Green Bond Workshop

Monitoring, Reporting and Market Aspects

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INTERNATIONAL CONTEXT

These substantial climate actions will transform our world and drive us towards a safer, climate-resilient future
SDGs: The Investment Challenge

Meeting the United Nations Sustainable Development Goals is a $4.5 trillion/year funding challenge…

… that compared with current investment patterns leaves a $3.1 trillion funding gap

Attracting a small portion of the $218 trillion held by private investors can play a significant role in filling this funding gap…

but many SDG enabling investments do not yet provide adequate risk-adjusted returns for commercial investors.
Aligning all financial Flows for low-carbon and climate-resilient development

PARIS AGREEMENT

Keep Global Temperature Rise Well below 2°C

Strongly urges developed countries to jointly increase climate finance to U$100 BN per year by 2020.

Entered into force In NOVEMBER 2016

114 Parties ratified representing 79% of global emissions
Inter-American Development Bank | Climate Change

NDCs
Nationally Determined Contribution

Describes the climate pledges that countries submitted before the Paris Agreement

The ambition of these pledges will determine the rate of action to tackle climate change after 2020

Cornerstone to deliver the investments required at national level

The submissions include emissions reductions and climate resilience measures

25 of 26 LAC Borrowing Countries
Submitted NDCs
Inter-American Development Bank | Climate Change

GHG Emissions

$60

$120

$300

$370

$80

$150

$300

Years

BAU= $480 Bn

NDC= $600 Bn
Climate Finance Actors: Funds

**USD 40bl total pledges to date**

**Sources:**
- Multilateral (GCF, CTF, GEF)
- Bilateral (UK, Norway)

**Scopes**
- International (Adaptation)
- Regional (Congo Basin)
- National (Amazon)

**Instruments**
- Grants
- Concessional Loans
- Guarantees

Source: Climate Funds Update
http://www.climatefundsupdate.org
MDBs
RESPONSE
MDBs targets to increase climate finance

**AfDB:**
40% of investments by 2020

**EBRD:**
40% total annual investments in Green Financing by 2020

**WBG:**
28% in 2020

**ADB:**
30% portfolio to US$6 billion by 2020

**EIB:**
25% total lending volume for climate action; also 35% for climate action in developing countries, starting 2020
IDBG’s goal to increase climate finance

Bahamas, April 2016

BOARD OF GOVERNORS MANDATE:

“To endorse the goal of increasing the financing of climate change related project in LAC to 30% of the IDB’s and IIC’s combined total approvals of loans, guarantees, investment grants, technical cooperation and equity operations by December 31, 2020, subject to demand from borrowing countries and clients and access to external sources of concessional financing”

(WHEREAS)

”The IDB and IIC further acknowledge that increasing financing for climate change in LAC will be subject to the demand of member countries and private sector clients and the institutions’ respective policies relating to portfolio concentration limits; recognize the relevance of accessing complementary donor funding for climate change in LAC; and welcome Management’s objective to improve the evaluation of climate risk and to identify opportunities for resilience and adaptation measures at the project concept stage.”
MOBILIZING SCALED-UP PRIVATE INVESTMENTS
The time to act is now.
That’s why we have created:

NDC INVEST

One-stop shop for countries to access resources for transforming their national commitments into achievable investment plans. It is comprised of four main elements:

Visit: www.ndcinvest.org
Cooperation with Mercer Investment

Map landscape of activity
- Identify all major related initiatives
- Analyze and map global landscape; assess current capacity to influence investment flows
- Identify gaps and opportunities

Gather internal perspectives
- What does ‘sustainable infrastructure’ mean to internal IDB stakeholders?
- Opportunities and barriers vis-à-vis other programs of work
- Identify preferred language and framing

Gather external perspectives
- Case studies with infrastructure investors (pension funds and asset managers)
- Perceived barriers to infrastructure investment in developing countries; potential role for IDB
- Review of recent investments
Climate Risk and Stranded Assets

OBJECTIVE AND BACKGROUND

- **Objective:** increase the awareness, knowledge and dialogue on climate risk as well as contribute to the implementation of climate risk management actions

- **Areas**
  - Regional level
  - Country driven requests
  - Knowledge creation and dissemination

- **Actors:**
  - Ministries of Finance and Planning
  - Central Banks
  - Private sector

- **Resources:** consider public and private sectors
  - Technical cooperation
  - Regional Policy Dialogue
  - ESW

