

## TC Document

### I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Enhancing the institutional capability of State-Owned Enterprises (SOEs) to attain climate change objectives and reduce fiscal risks in Latin America and the Caribbean
▪ TC Number:	RG-T4479
▪ Team Leader/Members:	Reyes-Tagle, Gerardo (IFD/FMM) Team Leader; Astudillo, Karen (IFD/FMM) Alternate Team Leader; Recalde Ramirez Luis Bernardo (IFD/FMM); Roman Sanchez, Susana (IFD/FMM); Lopez Lopez Raquel Patricia (CSD/CCS); Fernandez-Baca, Jaime (CSD/CCS); Blanco Urbina Luz Inmaculada (IFD/FMM); Mills, Anaitee (CSD/CCS); Joo Hyunjoon (IFD/FMM); Vila Saint Etienne, Sara (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	02 Apr 2024.
▪ Beneficiary:	Peru, Suriname, and Honduras <sup>1</sup>
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Public Capacity Building Korea Fund for Economic Development(KPC)
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months that includes the execution period
▪ Required start date:	June 2024
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM-Fiscal Management Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the IDB Group Institutional Strategy: Transforming for Scale and Impact	Environmental sustainability; Institutional capacity and rule of law

### II. Objectives and Justification of the TC

2.1 **Objective:** The main objective of this non-reimbursable technical cooperation (TC) is to design and implement a comprehensive program that enhances the capabilities of State-Owned Enterprises (SOEs) in Latin America and the Caribbean (LAC) region to achieve climate change objectives while effectively reducing fiscal risks. These climate change objectives include: the reduction of greenhouse gas emissions, the promotion of renewable energy and decarbonization, the alignment of climate actions with international goals, the enhancement of climate resilience, and the adoption of clean

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<sup>1</sup> These countries were selected for the project due to the team's extensive work with their Ministries of Economy and Finance in securing data on SOEs' financial management. Their experience is anticipated to offer valuable insights for the entire region. Consequently, these institutions are designated to be the beneficiaries of the TC. Additional countries may be included as research advances and their specific cases become relevant for the TC's activities.

technologies. The program aims to provide valuable insights, strategies, and tools to support the transition of SOEs towards sustainable energy practices, thereby contributing to the region's efforts in addressing climate change and ensuring long-term fiscal stability. The TC funding will be allocated to three key activities: i) a thorough analysis of policy cases in South Korea and developed countries to enhance the role of SOEs in addressing climate change objectives, ii) a diagnosis of the current state of LAC SOEs in relation to climate change objectives and fiscal risks, identifying challenges in adopting clean energy practices and mitigating fiscal risks, and iii) the facilitation of knowledge dissemination and exchange between South Korea and LAC countries.

- 2.2 **Justification:** In multiple LAC nations, a considerable number of public entities thrive as prominent energy enterprises, playing a significant role in the production and generation of emissions and pollution. As the world intensifies its efforts to combat climate change, it has become imperative for these countries to adopt new policies and strategies aimed at reducing emissions and achieving climate change goals. However, this transition to cleaner energy sources and sustainable practices poses inherent fiscal risks. The process of shifting to clean energy technologies and infrastructure often entails significant financial investments and operational costs. Governments and SOEs need to allocate substantial resources for research, development, and implementation of clean energy projects, as well as the necessary infrastructure upgrades. These financial commitments can strain public budgets, potentially leading to increased public debt or diverting funds from other sectors. Balancing the need for sustainable energy practices with the fiscal challenges involved requires careful planning, innovative financing mechanisms, and comprehensive risk management strategies. Governments and policymakers must navigate these fiscal risks by identifying sustainable and cost-effective solutions that minimize the economic burden while driving the transition towards a greener and more sustainable energy landscape.
- 2.3 SOEs in energy sector can have a positive effect on renewable investment. SOEs can take an advantage of lower capital cost on capital-intensive renewable investment in addition to using SOEs as vehicles to implement renewable policy goals. Governments may also employ SOEs to regulate strategically crucial energy supply networks, and energy SOEs can generate significant amounts of tax income. SOEs may be used as a means of acquiring foreign technologies and know-how. For example, the medium and long-term demand for the metals required for the manufacture of electric vehicles, infrastructure, and green technology is expected to increase as a result of the international consensus on the importance of clean energy. Thus, metal exporting countries in LAC can take an advantage of this trend and gain a foothold for green and sustainable investment.
- 2.4 South Korea has implemented measures aimed at enhancing the proliferation of novel and sustainable energy sources. Specifically, state-owned power generation companies (GENCOs – KOSEP, KOMIPO, KOWEPO, KOSPO and EWP) and independent power producers (IPPs) with a capacity exceeding 500 MW are obligated to incorporate a designated proportion of renewable energy within their production portfolio. Korea's Greenhouse Gas Target Management System was established to ensure proactive efforts from the public sector in achieving the national greenhouse gas reduction objective. Implemented since 2011, this system entails the public sector setting annual goals for greenhouse gas emission reduction and monitoring and evaluating the implementation performance. The reduction target is set at 50% of

