

REGIONAL

BUILDING CAPACITIES FOR SUBSOVEREIGN FINANCE

(RG-T4982)

PROJECT DOCUMENT

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PROJECT SUMMARY

Operation Type:	Technical Cooperation
Sector:	URBAN DEVELOPMENT AND HOUSING
Subsector:	URBAN LAND PLANNING AND MANAGEMENT
TC Taxonomy:	Research and Dissemination
Project Number under the Operational Support Taxonomy:	N/A
Technical Responsible Unit:	CSD/HUD-Housing & Urban Development
Unit with Disbursement Responsibility (UDR):	CSD/HUD-Housing & Urban Development
Executing Agency:	Inter-American Development Bank

PROJECT OBJECTIVE

The general objective of this TC is to strengthen the conditions for subnational governments (SNGs) in Latin America and the Caribbean (LAC) to access financing without sovereign guarantees for high-impact and high-development infrastructure, as well as service delivery projects, thereby supporting the implementation of the Sub-sovereign Finance Program (SFP).

FINANCIAL INFORMATION

Financing Type	Fund	Amount in US\$
TCN - Nonreimbursable	P1B - OC SDP Pillar 1 - Strategic Priorities - Support for Innovative Financing Instruments	900,000
Total IDB Financing		900,000
Counterpart Financing		0
Total Project Budget		900,000
Donors:	N/A	
Disbursement Period:	36 months	
Execution Period:	36 months	

ADDITIONAL FINANCIAL INFORMATION

N/A

I. JUSTIFICATION AND OBJECTIVE

- 1.1 **Diagnostic.** Latin America and the Caribbean (LAC) has more than 17,000 subnational governments (SNGs), defined as the combination of intermediate and local/regional governments, and is the world's most urbanized region, with roughly 81% of its population living in cities. This urbanization underscores the potential of these areas to enhance productivity and innovation. Additionally, SNGs are at the forefront of actions to mitigate and adapt to climate change (CC). Around 300 of these cities have populations exceeding 500,000 inhabitants and exhibit signs of creditworthiness, with roughly 10% having established credit ratings. SNGs in LAC are responsible for over a third of the public investment in the region, with over 40% of the investment in the most prominent countries. However, LAC is the second-lowest region globally, after Africa, in terms of infrastructure spending. Infrastructure quality in LAC is generally low and tends to deteriorate further as the subnational level oversees it.
- 1.2 Despite their significant role in public investment and service delivery, SNGs face important constraints in accessing long-term financing for infrastructure and other high-impact investments. These constraints can include limited fiscal and financial management capacity, weak or uneven creditworthiness, institutional and regulatory constraints on subnational borrowing, and insufficient pipelines of well-prepared and bankable projects. As a result, even SNGs with potential to access market-based financing may face difficulties mobilizing resources from capital markets. At the same time, subnational financing markets remain shallow or underdeveloped in many LAC countries, limiting the availability and affordability of long-term financing. Strengthening SNGs' capacity to access financing and developing a pipeline of eligible investments is therefore critical to closing infrastructure gaps and advancing decentralization.
- 1.3 Against this backdrop, the Sub-sovereign Finance Program (SFP), approved by the Board in June 2025 as a five-year pilot, provides an opportunity to expand direct IDB financing to eligible SNGs without sovereign guarantees. However, the effective implementation of the SFP requires addressing the upstream constraints that may prevent SNGs from accessing and effectively using such financing. The proposed TC will therefore support the implementation of the SFP through three complementary areas of intervention: (i) strengthening the understanding of the legal, regulatory, fiscal, institutional, and financing environments affecting SNGs; (ii) assessing and strengthening SNG creditworthiness, fiscal management, and access to capital markets; and (iii) improving technical and financial capacities for project preparation, investment management, and financing structuring. These interventions will help identify and prepare potential SFP operations while strengthening the conditions for sustainable subnational financing in LAC. The TC will build on and complement the Enhancing Creditworthiness and Capacities for Subnational Pilot Program (RG-T4449; ATN/OC-20923-RG).
- 1.4 **Objective.** The general objective of this TC is to strengthen the conditions for subnational governments (SNGs) in Latin America and the Caribbean (LAC) to access financing without sovereign guarantees for high-impact and high-development infrastructure, as well as service delivery projects, thereby supporting

the implementation of the Sub-sovereign Finance Program (SFP). The specific objectives are to: (i) strengthen the understanding of the legal, regulatory, fiscal, institutional, and financing conditions affecting SNGs and support the identification and assessment of potential SFP operations; (ii) strengthen the fiscal management, creditworthiness, investment management, and capital-market access capacities of selected SNGs or their entities; and (iii) strengthen the technical and financial capacities of SNGs for the preparation, management, and structuring of investment projects suitable for financing under the SFP. This TC will contribute to creating the institutional, financial, and technical conditions needed for the effective implementation of the SFP. It will be implemented in coordination with the IDB Country Offices and will build on and complement the *Enhancing Creditworthiness and Capacities for Subnational Pilot Program* (RG-T4449; ATN/OC-20923-RG).

