team will also ensure that the Bank's IT department is involved in the review of the terms of reference and throughout the execution the activities mentioned.

3.5 **Activity 1.4.** Definition of the financial and operational specifications of the Program Products—technical design and operational detailing for implementation of the defined financial solutions relevant to be implemented in the specific country. It will: (i) outline detailed product specifications aligned with Program objectives; (ii) apply quantitative analysis to identify value added, evaluate risk, dimension catalytic resources, evaluate cost-benefits and define product parameters; (iv) design the associated product

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<sup>5</sup> IDB Press release for the launch of FX Edge in Sevilla Platform for Action, July 1<sup>st</sup> 2025. <https://www.iadb.org/en/news/idb-launches-fx-edge-unlock-private-investment>

<sup>6</sup> The Eco Invest Brazil Program - Mobilization of Foreign Private Capital and Exchange Rate Protection is an initiative of the Brazilian Government created with the support of the IDB to facilitate the attraction of foreign private investments essential for the ecological transformation of the country. For more information, refer to the official [Program website](#).

governance and operational framework for risk management and oversight; and (v) evaluate sector-specific requirements to ensure adequate alignment with national contexts.

- 3.6 **Activity 1.5.** Legal assessments necessary for the implementation of the instruments—developed through desktop legal research, consultations with local counsel, and regulatory analysis. It will: (i) examine the legal and regulatory framework applicable to the implementation of FX and credit risk mitigation instruments in selected LAC countries; (ii) identify legal risks and compliance considerations for Program and products implementation; and (iii) support the review, drafting, and negotiation of legal agreements, including those related to derivative contracts. This activity will deliver strategic legal inputs to ensure Program compliance and enable enforceable execution frameworks.
- 3.7 **Activity 1.6.** Program Management. Support the coordination and communication of the Program to: (i) facilitate coordination and communication amongst the Program's stakeholders; and (ii) develop a project management framework and methodology for the Program using tools that enhance efficiency, collaboration and tracking of progress.
- 3.8 **Activity 1.7.** Communication and market outreach — communication planning and implementation of the Program focused on market participants, public sector and international community. It will: (i) produce and disseminate communication materials such as brochures, infographics, templates, and factsheets to key audiences including market participants, public sector and international community; (ii) promote and organize events and roadshows.
- 3.9 **Activity 1.8.** Knowledge Sharing: (i) collect lessons learned; (ii) share lessons learned of FX Edge implementation in each country to facilitate replicability in other sectors and countries of the region; (iii) design, editing and printing of publications; (iv) communicate the program and share lessons learned through the G20, and other similar forums; (v) share lessons learned with finance ministries, private investors, and other multilateral development banks, to encourage replication of successful policies and instruments of the Program (vi) capacity building activities to implementing and interested countries.
- 3.10 **Component 2. Develop and standardize new financial instruments to enhance scale and development impact (US\$110,000.00).** The objective of this component is to organize and standardize new financial instruments and credit enhancement models to enable wide market acceptance and enhance private capital mobilization into sustainable investments. Three outputs are expected:
  - 3.11 **Activity 2.1.** Publication of standardized credit enhancement models for -sustainability linked financing. A technical note will be published to advance understanding and application of standardized credit enhancement models in sustainability-linked financing. This publication aims to: build institutional knowledge of credit enhancement mechanisms; present adaptable models suitable for organizations with varying mandates and tools; and facilitate collaboration on transactions across sectors.
  - 3.12 **Activity 2.2.** Model Term Sheet for Guaranteed Financing Transactions drafted. A standardized model term sheet will be developed to harmonize the key commercial, financial, and legal terms applicable to guaranteed financing transactions—specifically those involving sovereign or sub-sovereign borrowers and guarantees provided by eligible guarantee institutions.

3.13 **Activity 2.3.** Regional sustainability-linked financing framework designed. It will include: standard Key Performance Indicators, measurement methodologies, reporting frameworks, financial incentives mechanisms, etc. The framework will be published to support replication and scaling across countries and regions.

3.14 **Component 3. Develop new investment vehicles (US\$110,000.00).** The objective of this component is to enhance the regulatory framework and strengthen the institutional capacity to enable the development of domestic and international financial markets and new investment vehicles such as ETFs and infrastructure investments funds. Two outputs are expected:

3.15 **Activity 3.1.** Report on investment funds and vehicles to attract private sector investment produced. The report will highlight comparative advantages according to sectors, profiles of potential investors, associated transaction costs, and the role of MDB instruments in supporting the development and implementation of these vehicles.

3.16 **Activity 3.2.** Pilot investment fund aimed at mobilizing private sector capital into strategic sectors. While the specific structure will be defined during the fund's design phase, it is anticipated that the fund will be privately and professionally managed, with capital provided by private investors, particularly impact and ESG investors. As part of its design phase, the consultant will analyze the financial, legal, and governance structure of the fund, considering, among other aspects, its financial viability for accessing international markets through different instruments (e.g., loans, bonds, and others); the eligibility of investments according to internationally recognized sustainability principles; and legal requirements, including bylaws, jurisdictions, and applicable laws.