baseline emissions by 2030, with the baseline determined as the average emissions from 2007 to 2009. The target management system encompasses central administrative agencies, local governments, metropolitan and provincial education offices, as well as public institutions, extending its application to these entities within the public sector.

- 2.5 Furthermore, under the Ministry of Environment of South Korea, the Climate Response Fund has been established with a budget of 641.5 billion won<sup>2</sup> to support a range of projects targeting greenhouse gas emissions reduction. These projects include expanding support for emission reduction initiatives by companies with allocated emission rights, promoting carbon neutrality within the public sector to encourage private sector participation, and providing assistance for allocation companies to adopt low-carbon clean fuels. Furthermore, the fund aims to support the installation of new and renewable energy systems in public sector institutions covered by the target management system. The initiative also places emphasis on creating carbon-neutral green cities and establishing carbon neutral support centers in collaboration with local governments. The implementation plan for carbon-neutral green cities has been allocated a budget of 1.9 billion won<sup>3</sup>, while the operation of local carbon neutral support centers is assigned 1.7 billion won<sup>4</sup>. Therefore, LAC countries can look to South Korea as an example of effectively addressing fiscal risks arising from climate change, thereby gaining valuable insights and strategies to implement in their own context as the governments in the LAC region need an effective monitoring system to oversee the level of pollution, efficient due diligence to evaluate their performance, and incentive system to encourage them to gradually switch to clean energy.
- 2.6 **Strategic Alignment:** This TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) through two of its objectives: (i) addressing climate change, because the program seeks to enhance the capabilities of SOEs to contribute to climate change objectives and adopt sustainable energy practices; and (ii) bolstering sustainable growth, as it aims to reduce fiscal risks and promote long-term fiscal stability in the LAC region. The TC is also aligned with two operational focus items outlined in the Institutional Strategy: (i) biodiversity, natural capital, and climate action, by strengthening SOEs in their path to a green transition; and (ii) institutional capacity, rule of law, and citizen security, by enhancing public policy, and transparency, thereby fostering inclusive and sustainable development in the region.
- 2.7 The TC is also consistent with the IDB Group Country Strategy with Peru 2022 – 2026, (GN-3110-1), specifically with the second priority area focused on environmental sustainability and climate change, with an emphasis on adaptation and the implementation of the country's nationally determined contributions (NDC). In the case of Suriname, this TC is similarly consistent with the Country Strategy 2021 – 2025, (GN-3065), in particular with the first strategic area, restoring macroeconomic sustainability, including SOE management, and the cross-cutting issues of climate change resilience and institutional capacity and the rule of law. Similarly, the TC is consistent with the Country Strategy with Honduras 2019 – 2022 (which has been extended until December 2024) (GN-2944 / GN-2944-2), specifically with the first

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<sup>2</sup> Approximately USD 464.9 million

<sup>3</sup> Approximately USD 1.4 million

<sup>4</sup> Approximately USD 1.2 million

priority area, strengthening of fiscal institutions and expenditure efficiency, including addressing the risks associated with the fiscal and financial sustainability of SOEs.

