

## TC ABSTRACT

### I. Basic Project Data

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| ▪ Country/Region:  | REGIONAL/IDB   |
| ▪ TC Name:   | Supporting the development and deployment of the IDB-CLIMA   |
| ▪ TC Number:   | RG-T4368   |
| ▪ Team Leader/Members:   | BRUSA, FEDERICO (CSD/CCS) Team Leader; LOO-KUNG AGUERO, RUDY JOEL (IFD/FMM); CAVAZZONI LIMA, RAFAEL (IFD/CMF); PACHECO, MANUEL (VPC/VPC); GOMEZ, JUAN CARLOS (CSD/CCS); JUAN FRANCISCO MARTINEZ (CSD/CCS); MERINO JUAREZ, MARIA FERNANDA (SPD/SMO); BUESO-MERRIAM, JACQUELINE (SPD/SDV); FILC, GABRIEL (SPD/SDV); WATSON, GREGORY (CSD/CCS); BRALY-CARTILLIER, ISABELLE FREDERIQUE (ORP/REM); MARGOLIS, DAVID LAWRENCE (ORP/GCM); CAICEDO SIERRA, MIGUEL FELIPE (ORP/GCM); GARAY ARMOA, PEDRO VICENTE (CSD/CSD); BARREDA, GISELLA (CSD/CSD); ESCALA, VICTOR H. (VPC/FMP); SCHNEIDER, SANTIAGO (VPC/FMP); SARA CARIAS (CSD/CCS); LEMOS ALVES DOS SANTOS HELDER (CSD/CCS); DELGADO, C. RAUL (CSD/CCS); DOHERTY BIGARA RODRIGUEZ, JENNIFER (CSD/CCS); CELESTE MARZO, CRISTINA (LEG/SGO) |
| ▪ Taxonomy:  | Research and Dissemination   |
| ▪ Number operation supported by the TC:                            | N/A  |
| ▪ Date of TC Abstract:   | 31 Aug 2023  |
| ▪ Beneficiary:   | IDB LAC countries  |
| ▪ Executing Agency:  | INTER-AMERICAN DEVELOPMENT BANK  |
| ▪ IDB funding requested:   | US\$800,000.00   |
| ▪ Local counterpart funding:                                       | US\$0.00   |
| ▪ Disbursement period:   | 24 months  |
| ▪ Types of consultants:  | Individuals; Firms   |
| ▪ Prepared by Unit:  | CSD/CCS - Climate Change   |
| ▪ Unit of Disbursement Responsibility:                             | CSD/CCS - Climate Change   |
| ▪ TC included in Country Strategy:                                 | Yes  |
| ▪ TC included in CPD:  | No   |
| ▪ Alignment to the Update to the Institutional Strategy 2020-2023: | Environmental sustainability   |

### II. Objective and Justification

- 2.1 The objective of this Technical Cooperation is to fund all related research and dissemination activities pertaining to the development and deployment of the IDB Climate Linked Mechanism for Ambition (IDB-CLIMA). IDB-CLIMA will provide financial incentives through grants that are delivered alongside eligible investment loans to replicate a “step down,” or discount, on loan interest rates – contingent on the achievement and independent verification of key performance indicators (KPIs) for climate and biodiversity.
- 2.2 At a global scale, current public and private biodiversity and climate capital flows are inadequate to meet sustainability objectives. To bridge this gap, the climate finance policy landscape must develop new instruments and deepen its research into effectiveness. The international community has called upon multilateral development banks and international financial institutions to reform their practices and priorities to ensure access and mobilize climate finance from various sources. This mandate requires lowering interest rates, helping increase fiscal space and supporting the

development of the tools needed to achieve scale on climate action. MDBs alone cannot meet the financial flows required to fulfill Paris Agreement needs and achieve international biodiversity targets. However, while direct biodiversity and climate financing is insufficient, new MDB financing mechanisms could leverage additional indirect financing to reach scale. MDBs can also help generate systemic capacities that enable access to higher volume, more sophisticated concessional green finance products. International green and thematic markets offer an opportunity currently underutilized by Latin America and the Caribbean. While LAC sustainable debt issuances more than doubled between 2019 and 2023 to reach \$126.9 billion and green bond issuances represented approximately 30 percent of all LAC issuances in 2022, the region issued only 2 percent of all global issuances and they were concentrated in a limited number of countries (mainly Brazil, Mexico and Chile).

