

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Regional Project for Developing the Knowledge Base and Build Capacities to Enable the Mobilization of Capital Market Investments in Bioeconomy in the Amazon
▪ TC Number:	RG-T4365
▪ Team Leader/Members:	ALVES, TATIANA CNEIO (IFD/CMF) Team Leader; VASA, ALEXANDER (IFD/CMF) Alternate Team Leader; HINCAPIE SALAZAR, DANIEL (CSD/ACU); BRALY-CARTILLIER, ISABELLE FREDERIQUE (ORP/REM); KARINA AZAR (IFD/CMF); CAVAZZONI LIMA, RAFAEL (IFD/CMF); DEMICHELIS, JOSE FRANCISCO (IFD/CMF); MARTINEZ LOPEZ, CYNTHIA (IFD/CMF); MARQUEZ, CLAUDIA (IFD/CMF); AUREA FUENTES (IFD/CMF); ANGELA PINZON (IFD/CMF); SIERRA GONZALEZ, EDUARDO (IFD/CMF); VILLACORTA ALVAREZ, OMAR (IFD/CMF); MARQUEZ CARDENAS VALENTINA (IFD/CMF); ESCHOYEZ, GUILLERMO ANTONIO (LEG/SGO); ALVES DOS REIS NATASHA (IFD/CMF); CARDOZO, SILVANA (IFD/CMF); BENITEZ MORAN ROSALIA DEL PILAR (IFD/CMF); SEMECO MATA FABIOLA MARIA (IFD/CMF); SOLIS BARQUERO, VIVIANA (IFD/CMF); DA SILVA ROCHA MONICA (IFD/CMF)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	08 Aug 2024
▪ Beneficiary:	Debt capital market participants (public sector issuers, policy makers and regulators)
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$2,500,000.00
▪ Local counterpart funding:	US\$500,000.00 (In Kind)
▪ Disbursement period:	24 months
▪ Types of consultants:	Firms
▪ 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):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to IDBStrategy+ 2024-2030:	Gender equality; Diversity; Social protection and human capital development

II. Objective and Justification

- 2.1 The general objective of this Technical Cooperation (TC) is to support the generation of knowledge to integrate bioeconomy related activities, projects, enterprises into debt capital markets, with the objective to further leverage financing towards bioeconomy-based activities and bio-businesses in the Amazon Region. It will build institutional capacity for potential issuers and lay the foundations for market development of thematic bonds issuances with bioeconomy components in this region. The Project will focus on (i) promoting and developing the market for Amazon - labelled thematic bonds, that will include bioeconomy based activities, by supporting the development of definitions, methodologies and frameworks related to these types of businesses, (ii)

boosting institutional capacity and build the necessary conditions to ensure the viability of projects with scope and activities aligned with bioeconomy-based activities, products, value chains, and (iii) facilitate access and identification of bioeconomy focused investments, and mobilize resources to strengthen bioeconomy related activities and access to capital through innovations in capital markets instruments.

- 2.2 Capital markets offer a valuable platform for channeling private investments into bioeconomy projects that tackle social, economic, climate, and environmental challenges. In Latin America and the Caribbean (LAC), there is growing interest in issuing thematic bonds to fund sustainable projects and attract investors focused on environmental and social standards. Since 2015, over USD 175 billion has been raised in the LAC market through more than 650 thematic issuances by over 380 issuers. Of this amount, nearly USD 70 billion—almost 40%—was issued in the last two years. The Green Bond Transparency Platform (GBTP) reports USD 2.2 billion allocated to 70 land-use projects, which constitutes 12% of the total disbursed volume. Despite this growth, LAC’s thematic bond market represents less than 5% of the global total, with limited allocations to land use and forest-compatible activities.
- 2.3 Several barriers impede the development of thematic bond issuances: (i) insufficient knowledge on issuing thematic bonds and the support available; (ii) lack of understanding of the benefits of thematic bonds; (iii) higher costs compared to conventional bonds; and (iv) difficulty in adhering to international best practices and standards
- 2.4 For thematic bonds focused on land-use and bioeconomy, there is a shortage of methodologies to support financing bioeconomy-based activities and value chains. Current methodologies do not adequately address the financing needs of various Amazon-based bioeconomy business models.
- 2.5 Moreover, gender and diverse groups face significant barriers to accessing capital markets. An estimated US\$93 billion financing gap exists for women MSMEs in LAC. There is also a lack of disaggregated data by sex and ethnicity in financial markets, which impedes understanding of finance access, particularly in regions like the Amazon. In the Brazilian Amazon, women MSMEs are less represented: 23% compared to a national average of 28%. Additionally, over 1.6 million indigenous people in the Amazon play a crucial role in environmental conservation, and their livelihoods are deeply intertwined with it. The lack of data on gender, indigenous peoples, and financial systems underscores the need to understand barriers and needs to include these groups in thematic bond initiatives. To promote equitable participation, the Amazon Bioeconomy Fund incorporates a Gender Action Plan with activities like gender assessment studies, training for women entrepreneurs, and technical assistance for financial intermediaries to adopt a gender lens.
- 2.6 Addressing these challenges requires targeted support for LAC’s sustainable capital market actors. This support should include: (i) financial backing for innovation in capital market instruments; (ii) funding to develop new definitions and methodologies for green and sustainable bioeconomy investments; and (iii) strengthening institutional capacity and credibility among market participants, including issuers, investors, asset managers, regulatory authorities, stock exchanges, and standard setters. This Project aims to address these barriers and drive positive change in the market.

