

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Support to the Structuring and Implementation of Resilience and Restoration Bonds (Resbonds) in the LAC Region
▪ TC Number:	RG-T3605
▪ Team Leader/Members:	CATHALA, CORINNE (INE/WSA) Team Leader; GARCIA MERINO, LUCIO JAVIER (INE/WSA) Alternate Team Leader; BASANI, MARCELLO (INE/WSA); SASAKI, KEISUKE (INE/WSA); CHAMPI TICONA, DIANA CARLA (INE/WSA); FRISARI, GIOVANNI LEO (CSD/CCS); ALMEIDA OLEAS, NATALIA (LEG/SGO); GUIZA CERON, CARLOS ANDRES (INE/WSA)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	01 Apr 2021
▪ Beneficiary:	Regional
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$200,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	INE/WSA - Water & Sanitation
▪ Unit of Disbursement Responsibility:	INE/WSA - Water & Sanitation
▪ 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:	Productivity and innovation ; Environmental sustainability

II. Objective and Justification

- 2.1 The objective of this Technical Cooperation is to assist national and local governments of Latin America and the Caribbean countries in mobilizing new sources of financing to fund climate resilient water and sanitation sector investments through the utilization of innovative financial instruments.
- 2.2 LAC region is the second most disaster-prone region in the world. Those events very often impact water and sanitation infrastructure, for instance wastewater networks. The impact of floods is magnified when superficial runoffs in urban areas transport contaminants such as heavy metals, organic loads, suspended solids, oils, and grease.
- 2.3 Floods due to heavy rains or hurricanes in the Caribbean particularly have caused significant damage to the infrastructure and to the livelihood of people (Haiti, Hurricane Matthew-2016). In addition, worldwide, water scarcity has become a significant problem in the last few decades, with droughts that have become more frequent and more severe. Available economic data suggests that drought has a direct negative impact on the GDP of countries.
- 2.4 Many capital cities in the world such as London, Paris or Santiago de Chile have realized the economic potential of re-developing waterfronts as landmark destinations. Rivers, lakes, and coastlines attract people; therefore, new residents tourists arrive

and new businesses sprout provided that the site meets certain environmental and aesthetic standards. This influx increases the tax base and generates wealth for the locality. Sadly, many such places are suffering from environmental degradation that discourages developers and negatively affects current residents and businesses. Examples: Rio Bogota-Colombia, Lake Atitlan-Guatemala or Tiete River-Sao Paolo are places where the water quality is degraded due to untreated sewage and industrial wastewater, urban and agricultural runoff, erosion, and illegal dumping.

- 2.5 Innovative financial instruments such as resilience bonds and restoration bonds can help finance needed infrastructure to mitigate/protect against natural disasters and environmental degradation.
- 2.6 INE/WSA is exploring the implementation of innovative financing schemes, defined as “ResBonds” (Resilience and Restoration bonds), for water and sanitation infrastructure projects whose purpose is either to enhance resilience or mitigation against natural hazards and climate change or enable the restoration of the quality of a given environment, such as a river, lake, coastline, watersheds or soils and groundwater at a given site.
- 2.7 There are two types of ResBonds: Resilience bonds and Restoration bonds. A Resilience bond is a financial instrument in which investors make an initial payment to fund a disaster mitigation project or resilient infrastructure. The infrastructure is expected to reduce direct and indirect damage that would have occurred without the project. A Restoration Bond is a financial instrument in which investors make an initial payment to fund ecosystem improvement projects in an area where the improvements are expected to enable economic development and prosperity for the region.
- 2.8 The instrument is built with multiple triggers that release payments to the investor based on the completion of pre-determined phases, which are evaluated according to agreed-upon factors such as: (i) the successful construction of resilient infrastructure or completion of a restoration project; (ii) the performance of the resilient infrastructure or restoration project against relevant goals and according to project-specific metrics; (iii) the impact of the resilient infrastructure or restoration project in reducing damage and generating wealth, or otherwise achieve a desired, measurable, and predefined goal for the betterment of a community, region, or a country.

III. Description of Activities and Outputs

- 3.1 **Component I: Strategy and identification of pilot project.** This component will finance an analysis of countries and water and sanitation projects, which will be relevant for such type of financing. The component will also finance the development of a comprehensive strategic plan. Based on that initial selection, a project will be identified to conduct a pilot. Engagement activities will be carried out with relevant stakeholders and IDB staff to develop viable approaches for ResBonds.
- 3.2 **Component II: Structuring of the Resbond financial mechanism for a pilot project.** This component will finance the contracting of a consultancy to develop the documentation to structure the bond for the pilot project previously identified. This will include the financial, legal and institutional documentation.
- 3.3 **Component III: Financing plan and fund raising.** This component will finance the development of a financing plan for the pilot project, which may include funding from public and private sources (i.e. IDB, bilateral agencies, Green Climate Fund as well as institutional investors, etc.).

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Strategy and identification of pilot project	US\$15,000.00	US\$0.00	US\$15,000.00
Structuring of the Resbond financial mechanism for a pilot project	US\$145,000.00	US\$0.00	US\$145,000.00
Financing plan and fund raising	US\$40,000.00	US\$0.00	US\$40,000.00
Total	US\$200,000.00	US\$0.00	US\$200,000.00

V. Executing Agency and Execution Structure

- 5.1 The IDB will be the Executing Agency for the TC through the Water and Sanitation division.
- 5.2 As this is a Research and Dissemination TC operation, the IDB will be the Executing Agency for the TC through the Water and Sanitation division in coordination with the Climate Change division and the Connectivity and Financial Market Division (CMF). As this TC will finance the design and use of new financial instruments, it is advised that the Bank be leading this process and be executing the TC to ensure proper execution of activities. The team will also coordinate closely with IDB country offices and IDB Invest as the case may be. Letters of non-objection will be obtained before any specific consultancy is carried out in a specific country.
- 5.3 All contracting activities will be carried out in accordance with Bank policies and procedures as follows: (i) the hiring of individual consultants will be governed by the guidelines established in policy AM-650; (ii) the hiring of consulting firms of an intellectual nature will be governed by the "Policy for the selection and contracting of consulting firms for operational work carried out by the Bank" (GN 2765-4) and its Operational Guidelines (OP-1155-4); and (iii) other non-consulting services in accordance with the "IDB Institutional Procurement Policy" (GN 2303 28).
- 5.4 The execution and supervision of the TC will be the responsibility of the TC team Leader who will coordinate with the INE/WSA specialist in each country where the activities will be implemented.

VI. Project Risks and Issues

- 6.1 One of the risks in achieving the objectives of this TC is the potential lack of interest or ownership from national governments and/or municipal governments in the proposed financial instrument. To mitigate that risk, the team as well as in-country INE/WSA specialist will be coordinating closely the structuring of the proposed activities and will be in close contact with the national/municipal agencies and sector ministries to ensure full appropriation of the activities.
- 6.2 The current COVID-19 pandemic has been severely impacting Latin American and Caribbean countries and there is a risk that Bank mission travel may not resume until several months to the region. As a consequence, this may affect negatively the execution of the TC. However, a significant portion of the activities can be conducted online, therefore the team deems this risk minimal.

VII. Environmental and Social Classification

7.1 The ESG classification for this operation is "C".