Financial solutions to mobilize sustainable development investments
Achieving balance between liquidity, mobilization and purpose

Low growth and financing needs for development
- Low growth prospects
- Higher unemployment

Limited access to capital markets and high debt stocks
- Higher interest rates
- High debt stock

Urgent sustainability, climate and social demands
- Sustainable Development Objectives
- National Defined Contributions

Financing Gap

To achieve the SDGs for 2030
US$2–3 trillion
Addis Ababa Action Agenda
Estimated gap

To achieve net zero emissions by 2050
US$1 trillion
Paris Agreement
Estimated gap
Examples of financial solutions for mobilization and efficient support

- Offering Guarantees and supporting GSS Bonds
- Contingent loans associated to disaster and crisis management tools
- Leveraging national DFIs
Trends

- Almost 3.5 trillions
- Increasing role of sustainability and social bonds
- Still very concentrate in Europe and North America

- LAC 2.5 % of Global markets
- Protagonist example with sovereign thematic bonds
- Large potential for sectorial expansion
- Large potential for more diversification of issuers
THEMATIC BONDS ISSUANCES SUPPORTED BY THE IDB GROUP

GENERAL OVERVIEW

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>$ (million dollars)</th>
<th>Green</th>
<th>Social</th>
<th>Sustainable</th>
<th>SLB</th>
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<tbody>
<tr>
<td>Chile</td>
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<td>4</td>
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<td>Uruguay</td>
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<td>1</td>
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<td>Panama</td>
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<td>El Salvador</td>
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<td></td>
<td></td>
<td></td>
<td>1</td>
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<td><strong>TOTAL:</strong></td>
<td>$37,510 million</td>
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</table>

IDB GROUP:

76 THEMATIC BONDS

19 Green Bonds $9,092
35 Social Bonds $20,532
17 Sustainable Bonds $6,070
5 Sustainability-linked Bonds (SLB) $1,813
Integral support approach

**Technical cooperation:** institutional capacity, SG ratings, portfolio assessment, framework development, second opinions, advocacy, monitoring and post-issue reporting

**Financial Solutions:** guarantees, anchor investors, private placements, co-financing

**Technical cooperation**
- Eligibility Framework
- Portfolio identification
- Structuring
- Independent review
- Roadshow
- Guarantees / Anchor Investment
- Issuance
- Reports

**Financial Instruments**

**Transparency and comparability,** helping attract new investors and providing a greater level of confidence to existing ones.
Sovereign Guarantees for Sustainable Development

Financial Structures for Resource Mobilization

Tools

- Policy based Guarantees
- Investment Guarantee
- Technical Cooperation

Results

1. Optimize price and resource mobilization
2. Contribute to the fulfillment of SDGs
3. Improved institutional capacity for sustainable development
1. Leverage IDB’s financial strength, expertise, and credit status

- AAA Rating and strong Balance Sheet
- Preferred creditor status
- Technical know-how
- Credibility and transparency
- Investors relations

2. Catalyzing partners (co-guarantors) for Sustainable Development

Private Sector Participants

Development Finance Institutions

Climate Funds

Social Sector - NGOs
Financial Structures

Debt-For-Sustainability Conversions

• Barbados 150 million Sustainability Linked Bond with a 100 million credit guarantee from IDB

- Policy Matrix
  - Partial Credit Guarantee
  - Counter-guarantee
  - Complies w/ Sustainability Policy Matrix
  - Use of Proceeds to Buyback Outstanding debt
  - Savings in CF use to support Natural Capital Investments

- Barbados
- CONSERVATION FUND (CF)
- NATURAL CAPITAL INVESTMENTS

Partially Guaranteed Social Bond

• Ecuador 400 million Social Bond with a 300 million credit guarantee from IDB

- Policy Matrix
  - Partial Credit Guarantee
  - Counter-guarantee
  - Use of Proceeds to Facilitate Credit for Low-Income Housing

- Ecuador
- Social Bond
- Institutional Investors
Example: Ecuador Social Bond (EC-U0001) | USD 300M

Market Intervention

300 USM Guarantee to a Bond of 400 USM, 14 years, 7.25%.

Financial Benefits
Optimize price and resource mobilization

- ✓ 200 bp in price savings.
- ✓ Maturity extension.
- ✓ USD 100 M private sector mobilization and 70 from CAF
- ✓ Additional mobilization of USD 600 M from local financial institutions

Sustainable Development Benefits

- 30,000 social houses (25% executed).
- First ever Social Sovereign Bond.
- Environmental Review Deal of the Year 2022

Development Partners

Goldman Sachs
CTH
CAF
Mortgage securitization
100 USM Guarantee to a Loan of 150 USM, 14 years, 3.9%.

