

LAC GREEN FINANCE FACILITY

LEVERAGING GREEN INVESTMENTS PROGRAM - LGI

OVERVIEW

The LGI program jointly designs with local public financial partners tailor-made integrated financing strategies which combine financial and non-financial instruments and addresses the different financial barriers and risks associated with energy efficiency (EE) and renewable energy (RE) projects in order to stimulate local private investment.

The Program is expected to have an important long-term market transformation effect beyond the

project activities, as it should create conditions for LFIs to start looking at ER and EE projects as potential and “bankable” business opportunities.

The Program is also expected to support the creation of an enabling environment to ensure that the market has sufficient capacity of project developers and firms to develop pipelines of bankable EE, RE, and in general, green projects, and that those investors are able to invest in them.

The program has been structured in three lines of work to scale up innovative public-private green financial instruments, those are:



**Tailored support for
National Development
Banks (NDBs)**



**Financial
Innovation Labs**



**Scaling up LAC
Green Bonds
Markets**

12 NDBs in the region and 2 government or public sector entities receive support from the LGI program. The following sections present the main achievements of the program during the first two years and half of implementation under each of the lines of work it comprises.



OUR

WORK

Tailored support for National Development Banks (NDBs) to design and promote green financial instruments according to their niches (SMEs, Agrobusiness, Housing, PPPs) to mobilize private sector investments in EE and RE and green investments.

NDBs play a key role in the implementation of NDCs in their countries due to its unique position to engage local financial institutions and private investors, align development financing with national priority mitigation actions, and canalize international climate funding to promote scale up investments in EE and RE projects.

The program provides support in the assessment of market potential, feasibility studies, the design of innovative financial strategies, and/or the design of specific tools that are needed in the implementation of a green strategy within the NDB. This work has been developed in collaboration with the association of Latin American development banks (ALIDE), the Green Banks Network, KFW, EIB and AFD. As a result of the first two years and a half of implementation the program has supported beneficiary NDBs as follows:





INNOVATIVE

FINANCIAL INSTRUMENTS

Energy Efficiency for SMEs and Mobilization of resources from the Green Climate Fund (GCF):

Support to the Development Financial Agency of **Paraguay** (AFD) for the design of innovative financial and non-financial instruments to scale up private investments in energy efficiency and renewable energy by SMEs. Includes support for the preparation of a funding proposal to the GCF for **US\$ 23 Million**. This will allow AFD to offer a green credit line with USD 20 million of reimbursable resources from GCF and additional co-financing of a USD 20 million loan from IDB.

*US\$ 20M Reimbursable + US\$ 3 Non-reimbursable)
approved in February 2018. This will allow AFD **Paraguay**
to offer a green credit line with USD 20 million of
reimbursable resources from GCF and additional
co-financing of a USD 20 million loan from IDB.*



Scalable private investments for sustainable cities:

Guidelines and a detailed strategy to support to the development of high-quality pipeline of municipal level PPPs for street lighting, waste management and distributed solar energy; and the structuring of a dedicated financial product including long term financing and an investment facility through the provincial development bank of Sao Paulo (Desenvolve SP).



Energy efficiency for the hotel Industry:

The program is supporting the National Bank of Foreign Trade (Bancomext), from Mexico, to develop a credit product that promotes the energy efficiency of the hotel industry.



Scalable private investments for sustainable cities:

zGuidelines and a detailed strategy to support to the development of high-quality pipeline of municipal level PPPs for street lighting, waste management and distributed solar energy; and the structuring of a dedicated financial product including long term financing and an investment facility through the provincial development bank of Sao Paulo (Desenvolve SP) and Parana Fomento in **Brazil**.



Scale up energy efficiency investments in housing - Ecocasa +:

Support to the Housing development bank of Mexico (Sociedad Hipotecaria Federal -SHF) and to Findeter, in **Colombia**, in the development, strengthening and enhancement of green financial instruments that promote private investments in sustainable housing.



New investments in energy efficiency and renewable energy in agrobusiness:

In **Colombia**, through Finagro, and in **Brazil**, through Banco do Brasil, the program supported the identification of investment potentials in energy efficiency in food processing, drying of grains and milk and beef production value chains, as well as opportunities for distributed biogas, biomass and photovoltaic energy generation. New financial products for these sectors, combining guarantee and long-term finance are being considered



Support to NDBs to develop institutional green finance targets and become “Green Banks”

In Mexico, Banobras has adopted a full strategy to become a Green Bank as part of its 80 years commemoration and is since participating in the Green Bank Network.

In **Brazil**, Banco do Brasil adopted a new institutional strategy (BB30) with specific green and sustainability financing targets.





FINANCIAL INNOVATION LABS

PROMOTING DIALOGUE WITH
REGULATORS, CAPITAL MARKETS
AND FINANCIAL SECTOR STAKEHOLDERS.

The concept of Financial Innovation Labs (LAB) is to gather different sectors (financial, consumer, provider, regulatory) for an intersectoral discussion forum on how financial and capital markets can be stimulated to promote scalable investments in green and sustainable business.

The LAB aggregates more than 40 institutions representing all financial and capital markets regulators, ministries of finance and planning, stock market, associations of investors, banking pension funds and insurance, as well as sectorial experts

It should foster the creation of investment instruments and financial structures that maximize the leverage of the private sector and optimize the use of donor funds on green and sustainable business.

This line of work has been implemented in Brazil, where in coordination with the Brazilian Association of Development Financial Institutions (ABDE) and the Securities and Exchange Commission of Brazil (CVM), the Brazilian financial innovation laboratory (LAB) was created as space for discussing actionable international experiences and promote pilotship of innovative financial mechanisms to promote sustainable development.

see video at

<https://www.youtube.com/watch?v=VBqoqLpEyak&feature=youtu.be>



The LAB is organized in 3 working groups¹

Working Group of Green Finance: This group facilitates an intersectoral dialogue on financial mechanisms to promote energy efficiency and distributed generation. In its first year this group designed three products:

- Energy Saving Insurance scheme adapted to Brazil,
- A Model of Risk Analysis for distributed solar energy projects, and
- First Loss Fund.