III. Description of Activities and Outputs

- 3.1 **Component I: Development of analytical frameworks, methodologies, and standardized reporting for bioeconomy-based projects, activities, and businesses.** Technical assistance will help develop methodologies, define criteria, assess feasibility, and standardize debt instruments for capital markets with bioeconomy components. This involves engaging with international standard-setters

and fostering inter-institutional dialogue to raise awareness, identify opportunities, and build a pipeline of bioeconomy and bio-business projects in Amazon countries

- 3.2 **Component II: Improvement of Market participants’ institutional capacity.** The second component will focus on boosting market participants’ readiness to carry out issuances with bioeconomy components. To achieve this, technical assistance will be provided to determine institutional gaps, define a roadmap for implementation at issuers level, as well as support the development and adoption of templates, risk models and tools consistent with the methodological frameworks established in Component 1.
- 3.3 **Component III: Facilitate access to bioeconomy investments.** Identifying prospective issuers (i.e. Green Coalition members, sovereigns) to pilot innovative financial solutions (such as the ETF, guarantee mechanisms and blended finance mechanisms) aligned with international best practices for institutional investors as well as retail investors, creating adequate incentives for market participants and reducing the cost for bioeconomy activities to access new sources of financial resources.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Development of analytical frameworks, methodologies, and standardized reporting for bioeconomy-based projects, activities, and businesses	US\$370,000.00	US\$74,000.00	US\$444,000.00
Improvement of Market participants’ institutional capacity	US\$840,000.00	US\$168,000.00	US\$1,008,000.00
Facilitate access to bioeconomy investments	US\$1,290,000.00	US\$258,000.00	US\$1,548,000.00
Total	US\$2,500,000.00	US\$500,000.00	US\$3,000,000.00

V. Executing Agency and Execution Structure

- 5.1 Given its ample experience in several regional publications (e.g., Sustainable Finance State of the Market), global working groups (e.g., 2022-2023 Working Group on SLBs), as well as supporting the issuance of 80 thematic bonds across the region, the IDB will be the executing agency through the Connectivity Markets and Finance Division (IFD/CMF) in coordination with the Amazon Coordination Unit (CSD/ACU). The Program will be executed in partnership (when feasible) with relevant organizations in the space and that can provide reliability and accuracy within the Thematic Bonds market.

The IDB team will consist of three staff members who lead the process of thematic bond structuring and issuances within CMF and have the necessary experience to ensure compliance with the relevant procurement policies and procedures. Additionally, the CMF team will be accompanied by a group of consultants. CMF has ample experience and proving record of successfully executing regional TCs to support debt capital markets. Moreover, the Bank is considered to have the adequate systems to guarantee the proper execution of the operation and ensure the sustainability of the implementation of the Program in line with the “Operational Guidelines for Technical Cooperation Products” (GN-2629-1).

- 5.2 This technical assistance will complement technical cooperation's and loan operations from the IADB that are on-going and in preparation. Some of these include the

Regional Green Bonds Program for LAC (ATN/AC-17318-RG), the IDB Green and Sustainable Finance Program for LAC (ATN/CF-18899-RG) and Unlocking Institutional Investors-Participation in Local Green Bond Markets and Direct Investments (ATN/SX-19937-RG), all under implementation, that support the scale-up and replication of the IDBG support for green bonds, targeting new issuers (governments and municipalities), new investors (institutional investors) and new instruments (sustainable bonds).

The administrative and technical supervision of the proposed technical assistance program will be under the responsibility of CMF. The work proposed is highly technical, requiring rigorous review and monitoring of consultant work. The TC will ensure that the materials developed by consultants are peer-reviewed by the IDB and where applicable by market experts.

- 5.3 The Bank will be responsible for the selection and hiring of the consulting services. All activities to be executed under this TC have been included in the Procurement Plan (see Annex II) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2303-33 for Consulting Firms for services of an intellectual nature and for logistics and other related services. The funding for this operation will be used to hire consultancy services, as well as to pay for travel costs of consultants and the organization of dissemination and capacitation events (non-consultancy services). All products from this TC will be the intellectual property of the Bank.

To achieve the proposed objectives, this TC requires strong ownership of the beneficiary market participants such as regulators, FIs and other issuing institutions' staff to develop and implement best practices. It is also expected that the counterparts will dedicate the appropriate staff time and the necessary logistical resources for the execution of the TC. The Bank will obtain, where applicable, a letter of nonobjection from the official liaison entity of the beneficiary countries, as a precondition to receive support direct client from this initiative.

VI. Project Risks and Issues

- 6.1 Engagement / Participation: Inability to identify target institutions/organizations or generate interest to successfully engage and participate in the Program's activities (Medium).
Operational: Insufficient transformation of identified demand into fundable projects (Medium).
Reputational: Beneficiaries' involvement in unsustainable or greenwashing practices could feed back to IDB (Low).
Economic: Tightening of economic conditions translate into higher interest rates, making funding through capital debt markets less attractive (Medium).
Political: Changes in government priorities and government elections could hinder the implementation of bio-business-friendly policies and regulation in the financial sector (Medium).
Fiduciary: Mismanagement of the resources provided for the Program (Low).

VII. Environmental and Social Aspects

- 7.1 This TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).