- 1.5 **Complementarity.** This complements previous and ongoing IDB interventions aimed at enabling subnational finance, in particular the TC *Enhancing creditworthiness and capacities for Subnational Pilot program* (RG-T4449), which supported the design phase of the SFP, including the development of methodologies, initial creditworthiness assessments, and pilot preparation. While RG-T4449 contributed to establishing the conceptual, analytical, and institutional foundations of the SFP, the present TC is designed to operationalize and scale up the program by generating a robust and actionable pipeline of subnational operations without sovereign guarantees and supporting the identification, preparation, and early structuring of potential transactions. This TC also complements ongoing IDB sovereign operations supporting subnational governments, thereby contributing to the development of subnational debt markets in the region.
- 1.6 **Strategic Alignment.** The TC is consistent with the IDB Group Institutional Strategy Transforming for Scale and Impact (CA-631) and it is aligned with the objectives of: (i) bolster sustainable regional growth, by fostering the exchange of best practices to encourage actions leading to sustainable urban development and by creating and distributing practical tools and resources, assessment models, adaptation planning guidelines, and monitoring frameworks; and (ii) reduce poverty and inequality, by promoting subnational operations that include investments in infrastructure, social programs, education, health and economic development. The TC is also aligned with the operational focus areas of: (i) institutional capacity, rule of law, and citizen security, through strengthened public policy, management, and transparency at the subnational level; (ii) social protection and human capital development, supporting projects in cities and SNGs that address social development and inequality; (iii) sustainable, resilient, and inclusive infrastructure, contributing to reduce the public investment gap in level and quality at the subnational level; and (iv) productive development and innovation through the private sector, financing projects that contribute to attracting private investment in cities and SNGs. Additionally, this operation is aligned with numeral 5.21.3 of the IDB's institutional strategy, which calls for enhancing IDB Group instruments — specifically, exploring options for lending with non-sovereign guarantees to cities/SNGs and state-owned enterprises (SOEs), including "the exploration of the legal and technical viability, as well as the potential demand, for IDB Group mechanisms to support SNGs and SOEs in the process of improving

their local finances, creating bankable projects and ultimately creditworthiness." This TC is also aligned with the document *Proposal for a New Ordinary Capital Strategic Development Program* (GN-2819-25), specifically its Pillar 1 – Strategic Priorities, Support for Innovative Financing Instruments (P1B) by contributing to the implementation and scaling of the SFP, which expands IDB financing to SNGs without sovereign guarantees. The TC will strengthen the conditions required for this financing model to be effectively deployed and scaled, including through assessments of SNG creditworthiness and fiscal capacity, support for access to capital markets and funding strategies, and enhanced capacities for project preparation and structuring. These activities will improve the bankability and replicability of subnational investments and contribute to the development of subnational financing markets, creating opportunities to mobilize additional public and private resources for infrastructure and quality service delivery.

II. COMPONENTS

- 2.1 **Component 1: Comprehensive analysis of national and subnational financing environments (US\$200,000).** This component will support the development and implementation of the SFP through comprehensive studies and analysis of national and subnational financing environments, including, but not limited to: (i) regulatory and legal assessments of SNGs' capacity to contract credit operations, (ii) assessment of fiscal and institutional capacity; (iii) analysis of existing financing and repayment mechanisms at SNG levels; and (iv) analysis of local financing market. These activities will help to (i) further develop SNG in the benchmark framework; and (ii) complement and strengthen existing assessments of SNGs in LAC.
- 2.2 **Component 2: Strengthening SNG creditworthiness, fiscal management, and access to capital market (US\$350,000).** This component will finance the (i) implementation of the creditworthiness analysis methodology to selected SNGs or their entities, including an in-depth assessment of fiscal capacity, financial management, public administration, planning, investment management, and governance capacities, as well as areas of improvement; (ii) assessment of funding strategies and pathways to capital-markets access, identifying actions, capacities, and tools needed to improve funding strategies and access to market capital; and (iii) development and initial implementation of fiscal reform plans to improve subnational creditworthiness of selected SNGs or their entities, based on findings of the creditworthiness analysis carried out.
- 2.3 **Component 3: Enhancing technical and financial capacities for project preparation and investment management (US\$350,000).** This component will finance development of capacity-building activities to strengthen SNG's capabilities for project preparation, management strategies, creditworthiness, and investment management. Activities will include workshops and other knowledge initiatives on the challenges and opportunities of sub-sovereign finance without sovereign guarantees, available financing instruments and creditworthiness assessment methodologies.