Working Group of Green Bonds: This group brings together financial markets regulators and other strategic sectors to build capacity and discuss about incentives to develop the market, issuance opportunities, financial instruments to build a green portfolio, and best practices around the world. During the first year of work this working group has accomplished the following products:

- An assessment of the perception of the market from more than 150 investors and issuers and updates of state of the Brazilian green bond markets, and
- A proposal for new regulation for green debentures.

Currently the working group is developing a document of Best Practice Guidelines for issuers

Working group of Financial Instruments and Impact Investment:

This group provides banks, regulators and financial and capital markets actors a space to discuss, identify and develop financial instruments to promote the Sustainable Development Goals (SDG).

In the first year of work, the group produced:

- A publication on metrics for Environmental and Social Evaluation for National Development Banks
- A good practice guideline
- A crowdfunding instrument
- A Solidarity revolving fund

¹See report “Products of 1st year of the LAB” at: www.greenfinancelac.org

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The project of the Brazilian financial innovation laboratory (LAB) received substantial interest for replication by other countries such as **Argentina, Chile, Colombia, and Mexico** and scale-up in **Brazil**. The IDB team works with the Climate Policy Initiative (CPI) to leverage the experience of the IDB Brazilian financial innovation laboratory (LAB) and the CPI Global and Brazil Innovation Labs for Climate Finance for a **potential scale-up and replication in these countries**.

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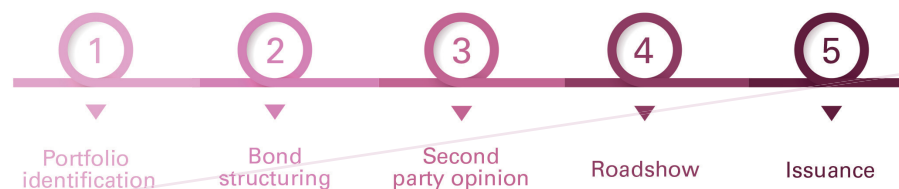


SCALING UP LAC

GREEN BONDS MARKETS

Green bonds offer an outstanding opportunity to leverage investments and resources to cover long term investments gaps for low carbon and resilient projects.

While the Green bond markets have increased potentially since its inception (from USD 10 billion in 2013 to 162 billion in 2017), Latin American and Caribbean market accounted for less than 5% of the global total in 2017-18. Despite this relatively low participation, there is a growing interest in LAC's financial institutions and other potential issuer in the stock markets in their use, with most of the bonds issued in the region so far originating from the public sector, and in particular, from NDBs (accounting for about 50% of issuance). The program is supporting the development of green bond markets in twofold: (i) supporting sovereign clients (mainly NDBs) to structure and issue bonds, including in local markets; and (ii) develop market incentives and regulations that promote enabling environments for increased local issuance and investments in these bonds. This work has been developed in collaboration with the Climate Bond Initiative (CBI).



The initiatives supported by the LGI program under this line of work are:

Green bond for agrobusiness in Mexico:

On October 2018, in Mexico the Trust Funds for Agriculture of Mexico (FIRA) issued a green bond for US\$ 123 Million. This was the first locally issued green bond associated to agribusiness. In addition, as a result of the support a methodology to assess the environmental benefits of protected agriculture, which was initially developed for FIRA, was adopted by CBI as standard criteria.



Two NDBs in Brazil (BDMG and BRDE) are working in the preparation of issuances for green bonds or SDG bonds. BDMG issuance is expected to take place in 2018. BRDE expected to have in 2019 the first “SDG thematic” bond issued in the LAC region, the program would also be supported with anchor investments from the EIB.



Development of enabling environments:

- The Brazilian Lab resulted in the assessment proposals for regulatory changes to facilitate the issuance of green debentures. In addition, guidelines and a study of perception of the market by more than 150 local investors and issuers was developed.
- With the support of, CBI, an assessment of the LAC green bond markets was produced and regional training events and webinars were organized.



INCREASED KNOWLEDGE AND INFORMATION

**SHARING OF LESSONS
LEARNED AND BEST PRACTICES**

One of the main outputs of the LGI program is an increase in the exchange of knowledge and information of lessons learned and good practices.

The program is supporting NDBs in enhancing their capacity and sharing their experiences and lessons learned in a series of regional and global workshops and events, and also through webinars, trainings, communities of practices, and publications. Relevant publications and webinars, from the program as well as from external partners, are available in dedicated web pages which are also products of the program.

See: www.greenfinancelac.org and www.labinovacaofinanceira.com

The program has also supported the organization of the following events:

The role of National Development Banks (NDBs) and Green Investment Banks (GIBs) in mobilizing finance for the implementation of the Paris Agreement's Nationally Determined Contributions (NDCs) and the accomplishment of the United Nations' Sustainable Development Goals (SDGs)" Mexico, City June 26 and 27 2017"

A panel on "Opportunities to Scale-up private investments to achieve the Sustainable Development Goals (SDGs) and the commitment under the Paris Agreement" in ALIDE assembly. Santiago de Chile, March 2017. The panel had Christiana Figueres, former Executive Secretary of UNFCCC as Key Note Speaker and speakers from 5 LAC NDBs.

The launch and subsequent meetings of the the Brazilian financial innovation laboratory (LAB) which is itself a very dynamic space for the generation of ideas and dissemination of knowledge. The work of the LAB has resulted in the production of several knowledge products as described above.





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