Financial Benefits
Optimize price and resource mobilization

- 250 bp in price savings.
- Maturity extension.
- USD 50 M mobilization from TNC.
- USD 50 M savings for conservation.
- Debt stock reduction.

Sustainable Development Benefits

- 30% Marine Protected Area and MSP
- 50 USM for conservation.
- Trust Fund Created (24 USM in 2036)
Initial Results

- Increased number of mobilization partners (catalytic role)
  - Private Investors
  - NGOs
  - DFIs

- Increased number of operations in different countries and SDGs

- Countries that use the Sovereign Guarantee repeat (learning by doing)

- Increased in mobilized quantities
  - From 0.75 to 1.9 in Thematic Issuances
  - From 1.1 to 10 in Debt for Nature Conversions

- Increase in market participation (RfP competitive process)

- Improved pricing conditions for the financial structure that uses IDB Sovereign Guarantees

- Increased number of mobilization partners (catalytic role)
LAC Vulnerable to Economic Losses from Natural Disasters and Climate Extremes

Global economic losses from natural disasters have been increasing

LAC region is lagging in insurance protection

Sources: Munich Re
IDB Integrated Climate and Disaster Risk Finance Approach

**Emergencies**
- Reserve funds
- Contingent credit
- Risk transfer

**Reconstruction**
- Coverage for infrastructure
- Ex post financing

**Insurance Market**
- Regulation and supervision
  - Development of new coverage for disaster risks and climate change
Innovative Risk Finance Instruments for Natural Disasters and Climate Extremes

- **Pre-disaster**
  - INVEST IN RESILIENCE & RISK REDUCTION
  - PREPAREDNESS & READINESS

- **Low probability**
  - Medium to high impact
  - RISK RETENTION INSTRUMENTS

- **Extreme low probability**
  - Very high impact
  - RISK TRANSFER INSTRUMENTS

**IDB Instruments**
- Contingent Credit Facility (CCF)
- Principal Payment Option (PPO)
- Loan Repayment Protection Option (LPO)
- Cat Bonds
- Technical Assistance
- Investment Loans

- **IDB**
Catastrophic Risk Coverage in the LAC Region by CCF Contingent Loans

**KEY MILESTONES**

### 3,963 million

Ex ante financial coverage through the CCF to improve resilience

### 17

Member borrowing countries with coverage

### 3,263 million

Of coverage for small and vulnerable member countries

### 15 of 19

Of small and vulnerable member countries have coverage

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**RISKS COVERED**

- **Earthquakes**
  - Argentina: earthquake, flood, wildfire, health risks
  - Ecuador: earthquake, flood, volcanic eruption, health risks
  - Guatemala: earthquake, hurricane, flood, drought, volcanic eruption, health risks
  - Paraguay: flood, wildfire, health risks
  - Uruguay: drought, health risks
  - Honduras: earthquake, hurricane, flood, drought, volcanic eruption, health risks
  - El Salvador: earthquake, hurricane, flood, volcanic eruption, health risks
  - Nicaragua: earthquake, flood
  - Panama: earthquake, flood, health risks
  - Peru: earthquake
  - Bahamas: hurricane
  - Barbados: hurricane, flood
  - Jamaica: earthquake, hurricane
  - Guyana: COVID-19
  - Suriname: flood
  - República Dominicana: earthquake, hurricane, COVID-19
  - Bahamas: hurricane
  - República Dominicana: earthquake, hurricane, COVID-19

- **Hurricanes**
  - Argentina: hurricane

- **Floods**
  - Argentina: flood
  - Jamaica: hurricane
  - Guyana: COVID-19
  - Suriname: flood
  - República Dominicana: earthquake, hurricane, COVID-19
  - Guyana: COVID-19
  - Paraguay: flood, wildfire, health risks
  - Argentina: earthquake, flood, wildfire, health risks
  - República Dominicana: earthquake, hurricane, COVID-19
  - Suriname: flood
  - Bahamas: hurricane
  - Barbados: hurricane, flood
  - Jamaica: earthquake, hurricane
  - República Dominicana: earthquake, hurricane, COVID-19
  - Suriname: flood
  - Bahamas: hurricane