- 2.8 This TC is also aligned with the Fiscal Management Sector Framework Document (GN-2831-13), specifically with the fourth line of action, focused on enhancing the contribution of fiscal policy to managing climate change and energy transition, through the analysis of SOEs' engagement in the process of addressing climate change objectives. It is also aligned with the Climate Change Sector Framework Document (GN-2835-13), particularly with the dimensions of supporting countries to have: (i) institutions that support objectives and commitments toward net-zero emissions; (ii) knowledge to effectively support a just transition toward a net-zero emissions; (iii) progress on mainstreaming climate considerations across sectors; and (iv) tools available to face climate change risks.
- 2.9 Finally, This TC is also aligned with the objective stipulated in the operational guidelines of the Public Capacity Building Korea Fund for Economic Development, which seeks to strengthen public sector management in all fiscal related sectors through assistance aimed at facilitating efficient allocation and use of public sector resources to generate higher public value at the national and the sub-national government level.

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

- 3.1 **Component 1. Analysis of policy cases in Korea and developed countries to enhance the role of SOEs in addressing climate change objectives (US\$175,000).** This component aims to deepen the understanding around the engagement of SOEs in climate action, through lessons learned and best practices in Korea and the developed world. This will be achieved through consultancies in the following activities: (i) conducting a comprehensive analysis of climate-related fiscal policies in Korea and developed countries, focused on the promotion of engagement of SOEs in climate action; (ii) performing case studies to identify key elements contributing to effective engagement of SOEs, including governance structures, stakeholder collaboration, and innovative financing mechanisms; and (iii) utilizing data analysis and information gathered to inform strategies and tools aimed at promoting sustainable practices among SOEs.
- 3.2 **Component 2. Analysis of the current state of LAC SOEs in relation to climate change objectives and fiscal risks, identifying challenges in adopting clean energy practices and mitigating fiscal risks (US\$175,000).** This component aims to provide a comprehensive assessment of the current state of SOEs in Peru, Honduras, and Suriname, concerning climate change objectives and fiscal risks. The following activities will be undertaken with the support of consultancies financed through this component: (i) analyzing existing fiscal policies and measures targeting SOEs in beneficiary countries, with a focus on their alignment with climate change mitigation goals, along with their effectiveness; (ii) assessing the fiscal risks associated with climate change impacts on SOEs, including financial vulnerabilities, asset stranding, and contingent liabilities; and (iii) developing a roadmap and action plan for SOEs in beneficiary countries based on the outcomes and lessons learned from Component 1 and the key findings of Component 2.
- 3.3 **Component 3. Knowledge dissemination and Capacity Building (US\$150,000).** The goal of this component is to disseminate findings, recommendations, and lessons learned from the execution of the previous two components. This component will finance a regional seminar or policy dialogue in South Korea to share the findings of

this TC with a broader audience. Participants expected to attend the event include policymakers and government officials from South Korea, Peru, Honduras, Suriname, and other LAC countries, representatives from SOEs, researchers and academics, and relevant industry stakeholders. The team will also utilize the Bank's communication channels to further disseminate the findings and recommendations to a wider audience through publications.

- 3.4 **Expected results.** The TC is anticipated to yield significant outcomes, including a deeper understanding of effective engagement of SOEs in climate action through analysis of policy cases in Korea and developed countries. This will inform the identification of key elements contributing to successful SOE engagement, such as governance structures and innovative financing mechanisms. Additionally, a comprehensive assessment of LAC SOEs' current state regarding climate change objectives and fiscal risks will be provided, along with the development of a roadmap and action plan for SOEs of the beneficiary countries (Peru, Suriname, and Honduras) based on these findings. Through knowledge dissemination activities, insights and recommendations will be widely shared, fostering greater collaboration and promoting sustainable practices among SOEs in the region.
- 3.5 **Indicative Budget.** The total amount required for this TC is US\$500,000 to be financed with resources from the KPC – Public Capacity Building Korea Fund for Economic Development.

