

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ 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; ROMAN SANCHEZ, SUSANA (IFD/FMM); JOO HYUNJOON (IFD/FMM); RECALDE RAMIREZ LUIS BERNARDO (IFD/FMM); VILA SAINT ETIENNE, SARA (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	02 Apr 2024
▪ Beneficiary:	LAC
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$500,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ 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 Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objective and Justification

- 2.1 To support the institutional capacity of State-Owned Enterprises (SOEs) in Latin America and the Caribbean (LAC) region to achieve climate change objectives while effectively reducing fiscal risks. The program aims to provide valuable insights, strategies, and tools to support the transition of SOEs towards better sustainable energy practices, thereby contributing to the region's efforts in addressing climate change and ensuring long-term fiscal stability.
- 2.2 In the LAC region, numerous public entities function as significant energy enterprises, contributing to emissions and pollution. This collective impact is substantial, as SOEs possess a global carbon footprint that ranks second only to China. The cumulative greenhouse gas (GHG) emissions from the top 50 energy-related SOEs globally would position them as the third-largest emitter. Moreover, SOEs are responsible for 59 percent of the emissions produced by the highest emitting companies known as the carbon majors. Given their significant contribution to global emissions, there is a pressing need for LAC countries to adopt new policies and reduce their carbon footprint. As global efforts to combat climate change intensify, LAC SOEs must adopt new policies to achieve climate goals. However, transitioning to cleaner energy sources involves fiscal risks, including substantial investments and operational costs. Achieving a balance between sustainability and fiscal challenges requires careful planning, innovative financing, and comprehensive risk management.

- 2.3 South Korea has implemented robust measures to advance the use of sustainable energy sources. It mandates renewable energy obligations for state-owned and independent power producers with a capacity exceeding 500 MW. The Greenhouse Gas Target Management System ensures active pursuit of national greenhouse gas reduction goals, setting annual emission reduction targets since 2011. The aim is to achieve a 50% reduction by 2030 compared to the average emissions from 2007 to 2009. This system extends to various public sector entities, including central administrative agencies, local governments, education offices, and public institutions. South Korea's Ministry of Environment established the Climate Response Fund, allocating 641.5 billion won to support diverse projects focused on reducing greenhouse gas emissions. These projects encompass aiding companies with emission rights, fostering carbon neutrality in the public sector, and promoting the adoption of low-carbon clean fuels. The fund also targets the installation of new renewable energy systems in public institutions and the development of carbon-neutral green cities in collaboration with local governments. This effective approach can serve as a model for LAC countries, offering insights into addressing fiscal risks related to climate change through similar monitoring systems, due diligence evaluations, and incentive mechanisms for transitioning to clean energy.

III. Description of Activities and Outputs

- 3.1 **Component I: Analysis of policy cases in South Korea and developed countries to enhance the role of SOEs in addressing climate change objectives.** Carry out case studies from South Korea and developed countries that showcase successful engagement of SOEs in addressing climate change objectives. The studies should include data analysis and information to help identify key elements in successful SOE engagement with climate change objectives. This includes governance structures, stakeholder collaboration, innovative financing, and evaluation of climate-related fiscal policies that promote sustainable practices among SOEs.
- 3.2 **Component II: 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.** (i) Analyze existing fiscal policies and measures targeting SOEs in the region, focusing on their alignment with climate change mitigation goals, (ii) evaluate the effectiveness of current fiscal incentives seeking to encourage SOEs to adopt sustainable practices and reduce emissions, (iii) assess the fiscal risks associated with climate change impacts on SOEs, including financial vulnerabilities, asset stranding, and contingent liabilities.
- 3.3 **Component III: Knowledge dissemination and Capacity Building.** 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. The team will also utilize the Bank's communication channels to further disseminate the findings and recommendations to a wider audience through publications.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Analysis of policy cases in South Korea and developed countries to enhance the role of SOEs in addressing climate change objectives	US\$175,000.00	US\$0.00	US\$175,000.00

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\$175,000.00	US\$0.00	US\$175,000.00
Knowledge dissemination and Capacity Building	US\$150,000.00	US\$0.00	US\$150,000.00
Total	US\$500,000.00	US\$0.00	US\$500,000.00

V. Executing Agency and Execution Structure

- 5.1 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM).
- 5.2 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM). The activities will be closely coordinated by the fiscal specialists in the countries where activities shall take place.

VI. Project Risks and Issues

- 6.1 One primary risk entails stakeholders' reluctance to engage in data collection initiatives. To address this, the team is leveraging established IDB networks and customizing each survey to align with the regional context, in partnership with IDB country offices. Another risk involves identifying and selecting suitable human resources within local government institutions, ensuring they have adequate time to enhance their capacity. Mitigation strategies may involve recruiting new local talent and retaining them within the beneficiary region by offering appropriate incentives and capacity-building opportunities to address gaps within the executing agency throughout the project's duration, thus mitigating any potential shortage of human resources.

VII. Environmental and Social Aspects

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