- 2.4 **Expected Results.** By the end of the TC, the Bank will have strengthened its capacity to identify and assess potential SFP operations, selected SNGs will have improved information and capacities to strengthen their creditworthiness and access to capital markets, and SNGs will have enhanced capabilities to prepare and structure high-impact investment projects. These results will contribute to the development of a stronger pipeline of potential SFP operations and to improved conditions for sustainable subnational financing in LAC.
- 2.5 **Beneficiaries.** The direct beneficiaries of the TC will be SNGs identified to be potential clients under the SFP. This includes, but not restrictive to, local and intermediate governments such as municipalities, departments, regions, states, provinces, etc. The indirect beneficiaries will include the populations and communities served by these SNGs, which may benefit from improved access to financing for high-impact infrastructure and service delivery investments. National and subnational public institutions and financial market participants may also benefit from improved knowledge, methodologies, and financing practices for subnational finance without sovereign guarantees.

III. BUDGET

- 3.1 The TC's total budget is US\$900,000, financed by the OC SDP Pillar 1 Strategic Priorities – P1B Support for Innovative Financing Instruments.

Budget in US\$		
Components	IDB	Total Funding
Component 1:	200,000	200,000
Component 2:	350,000	350,000
Component 3:	350,000	350,000
Total	900,000	900,000

IV. EXECUTION STRUCTURE

- 4.1 **Executing Agency.** This TC is a Bank initiative and will be executed by the Inter-American Development Bank (IDB), in accordance with the Bank's Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), through the Housing and Urban Development Division (CSD/HUD), which will have full responsibility for the TC's technical supervision, execution, administration, and disbursement. CSD/HUD will coordinate with IFD/FMM team, country specialists in each participating pilot country, and authorities in participating cities, who will provide technical inputs and support.
- 4.2 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) 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 services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.

- 4.3 **Execution and Disbursement Period.** The execution and disbursement period of this TC is 36 months.
- 4.4 **Monitoring, Reporting, and Supervision.** The Housing and Urban Development Division (CSD/HUD) will be responsible, in coordination with IFD/FMM, for the technical execution, supervision, and monitoring of this TC, with support from the Sector Specialist, Lamine Sow. CSD/HUD will retain full responsibility for the execution and supervision of TC. Monitoring and evaluation arrangements will be carried out in accordance with the Bank's Policy for the Technical Cooperation Monitoring and Reporting System (TCM), OP-1385-4, and will include continuous tracking of implementation progress and deliverables through the TCM and other applicable Bank management tools. Progress will be reported periodically and used to support adaptive management and timely adjustments to implementation.

V. POTENTIAL RISKS

- 5.1 The main risks associated with this TC include potential changes in subnational administration that could affect continuity, institutional engagement, and prioritization of TC activities; coordination challenges among institutions involved in subnational financing; and technical and capacity constraints that could delay or limit implementation. To mitigate these risks, the designation of the Bank as the executor of the TC serves as a critical risk management strategy. Regular training sessions and periodic meetings with officials from the relevant subnational governments will be conducted to ensure ongoing project prioritization. Collaboration with experts will also be actively pursued to address technical challenges. These comprehensive measures will enhance coordination, capacity, and effectiveness, safeguarding successful implementation and achieving project objectives.
- 5.2 **Intellectual Property.** Any knowledge generated within the framework of this technical cooperation will be the property of the Bank and may be made available to the public under a Creative Commons IGO 3.0 license. However, at the specific request of the beneficiaries and in accordance with the provisions of document AM-331, the intellectual property of said products may also be licensed and/or transferred to the beneficiary through specific contractual agreements to be drafted with the guidance of the Legal Department.

VI. EXCEPTIONS TO BANK POLICIES

- 6.1 No exceptions to Bank policies are contemplated under this TC.

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).
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REQUIRED ANNEXES:

- Annex I: Results Matrix
- Annex II: Terms of Reference
- Annex III: Procurement Plan