- **Volcanic Eruptions**
  - Argentina: earthquake, flood, volcanic eruption (lahar), COVID-19
  - Ecuador: earthquake, flood, volcanic eruption (lahar), COVID-19

- **Droughts**
  - Uruguay: drought, health risks

- **Future Epidemics & Pandemics**
  - Guatemala: earthquake, hurricane, flood, drought, volcanic eruption, health risks
  - Guyana: COVID-19
  - Suriname: flood
  - República Dominicana: earthquake, hurricane, COVID-19
  - Guyana: COVID-19
  - Paraguay: flood, wildfire, health risks
  - Argentina: earthquake, flood, wildfire, health risks
  - República Dominicana: earthquake, hurricane, COVID-19
  - Suriname: flood
  - Bahamas: hurricane
  - Barbados: hurricane, flood
  - Jamaica: earthquake, hurricane
  - República Dominicana: earthquake, hurricane, COVID-19
  - Suriname: flood
  - Bahamas: hurricane

- **Wildfires**
  - Argentina: earthquake, flood, wildfire, health risks
  - República Dominicana: earthquake, hurricane, COVID-19
  - Suriname: flood
  - Bahamas: hurricane

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*Image courtesy of IDB*
Main feature of IDB CCF Contingent Loans

01 **Parametric coverage**
Innovative parametric coverages that allows fast eligibility verification of events.

02 **Rapid Disbursement**
Usually within 30 days after an eligibility verification request.

03 **Cost-Efficient Instrument**
No financial cost for the country if loan resources are not drawn.

04 **Extended Coverage Period**
Coverage drawdown period is 5 years, renewable for another 5 years.

05 **Replenishment of Resources**
Option to request replenishments of disbursed resources for up to its original approved total coverage.

06 **Ex-ante financial approach**
Promote ex ante financial management of risks and contingent fiscal liabilities.

07 **Disaster Risk Management**
Comprehensive Natural Disaster Risk Management Program (CDRMP) and International Health Regulations (IHR)
• Technical cooperation and loan support to over 40 National Development Banks

• Crowding in 400 commercial banks and 27 capital market operations

• In last 5 years over US$ 6.6 billion leveraging at least a 2-fold of investments, deploying a financial solution toolbox including loans, guarantees, bonds

• Channeling over US$ 700 million in international climate finance (+45% IDB climate finance).

• MSMEs, infrastructure, sustainable land use and agriculture, green investments, social housing, etc.
Mobilizing finance through DFIs

Blending instruments

Offering a toolkit...

- Guarantees
- Credit Enhancement
- Contingent Transfers
- Green Bonds
- Resource Pipeline
- Guarantees and financing of renewable energy solutions
- Energy saving insurance
- Scaling up private investments in mini-grids and renewable energy generation in isolated off-grid areas
- Sustainable Housing Results-Based Financing (ECOCASA)
- Guarantees and financing lines for sustainable land use aimed at native communities
- Scaling up private investments in hybrid and electric vehicles
Mobilization for Renewable Energy in Mexico (PROFER program)

2011

US$370 million

US$70 million

US$790 million

2018

US$ 6 billion

- 4 GW wind power capacity
- 6.4 million CO2e emissions reduced
- 40 renewable energy offtakes and providers
- 120 construction companies

Mobilizing finance through DFIs
Developing local financial markets

Platform for over 3000 local financial market players for sharing information and knowledge about opportunities, concrete experiences and opportunities for supporting green and sustainable finance, including ESG investments, Green and Sustainable Bond Markets, Bio and Blue economy, Climatic Risks, Sustainable Energy, among others. Learn more

CapillAC Annual meetings of LAC policymakers, capital markets regulators, supervisors, and the financial sector, to discuss the issues that affect the development of local and regional financial and capital markets in LAC. Learn more

Network to support LAC central banks, capital markets regulators, financial regulators, supervisors, and governmental agencies to promote integration of ESG and climate risks and the development of country-level strategies for sustainable finance and investments. Learn more

Regional policy dialogues which align policymakers, regulators, supervisors with private sector stakeholders to coordinate and joint public-private agenda that can lead to better market coordination and mobilization. Learn more

Public-Private regional dialogue comprised of technology, information and communications policymakers, regulators and key actors from the private sector to promote widespread connectivity in LAC. Learn more

The first Public-Private group to foster the development of the Fintech ecosystem in LAC, with the participation of 7 countries through financial regulators and supervisors, and Fintech associations. Learn more
Thanks!