- 2.3 The IDB has developed a new results-driven finance instrument that rewards countries for enhanced climate and biodiversity ambition, while helping them generate the needed instruments and capacities to access further concessional green finance at scale: IDB-CLIMA or the IDB Climate Linked Mechanism for Ambition. IDB-CLIMA will provide financial incentives through grants that are delivered alongside eligible investment loans to replicate a “step down,” or discount, on loan interest rates – contingent on the achievement and independent verification of key performance indicators (KPIs) for climate and biodiversity. The grants will be 5% of the loan’s principal, designed to be the equivalent of a 45-basis-point reduction in the interest rate. In addition to promoting increased ambition and results, IDB-CLIMA seeks to help countries leverage additional financing through improved access to green- and thematic-debt markets. To do so, the mechanism emphasizes strengthening local capacities for measuring, reporting and verifying climate and biodiversity goals —helping countries achieve scale and monetize their enhanced transparency. IDB-CLIMA aims to encourage a green transition in LAC, with a focus on development effectiveness and transparency. All IDB Borrowing members are eligible, regardless of what stage of their green transition journey they are in.
- 2.4 Given the innovative nature of IDB-CLIMA as well as its strong focus on development effectiveness, specific research must be conducted to ensure a fit-for-purpose deployment of the mechanism. Additionally, trainings and communication materials must be developed and deployed within the IDB and within the region to ensure that IDB technical teams and that interested countries develop the needed capacities for the development of Pilot Projects under the Pilot Program. This TC will fund these needed activities.

### **III. Description of Activities and Outputs**

- 3.1 **Component 1. Key Performance Indicator and operational guidelines development.** Activities under this component will contribute to the generation of effective guidelines that drive IDB-CLIMA KPI development.
- 3.2 **Component 2. Regional capacity assessments.** Activities under this component will help establish solid baselines as well as dimension existing capacities in the region, with a focus on the deployment of IDB CLIMA .
- 3.3 **Component 3. Knowledge transfers and capacity building.** Activities under this component will help bolster regional capacities to develop and implement IDB-CLIMA Pilot projects.

#### IV. Budget

Indicative Budget (US\$)

| Activity/Component  | IDB Funding    | Total          |
|---|----------------|----------------|
| Component 1. Key Performance Indicator and operational guidelines development | 300,000        | 300,000        |
| Component 2. Regional capacity assessments                                    | 350,000        | 350,000        |
| Component 3. Knowledge transfers and capacity building                        | 150,000        | 150,000        |
| <b>Total</b>  | <b>800,000</b> | <b>800,000</b> |

#### V. Executing Agency and Execution Structure

- 5.1 In accordance with the applicable policies and procedures (GN-2470-2 and GN-2629-1), the IDB, through its Climate Change Division (CSD/CCS), will be the executing agency of this TC. Additionally, CCS will coordinate with other IDB Group departments and liaise with other key initiatives and stakeholders involved in the design, implementation, and financing of IDB-CLIMA pilot projects. Supervision will be carried out by the CSD/CCS Team Leader.
- 5.2 The Climate Change Division of the Inter-American Development Bank (CSD/CCS) has substantial experience with the development of Research and Dissemination activities tied to climate change and integration of results within the IDBG project origination and execution activities.
- 5.3 Due to the regional nature of this TC and since it is originated at the initiative of the Bank, in accordance with Appendix 10 of the Operational Guidelines for Technical Cooperation Products (GN-2629-1), the Bank will act as the executing agency through CSD/CCS. As such, the Bank will follow its procurement policies and guidelines related to contracting processes: (i) individual consultants will be hired according to the guidelines established in policy AM-650; (ii) consulting firms of an intellectual nature will be hired according to the "Policy for the selection and contracting of consulting firms for operational work carried out by the Bank" (GN-2765-4) and its Operational Guides (OP-1155-4); and (iii) other non-consulting services in accordance with the "IDB Institutional Procurement Policy" (GN-2303-28).

#### VI. Project Risks and Issues

- 6.1 The development of the Pilot Program's region-wide approach must account for existing national specificities that may hinder regional replicability. Specific political economy considerations arising from factors such as local regulation, budget, and balance of payment priorities, as well as sector specificities may also hinder the replicability of suggested Pilot Programs. Finally, concerning the development of specific guidelines for Key Performance Indicators, existing knowledge limitations regarding biodiversity and adaptation (with a focus on adaptive capacity) must be accounted for. CSD/CCS experience in different national contexts, as well as IDB Group experience will prove instrumental in mitigating these risks. The knowledge products developed through this TC will also help address the Pilot Program knowledge gaps in a timely approach that contributes to the success of the Program.

#### VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".