**Indicative Budget (US\$)**

<b>Component</b>	<b>Description</b>	<b>IDB/KPC</b>	<b>Total Funding</b>
<b>Component 1</b>	This component aims to deepen the understanding around the engagement of SOEs in climate action, through lessons learned and best practices in Korea and the developed world	175,000.00	175,000.00
<b>Component 2</b>	This component aims to provide a comprehensive assessment of the current state of LAC SOEs concerning climate change objectives and fiscal risks.	175,000.00	175,000.00
<b>Component 3</b>	This component will disseminate findings, recommendations, and lessons learned from the execution of the previous two components	150,000.00	150,000.00
<b>Total</b>		<b>500,000.00</b>	<b>500,000.00</b>

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

- 4.1 **Executing agency.** This TC will be executed by the Bank through the Fiscal Management Division (IFD/FMM).
- 4.2 **Procurement.** All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (a) Hiring of individual consultants, as established in the AM-650 standards; (b) Hiring of consulting firms for services of an

intellectual nature according to GN-2765-4 and its associated operational guides (OP-1155-4) and (c) Hiring of logistics services and other services other than consulting, according to the policy GN-2303-28; including its occasional amendments. Please note that Policy GN-2303-33, approved by the Board of Executive Directors on November 22, 2023, will enter into force on July 1, 2024. This policy replaces the Institutional Procurement Policy (document GN-2303- 28) and the Policy for the selection and hiring of consulting companies for operational work executed by the Bank (document GN-2765-4) with a single updated and consolidated policy. Starting July 1, 2024, all contracting of Services provided by firms will be carried out in accordance with this new Policy GN-2303-33 and its associated Guidelines.

- 4.3 **Supervision.** Technical and basic responsibility for the implementation of the TC rests in the project team including the Project Team Leader who will be responsible for the execution of the project in collaboration with the Countries Offices of Peru, Suriname, and Honduras.
- 4.4 **Monitoring and Evaluation.** The monitoring of the program will be carried out by considering the indicators that are provided in the Result Matrix for the technical cooperation program, which include means of verification. A TC monitoring report will be submitted annually and upon TC closure, by the Team Leader, reporting the TC execution progress and completion according to the Technical Cooperation Monitoring and Reporting System (OP-1385-4). Given the limited scope of the program, an evaluation report will not be included.
- 4.5 The knowledge products generated within the framework of this TC will be owned by the Bank and may be made available to the public under a creative commons license. However, at the request of the beneficiaries, the intellectual property of such products may also be licensed to them through specific contractual commitments that will be developed with the guidance of the Bank's Legal department.

## **V. Major issues**

- 5.1 Some potential risks associated with the execution of this TC are: (i) ensuring the availability of high-quality information and data from the Ministries of Finances of the beneficiary countries (Peru, Suriname, and Honduras) or related agencies for the development of the TC deliverables; and (ii) changes in leadership or shifts in government policy priorities. Some mitigation efforts could include: (i) on-site technical visits to collect information and data; and (ii) prioritizing consistent communication with key stakeholders within the beneficiary institutions, fostering ongoing capacity-building initiatives.

## **VI. Exceptions to Bank policy**

- 6.1 There are no exceptions to Bank policy.

## **VII. Environmental and Social Aspects**

- 7.1 This TC 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 Bank's Environmental and Social Policy Framework (ESPF).

**Required Annexes:**

[Results Matrix\\_90738.pdf](#)

[Terms of Reference\\_70314.pdf](#)

[Procurement Plan\\_18914.pdf](#)