RECENT AND ONGOING ACTIVITIES

- **Mainstreaming at the national level**
  - Diploma on public investment with considerations of climate change adaptation
  - Methodology to classify expenditures on climate change adaptation

- **Knowledge creation, awareness and dialogue**
  - Report Launch “Stranded Assets: A Climate Risk Challenge” (Executive Summary and Infographic) – September 15
  - Regional Policy Dialogue “Climate Risk: Economic and Financial Implications” - October 6
    - Ministries of Finance and Central Banks
  - Climate Risk Session during Regional Public Debt Network Meeting - October 18
  - COP Dialogue Dinner “Implementing Paris: managing the political economy implications of stranded assets” - December 11
Available Instruments

- **Increases Leverage**
- **Enhances Impact**
- **Improves risk-adjusted returns**

**Technical assistance and project preparation grants** ensure project quality and transaction design meet IDB and investor requirements (Project Bankability).

**Low-interest and long-maturity loans** lower cost of capital and buy down technology costs, ensuring projects meet IDB and investor financial objectives (Project Feasibility).

**Guarantees, first loss protection, subordinated loans and equity** lower project risk, ensuring projects comply with IDB and investor risk frameworks (Project De-risking).
DESIGNING INNOVATIVE PROGRAMS
## Regional Green Bond Facility

<table>
<thead>
<tr>
<th><strong>Mandate and Sector</strong></th>
<th>Energy Efficiency and Self-Supply Renewable Energy Innovative financial structure that provides an alternative financing mechanism to small scale EE and self-supply RE projects through the issuance of Green Asset Backed Securities in the capital markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount and Access Modalities</strong></td>
<td>up to US$500 million in Loans and Partial Credit Guarantees. The Facility is complemented with an up to US$195 million reimbursable co-financing and a grant of US$2 million from the Green Climate Fund (GCF). Other co-financiers such as the Clean Technology Fund, and the Nordic Development Fund</td>
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<tr>
<td><strong>Eligible Countries</strong></td>
<td>Mexico, Colombia, Dominican Republic, and Jamaica</td>
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<tr>
<td><strong>Instruments Available</strong></td>
<td>Grants, Loans, and Guarantees</td>
</tr>
<tr>
<td><strong>Typical Transaction Size</strong></td>
<td>The financing mechanism consists in a two-step financing solution for EE projects: (i) during the Accumulation Step warehousing loans to SPVs that will serve to finance, accumulate and standardize EE projects in the countries where EE projects are located; and (ii) during the Mobilization Step one or more PCGs will be issued to support the securitization of the EE projects to be issued in the local or international capital markets. The financing mechanism can be used in a combined manner (Accumulation plus Mobilization Steps) or in a separate manner (either Accumulation or Mobilization) depending on the specific needs of the EE projects in each utilization.</td>
</tr>
<tr>
<td><strong>Example Transaction</strong></td>
<td>Capital Markets Solution for Financing Energy Efficiency ECON-Pemex Green Bond Securitization Program Colombian Energy Efficiency Trust</td>
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</table>
Catalyzing private investment into sustainable energy in Argentina
PRIVATE PUBLIC COORDINATION

IDB – IIC - GOVERNMENT
• Set the necessary conditions to finance PPAs (Power Purchase Agreement).
• The government is advised in generating bankable bids.

IDB- Government coordination setting the technical conditions required for the bidding process.

SEG-ESG
Provided Technical Assistance. Safeguards conditions.

GCF approved a US$ 130 M loan.
RenovAR Program - Argentina

IDBG proposal

• **USD 200 M GCF co-financing facility** to help reduce debt finance gap
• **Objective**: Finance along with IDBG awardee projects from first RenovAR tenders, to help:
  • Demonstrate viability of new regulatory and contractual framework; crowd in
  • Help achieve Law 27,191 RE penetration targets (8% by 2018, etc)
• **Instrument**: Senior debt, pari passu with IDBG and other senior lenders
• **Terms** (tenor, pricing, security, etc): similar to IDBG
• **Exposure**: similar or lower than IDBG (20-33% range)
• **Programmatic approach**:
  • eligibility and credit criteria is defined with and approved by GCF
  • individual investments then executed in compliance with such criteria, with delegated approval
• **15% of envelope** could be considered for other sustainable energy investments (distributed RE, efficient public lighting) – additional review by GCF as needed
Let's talk about climate change

@BIDcambioclima | http://blogs.iadb.org/climatechange