3.17 **Component 4. Knowledge sharing (US\$80,000.00).** Dissemination among market players and governments officials will be instrumental to guarantee adequate results in terms of applicability of the financial structures. The following output is expected:

3.18 **Activity 4.1.** At least four regional knowledge workshops will be conducted to identify country-specific priorities and validate the outputs developed under this TC. These workshops will primarily target: government debt managers and public finance officials; and private sector stakeholders, including investment banks, fund managers, credit rating agencies, and institutional investors. The workshops will be held either in person or in a hybrid format to ensure broad participation across regions. The format and location will be determined based on regional needs, logistical feasibility, and stakeholder preferences.

3.19 **Budget.** The project is estimated to require a total of US\$860,000.00 and will be financed through the OC SDP. Window 2 - Institutions (W2C). The contribution will finance the hiring of consulting services (individual consultants and firms) and non-consulting services for the development of the activities.

**Indicative Budget (US\$)**

Activity / Component	Description	IDB/W2C	Total Funding
Component 1	Assessment for risk management instruments for currency and credit risk in LAC countries.	560,000.00	560,000.00

<b>Component 2</b>	Develop and standardize new financial instruments to enhance scale and development impact.	110,000.00	110,000.00
<b>Component 3</b>	Develop new investment vehicles.	110,000.00	110,000.00
<b>Component 4</b>	Knowledge sharing.	80,000.00	80,000.00
	<b>TOTAL</b>	<b>860,000.00</b>	<b>860,000.00</b>

3.20 **Supervision.** The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of the Connectivity Markets and Finance Division (IFD/CMF), through the Project Team Leader. Depending upon the selected beneficiaries, focal points will be assigned in the Bank's Country Offices (COF) to coordinate and keep them informed of the outcomes of this TC.

3.21 **Monitoring arrangements.** Monitoring and evaluation will follow standard IDB policy. Each year, the Project Team will prepare progress reports on the indicators outlined in this TC (see Annex II: Results Matrix), including a description of the progress achieved, results obtained, implementation status of planned activities, and provide recommendations for adjustments if needed.

#### **IV. Executing agency and execution structure**

4.1 **Executing Agency.** At the explicit request of the beneficiaries<sup>7</sup> (see Annex I), the Bank, through the Connectivity, Markets, and Finance Division (IFD/CMF), will act as the executing agency. The sector specialist responsible for the execution of this TC will be the Team Leader, and the focal points in the Bank's country offices will be the CMF specialists assigned to that country. The Bank will be responsible for the selection and hire of consulting services. CMF has ample experience and a proven record of successfully executing regional TCs to support debt capital markets. Moreover, the Bank is considered to have adequate systems to guarantee the proper execution of the project and ensure the sustainability of its implementation in line with the "Operational Guidelines for Technical Cooperation Products" (GN-2629-1). Lastly, there is no regional entity with the necessary legal and technical capabilities to effectively and efficiently carry out the identification, coordination, and technical monitoring tasks of the activities to be undertaken within the framework of this project. Therefore, Bank execution is considered appropriate in accordance with Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4).

4.2 **Procurement.** All procurement to be executed under this TC have been included in the Procurement Plan (Annex III) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650), and (b) Contracting of consulting firms for services of an intellectual nature and procure of logistics and other related services in accordance with the Corporate Procurement Policy (GN-2303-33) and its Guidelines.

4.3 **Intellectual Property.** All knowledge products generated under this TC, including digital platforms developed within beneficiary systems, will remain the intellectual property of the Bank, in line with Bank policies. These products may be made publicly available under a Creative Commons license or as otherwise stipulated by the Bank's

<sup>7</sup> No activities will be carried out in the country until an official request letter has been received.

policies. Upon request from the beneficiary, and in accordance with the Bank's applicable policies and procedures, the intellectual property may be licensed and/or transferred to the beneficiary through specific agreements, where appropriate.

**V. Major issues**

5.1 Since the TC will be executed by the Bank, no fiduciary risks or implementation delays that could hinder the program's progress have been identified. However, at the political-institutional level, there is a risk that insufficient cooperation from the beneficiary DMOs could impede the successful completion of components that require collaboration with the relevant countries. Although this risk is considered low due to the strong interest and commitment demonstrated by the DMOs, a key mitigation measure will be to continue fostering policy dialogue and promoting joint efforts between the Bank and the beneficiary DMOs. This will help ensure their continued engagement in the planned activities.

**VI. Exceptions to Bank policy**

6.1 There are no exceptions to the Bank policies.

**VII. Environmental and Social Aspects**

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

**Required Annexes:**

[Request from the Client\\_19255.pdf](#)

[Results Matrix\\_16485.pdf](#)

[Terms of Reference\\_64300.pdf](#)

[Procurement Plan\\_10369.pdf](#)